

**Springdale Public Schools (SPS)**  
**Accounting and Financial Management System Narrative**  
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Federal grantee agencies are required to have financial management systems that provide for timely, accurate, current, and complete disclosure of financial information.

**Financial Management Narrative**

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**Overview of Requirements**

All Federal grantee agencies are required to have financial management systems that provide for timely, accurate, current, and complete disclosure of financial information while providing for oversight and protection of Federal funds.

Effective and efficient financial management systems are required by Federal regulations. Accounting systems established by SPS must have appropriate internal controls for safeguarding assets, checking the accuracy and reliability of accounting data, and promoting operational efficiency.

**Clarifying Definitions**

**Budget:** A plan for spending money to reach certain goals and provide certain services within a given time frame. The budget serves as the description of how funding will be spent to implement the goals and objectives specified in the grant application.

**Budget Period:** The interval of time into which a multi-year period of assistance (project period) is divided for budgetary and funding purposes. The budget is generally 12 months based on a fiscal year beginning July 1 and ending on June 30.

**Cash Accounting:** In cash basis accounting, revenues are recognized when cash is received and deposited. Expenditures are recorded in the accounting period when bills are paid.

**Cost Allocation:** A documented method for equitably assigning costs incurred by multiple funding sources working in a collaborative arrangement.

**Disallowance:** A determination that funds expended were unallowable based on: applicable regulations, the terms and conditions of the grant award, or the approved plan.

**Internal Controls:** A process that helps to ensure efficiency, control over Federal funds, and compliance with Federal regulations.

**Obligation:** A legally binding agreement between two parties for purchase of services, supplies, or equipment. Examples include purchase orders and contracts.

**Prior Approval:** The written permission provided by the authorized granting official before the recipient may undertake certain activities (such as performance modification or expenditure of funds).

**Program Income:** Gross income received by the grantee/recipient that was directly generated by the supported activity or earned as a result of the grant.

**Unliquidated Obligations:** Unliquidated obligations are the obligations that remain at the end of an annual budget period, which must then be liquidated within 90 days, prior to closing out the year.

**Un-obligated Balance:** Federal funds available minus all obligations.

## **Narrative**

All agencies receiving Federal funds are required to have a financial management system that provides timely, current, and complete disclosure of financial information. While the manner in which this requirement is met may be subject to interpretation, certain elements are required.

A financial management system consists of accounting records (checkbooks, journals, ledgers, etc.) and a series of processes and procedures assigned to staff and/or outside professionals. The goal of the system is to ensure that financial data and economic transactions are properly entered into the accounting records and that financial reports necessary for management are prepared accurately and in a timely fashion.

All agencies have common requirements to fulfill when administering Federal programs. For example:

- Contract and compliance requirements must be fulfilled and grant funds must be expended appropriately;
- Accounting records must be maintained;
- Assets must be safeguarded;
- Internal control systems must be adequate;
- Internal policies and procedures must be developed and implemented;
- Costs must be allocated to the correct program based upon a cost allocation plan in cases where costs are shared by programs; and
- Grantees must have an annual audit.

Often, agencies are administering numerous grants and contracts with differing requirements. Communication between budget coordinators and accounting staff is a key factor to ensuring successful operations. SPS requires that each grant have a budget coordinator to oversee the grant management process.

### **Records that Support the Source and Application of Federal Funds**

Accounting records, or documentation, provide a process which must be followed from the point in time where a purchase is requested to the issuance of the check for payment of the purchase. Documentation to be gathered and maintained includes:

- Justification for the expenditure that includes an analysis of whether the purchase is necessary;
- Analysis of lease vs. purchase of the item;
- Approval for the expenditure indicated on the purchase order or contract by the appropriately designated individual;
- Appropriately completed forms as determined by SPS policy and procedures, such as purchase orders;
- Proof that the purchase has been received as verified on documentation, such as packing slips or receiving reports;
- Proof of payment for the purchase, such as check copies and canceled checks;
- Posting to the general ledger; and
- Financial statements.

It is important that all documentation be maintained for future reference. Records will be maintained in compliance with the Record Retention & Disposal Procedure SPS currently in effect.

In order to meet grant and compliance requirements, grant funds may only be expended on costs that are allowable to the program as defined in the grant agreement. Regulations and Policy Statements (e.g. Program instructions and Information Memoranda) establish the parameters for program operation and establish expenditure guidelines. For example, performance standards define the type of services that may be offered by the SPS using the program funding. Regulations also define specific criteria for expenditures, such as the administrative cost limitation, which must be adhered to.

Once a payment has been issued, information such as amount, payee, etc. are entered into the general ledger. The general ledger summarizes financial transactions. The general ledger organizes information by account number as defined in the chart of accounts.

The chart of accounts is a list of each item that the accounting system tracks and acts as the table of contents to the general ledger. Accounts are divided into five categories: Assets, Liabilities, Net Assets or Fund Balances, Revenues, and Expenses. Each account is assigned an identifying number for use within the accounting system. The design of the charts of accounts should allow the system to sort and report information by grant, department, location,

or subaccount. The design of the chart of accounts should allow for necessary information to be extracted from the system. Federal grant funds must be tracked separately from other grants or contract funds. Expenditures for office supplies, for example, must be tracked separately from payroll costs.

Detailed information regarding financial management systems utilized by SPS can be found in the Arkansas Accounting Handbook for Arkansas Public Schools which is updated annually by the Arkansas Public School Computer Network (APSCN).

## **Internal Controls**

Internal controls are the systems established by an agency's governing body and/or administrative staff that are designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Control of assets and records of the organization to protect against loss, theft, or misuse;
- Compliance with applicable laws and regulations;
- Appropriate oversight by the agency's governing body;
- Adherence to the agency's policies and procedures; and
- Reliability of financial reporting.

Internal controls help ensure that financial information is reliable, thereby assuring managers and governing bodies that the information is accurate for making programmatic and other decisions.

To ensure efficiency and maximize limited resources, agency assets must be safeguarded. Agencies are required by regulation to develop and implement inventory control to track the location of equipment and vehicles.

The internal control system should provide for good oversight in reporting, separation of duties, and good record keeping. Internal controls limit the possibility of loss due to theft and error. The first step in developing an effective internal accounting control system is to identify those areas where abuses or errors are likely to occur. Minimally, the following areas should be considered in the design of the internal control system:

- **Cash Receipts** - to ensure that all cash intended for the organization is received, promptly deposited, properly recorded, reconciled, and kept under adequate security.
- **Cash Disbursements** - To ensure that all cash is disbursed only upon proper authorization of management, and for valid business purposes, and that all disbursements are properly recorded.
- **Payroll** - To ensure that payroll disbursements are made only upon proper authorization to bona-fide employees, are properly recorded, and that related legal requirements (such as payroll tax deposits) are met,

- **Grants and Donations** - To ensure that all grants and donations are received and properly recorded, and that compliance with the terms of any related restrictions are adequately monitored.
- **Fixed Assets** - To ensure that fixed assets are required and disposed of only upon proper authorization, are adequately safeguarded, and are properly recorded

Achieving these objectives requires SPS to clearly state procedures for handling each area, including a system of checks and balances in which no financial transaction from beginning to end is handled by only one person. This principle is called segregation of duties and is central to an effective internal control system.

The board and appropriate administrative staff share the responsibility for setting a tone and standard of accountability and conscientiousness regarding the organization's assets and responsibilities.

### **Comparison of Outlays with Budget Amounts**

A very important component of effective program financial management is developing and implementing the budget to support the goals and activities outlined in program plans. Financial reporting is required to be timely, accurate and complete. The reports must be used during the planning process required for program operations.

Once a month, data is summarized from the general ledger and reports are issued. These reports are called financial statements. Regulations require that the budget coordinator receive reports showing expense-to-date and the budget amount with a comparison between the two.

Having this information on a regular basis provides the budget coordinator with information necessary to adjust program operations so resources are efficiently used and deficits do not occur. Financial statements should contain the information necessary to complete any reports required by the grant.

All program staff should have some understanding regarding how the program's financial resources are allocated and tracked, as well as their role in supporting cost effective program implementation. Staff involvement should be targeted at the level of involvement necessary for the individual positions.

A combination of fiscal and program knowledge will produce an optimal approach to the financial management of the program. Although business office staff members are "experts" regarding costing and accounting procedures, they do not always have an in-depth knowledge of program operations. With respect to the latter, program staff are the "experts" and should be responsible for ensuring that the program operates within its resources. However, it is critical that fiscal and program staff work together to ensure effective and efficient operations.

### **Cash Management**

Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub-grantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on sub-grantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transaction reports to the awarding agency.

### **Accounting Records That are Supported by Source Documentation**

SPS accounting policies and procedures define what documentation is required for each unique transaction. For example:

Purchase documentation may include approved and signed purchase orders, purchase requisitions, packing slips, and other agency documents as defined in agency procedures. These documents should be signed and dated to verify approval was given prior to the purchase.

Payroll documentation may include timecards, timesheets, or other means of verifying employee attendance.

Contractual payments require a contract that is signed and agreed to by both parties.

Other documentation includes journal entry forms, bank reconciliations, and other forms supporting or authorizing a transaction.

### **Audit Requirements**

Agencies that expend more than \$750,000 in Federal cash during a fiscal year are required to have an audit completed. An audit of SPS covering the budget period of each fiscal year shall be made by an independent auditor to determine:

- Whether the district's financial statements are accurate;
- Whether the district is complying with the terms and conditions of the grant;
- Whether appropriate financial and administrative procedures and controls have been installed and are operating effectively; and
- Whether the auditee is complying with laws, regulations, and the provisions of contracts or grant agreements.

A financial audit is a process for testing the accuracy and completeness of information presented in an organization's financial statements as well as evaluating the financial systems used to gather this information. This testing process enables an independent certified public accountant (CPA) to issue what is referred to as "an opinion" on how fairly the district's financial statements represent its financial position and whether they comply with Generally Accepted Accounting Principles (GAAP).

The audit team will also develop an opinion regarding the internal control structure of the agency. The team will test program data to ensure compliance with regulations. During the audit, the auditor may determine that there are “disallowed costs” or costs which were not appropriate under the terms of the grant. Significant findings will be written up in the audit report. Audit findings are sent to the funding agency and disallowances may result in the grantee having to repay money to the Federal government.

The auditor(s) will:

Perform an audit of the financial statement(s) for the Federal program in accordance with GAGAS (Generally Accepted Government Auditing Standards).

Perform procedures to determine whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on the Federal program consistent with the requirements for a major program.

Follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditor, and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding in accordance with the requirements.