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## GUIDELINES

Under the provisions of Arizona Revised Statutes (A.R.S.) §15-271(B), the Arizona Department of Education (ADE) and the Office of the Auditor General share responsibility for prescribing the method by which districts should account for all state and federal revenues.

In accordance with A.R.S. §15-206(A), “The State Board of Education may accept on behalf of this state from any federal agency monies which have been appropriated by act of Congress for defense in education, reduction of illiteracy, teaching of immigrants, employment and training, educational support services or other educational purpose.” The State Board of Education “shall be the chief educational authority for the administration and supervision of the expenditure of federal appropriations,” pursuant to A.R.S. §15-206(C). A.R.S. §15-203(A)(7) authorizes the State Board of Education to delegate the execution of the Board’s policies to ADE through the Superintendent of Public Instruction. This section applies to state and federal financial assistance passed through ADE to districts, rather than assistance applied for and received directly from the grantor agencies.

In order to apply for and receive grant funding, districts must have a signed General Statement of Assurance on file in ADE’s Grants Management Unit and be in compliance with state and federal laws and regulations. Districts may then apply for the appropriated monies by submitting their applications to the responsible ADE program area in accordance with ADE and grant policies and regulations. Notice of fund availability is published on ADE’s Grants Management Enterprise Web page under Fund Alerts. A *Grants Management Handbook* that explains ADE’s online grant application and reporting processes can be downloaded from the same Web page or requested in hard copy from Grants Management Enterprise.

Project monies allocated to a district should be deposited directly with the county treasurer into an appropriate account to the credit of the district. Generally, these monies are disbursed by a warrant prepared by the county school superintendent on a district’s behalf (See VI-G-2 through 5). However, districts operating independently of their county school superintendent through the Accounting Responsibility Program (ARP) issue their own warrants (See VI-G-6 and 7). ARP districts are those districts with a student count of at least 4,000, which have been approved by the State Board of Education to assume autonomous accounting responsibility, pursuant to A.R.S. §15-914.01(A).

If a district expends monies other than as provided by the federal or state grant regulations or other than as provided by ADE or program area guidelines, ADE may withhold future payments, request that monies be returned, and/or deobligate the project award (i.e., decrease or eliminate a previously committed fund balance). ADE may also withhold project or grant funding if a district fails to comply with the requirements of the USFR, as prescribed by A.R.S. §15-271(D) and (E) and Arizona Administrative Code (AAC) R7-2-804.

## APPLICATIONS

Districts are eligible to apply for state or federal grants administered by ADE. Depending upon the particular program requirements, eligible applicants may apply for grant assistance each year.

Applications for grant funding must be submitted, in accordance with program area requirements, to ADE via the Internet. Applications containing unclear or inaccurate information will be returned to the applicant agency or clarified by telephone or e-mail. ADE's goal is to finalize all applications and obtain State Board approval within 90 days of the original submittal date. The approved project award will be entered into the Grants Management System, enabling warrants to be issued per the approved payment schedule. Approval notification will be sent to the district.

All state and federal grant awards are subject to the specific terms of the grant. State and federal grants are generally for 1 fiscal year beginning July 1 and ending June 30 of the following calendar year. All state grants end June 30. However, some federal projects may extend the project period beyond June 30 with program area approval to align with the federal fiscal year-end.

State-project payments to districts are made in accordance with the schedule identified on the approved project. Federal project cash advances are driven by the first payment request in the application, and then by data entered in the monthly cash management reports. Monies for projects on "hold" (i.e., monies withheld because of noncompliance) as of the project-end date will not be released until a completion report is approved, and the final payment will be released only to reimburse the project costs incurred or to bring the account to a zero balance, whichever is less.

### **Budgets**

Budgets should be entered by line item. Budgetary line items should be detailed on the budget description page according to program guidelines. The budgeted indirect cost amount may not exceed the approved rate times the project budget subtotal. The subtotal of a budget is all line items, excluding the indirect cost and capital outlay line items. Some grants may restrict or disallow the use of indirect costs.

The purchase of any textbooks, library books, and instructional aids (e.g., instructional computer software, workbooks, films, kits) should be budgeted as supplies (object codes 6641 through 6643). While such supply purchases are considered capital expenditures by state statute when purchased from non-grant funds, for state and federal grant purposes they are not considered capital items.

Capital items must be itemized on the Capital Outlay Justification page of the grant application according to program guidelines, but may be restricted by statute or program guidelines for some projects. Districts can refer to the Capital Outlay Justification Page Matrix as a guideline. This document is updated annually and can be accessed from the Grants Management home page.

If there are questions regarding budgeting or capital outlay justifications, the respective ADE program area should be contacted for guidance.

**INDIRECT COST RATE**

Indirect cost rates apply ONLY to federally funded projects. The use of indirect cost rates is NOT allowed for some federal projects and may be restricted for others. 34 CFR §75.560 - .564 authorizes the payment to districts and counties for the indirect costs incurred in the handling of certain grants. The calculation of indirect cost rates follows a plan formulated by ADE based on the cost principles in the Office of Management and Budget (OMB) Circular A-87 and is approved by the U.S. Department of Education (USDOE).

**District Indirect Cost Rates**

Districts' indirect costs are those expenditures that are incurred for the joint benefit of more than one project and cannot be readily and specifically identified with a particular project without effort disproportionate to the results achieved. The approved rate for districts is a percentage calculated from their Annual Financial Report (AFR) and approved by ADE's Audit Unit. To receive an indirect cost rate calculation, the district should check the applicable box and supply the additional information requested on the AFR. The approved indirect cost rate appears as a separate line item on the project budget page.

Although indirect costs may be budgeted based on the subtotal amount of the application or amendment (which does not include amounts budgeted for capital items), the maximum indirect costs payable may not exceed the indirect cost rate times the actual subtotal expenditures reported in the completion report, rounded down to the nearest cent. Charging indirect costs to federal projects does not increase the award total. The indirect cost rate in effect at the project's starting date is to be used for the entire project period.

A request by the counties to allow the counties and the districts to combine their rates has been approved by the USDOE, so long as the combined totals by all recipients of the funds do not exceed the amount allowable under the program legislation/regulations. Effective July 1, 2007, each district (excluding ARP districts) can now use a combined indirect cost rate against their grant projects. For example, if a district has an approved indirect cost rate of 3.89 percent and the county has a rate of 0.25 percent, the combined rate would be 4.14 percent. If both the county and district have approved indirect cost rates, the combined rate will be reflected on the application, amendment, and completion report's maximum allowable indirect cost rate line item. It is the district's responsibility to include the county's indirect cost rate when budgeting their indirect cost amount. If the combined indirect cost rate for the district and the county would exceed the allowable indirect cost rate, the district should contact the program area to determine if some costs could be recorded in the Support Services Administration/Other Expenses line item instead of the indirect costs line item.

Each district requesting a rate receives a restricted indirect cost rate and a nonrestricted indirect cost rate. The restricted indirect cost rate is to be used for federal programs that must supplement and not supplant expenditures for existing programs (e.g., Title I, IDEA, Career and Technology Education, etc). The nonrestricted rate is used for all other programs, such as National School Lunch.

**County Indirect Cost Rates**

The county indirect cost rates must be calculated and approved by ADE’s Audit Unit. Once ADE approves a county’s indirect cost rate, the rate will be posted on the Grants Management home page under Indirect Costs and will also be input into the electronic grants management system. Districts should input the combined indirect cost rate as their restricted or nonrestricted indirect cost rate. If a county receives an approved indirect cost rate during the project period, it is a district’s responsibility to include the county’s indirect cost rate in their indirect cost amount through an amendment. Both the district’s and county’s approved indirect cost rates can also be found under Project Summary on the home page.

GRANTS MANAGEMENT ENTERPRISE			
<a href="#">ADE Home Page</a>   <a href="#">Grants Home Page</a>   <a href="#">Glossary</a>   <a href="#">Contacts</a>   <a href="#">FAQ's</a>			
Instructions		Project Summary	
<ul style="list-style-type: none"> <li>To go back, click 'Go back'</li> </ul>			
<a href="#">Go Back</a>		<a href="#">Printer friendly version</a>	
District	Amphitheater Unified District	County's ICR	0.4 %
CTDS	100210000	Entity's ICR	3.41 %
Grant Name	2008 – 21st Century Community Learning Centers	Index #	00000
CFDA Title	After School Learning Centers	Award Year	2003
Award Agency	US Department of Education	Award Name	After School
Project Number	08FSECCL-860943-05A	Project Start Date	07/01/2007
Amendment Approval	N/A	Amendment Number	0

**AMENDMENTS**

Approved state or federally funded projects may be amended to reflect changes in line item allocations, additional monies, and/or carryover monies, subject to program regulations. Amendments must be submitted to ADE via the Internet. The deadline for accepting amendment requests for an approved project is 90 days prior to the project-end date. Amendments can be fiscal or programmatic in nature, or a combination of both.

**Fiscal Amendments**

Fiscal amendments must be submitted and approved prior to increasing or decreasing line item budgets and/or allocations, and include but are not limited to the following:

- The carryover of prior-year monies and/or changes in allocation, which increases the total budget.
- Increasing a line item, excluding the indirect cost line item, when the anticipated expenditures will exceed the budgeted line item amount by 10 percent or \$1,000, whichever is greater.

- Increasing or decreasing budgeted line item amounts to reflect changed budget priorities, with or without changing the budget total.
- Changing a detailed budgeted capital item or item description, even if the line item amount is unchanged.

## **Programmatic Amendments**

Programmatic amendments must be submitted and approved prior to:

- Changing staff duties or responsibilities without changing the budgeted line item amount.
- Changing the type of contractual services from the approved budget without changing the budgeted line item amount.
- Modifying the project's intent, focus, goal(s), or objective(s). Any modifications must still be within the grant's overall purpose.
- Extending a federal project-end date beyond the original approved date. State projects must end no later than June 30 of a fiscal year.

## **CASH MANAGEMENT (FEDERAL PROJECTS)**

The online cash management report is used for federal projects to indicate the current month's compliance and subsequent month's immediate need. Cash management reports are not required for state projects.

Procedures for minimizing the time elapsed between the transfer of monies from the U.S. Treasury and disbursement by districts must be followed whenever advance payment procedures are used, pursuant to 34 CFR §80.20(b)(7). Pass-through entities must ensure that districts substantially conform to the same timing requirements that apply to the pass-through entity.

To accomplish this, all cash advanced federal projects in the grants management system require cash management reporting.

### **Budgeting the First Cash Advance (online application process)**

When a district initially applies for a grant, the district can schedule their initial payment under Payment Schedule from the online application. Subsequent payments should be scheduled based on the first disbursement and the amount in the Remaining Scheduled Payment (RSP). The district should budget the first disbursement month according to anticipated cash outlays for a period not to exceed 30-days' accumulation (30 day needs).

The first cash management report is due the month of the initial disbursement or when a local carryover is amended and approved in the project, whichever comes first.

Submission of a cash management report prior to the initial disbursement overrides the first cash advance payment indicated from the application.

## **Subsequent Monthly Cash Advances and Cash Management Reporting**

Subsequent cash advances are based on electronic cash management reports due between the 1<sup>st</sup> and 18<sup>th</sup> of every month, beginning in the first month of project revenue (i.e., the first month a cash advance is made or local carryover is approved in the project, whichever comes first).

A district can submit cash management reports up to 18<sup>th</sup> of each month. If more than one cash management report is submitted for a project before the 18<sup>th</sup> of the month, the latest cash management report submitted will supersede any previously submitted reports.

The electronic system will accept a late report (after the 18<sup>th</sup>), but the project will be on Cash Management Report Non-submission Hold and no cash advance will be made in the upcoming payment period. This Cash Management Report Non-submission Hold will be released on the 1<sup>st</sup> of the following month. On the 1<sup>st</sup> of each month, the project status will change to Cash Management Report Due and will allow districts to submit a cash management report for the next accounting cycle.

On the 17<sup>th</sup> of each month, ADE will send out a Cash Management Report Due reminder e-mail to those districts that have not submitted a monthly cash management report. On the 19<sup>th</sup> of each month, ADE will send out a Cash Management Report Non-submission e-mail to inform districts of their cash management report non-submission status and that a late cash management report is due prior to the end of the month.

The cash management report requires the district to enter: (1) the project's cash balance and (2) encumbrances/estimated expenditures which include the project's unpaid invoices and estimated remaining expenditures to be paid in the reporting month and the estimated expenditures that will be paid in the following month. The cash balance is the total of all project revenue to date minus cash disbursements to date, which remains in the project account on the date of the report. For this report, encumbrances/estimated expenditures should include payroll and nonpayroll expenditures. Upon submission of this data, the grants management system will calculate the adjusted cash balance as the cash balance minus encumbrances/estimated expenditures.

Districts may not accumulate excess cash. In order to maintain ADE cash management compliance, districts must not accumulate a positive adjusted cash balance. If excess cash is indicated in the cash management report, no cash advance will be made. ADE may further request that excess cash reported be remitted back to the Department. However, districts should not remit project monies without first contacting ADE, or until directed to do so.

To prevent districts from having excess cash on hand, the cash management reporting system will only allow a maximum disbursement of 20 percent of a district's budget in any month. Any cash management report requesting more than the maximum disbursement allowable will receive a system message stating that the district is about to draw more than the maximum allowable disbursement. Districts will be required to submit an online cash management budget page indicating which line items the expenditures will involve. ADE will review that submitted cash management budget page. Upon approval, the system will process the payment.

# ACCOUNTING PROCEDURES

# STATE AND FEDERAL FINANCIAL ASSISTANCE

Districts may cancel a cash management report and resubmit one that requests an amount under the maximum disbursement allowable.

The maximum disbursement allowable does not apply to the initial disbursement or completion report closeout payment. Any district that needs to purchase capital items with costs greater than 20 percent of the budget total may schedule this payment during the initial payment. If a district needs to purchase capital items at any other time during the project period, the district will need to submit a cash management report and cash management budget page to support its upcoming expenditure.

For projects ending June 30, the May cash management report will generate the final June payment and should therefore, include all estimated expenditures to be incurred by June 30 and paid by June 30, and during the 90 day encumbrance period following June 30. However, a June cash management report will be required for ADE to assess the district's compliance status. The June report will not generate a payment. For projects with end dates later than June 30, the reporting requirements described above apply to the last 2 months of the project period (e.g., for projects with a September 30 end date, the August cash management report will generate the final September payment, and the September cash management report will be required to assess compliance status).

Cash management reports are due monthly throughout the life of the project, or until such time that all project monies have been advanced and the project's reported cash balance equals zero. For example, even though a district submits a cash management report to draw down all of the project monies, the district is obligated to submit a cash management report each month until all of the project monies have been expended.

ADE will use the above cash management process as its standard method to process payments to districts. For noncompliant districts, ADE has a right to change the payment method from the above cash management process to a reimbursement basis that requires monthly expenditure reports prior to its disbursement for each cash management report, pursuant to 34 CFR §80.21(d).

### ***Example 1 Initial Cash Management Report:***

*District A indicated its first disbursement month and its estimated expenditure amount in the application. Upon approval of its application, the District will receive \$3,000 in August. This payment is to cover the District's projected 30-day needs.*

#### ***District A Application***

<i>Budget total (No local carryover)</i>	<i>\$40,000</i>
<i>First disbursement month</i>	<i>August</i>
<i>Estimated August expenditure amount</i>	<i>\$3,000</i>
<i>Budget balance</i>	<i>\$37,000</i>

# ACCOUNTING PROCEDURES

# STATE AND FEDERAL FINANCIAL ASSISTANCE

District A should submit a cash management report in August, which is the first payment month. In this August cash management report, District A needs to indicate their current cash balance and unpaid encumbrances/estimated expenditures to be paid in the remainder of August and all of September.

### District A August Cash Management Report

Cash balance	\$1,000	Numeric entry: YTD revenue – YTD expenditures = cash balance e.g., \$3,000 - \$2,000 = \$1,000
Encumbrances/estimated expenditures to be paid by September 30	\$2,000	Numeric entry: Unpaid encumbrances and estimated expenditures for the remainder of August and the next 30 days (all of September)
Adjusted cash balance	(\$1,000)	System calculated: Negative adjusted cash balance places a project in cash management complaint status Cash balance – Encumbrances/estimated expenditures e.g., \$1,000 - \$2,000 = (\$1,000)
Disbursement to subrecipient in September	\$1,000	System calculated
Budget balance	\$36,000	System calculated: Previous budget balance – disbursement to subrecipient e.g., \$37,000 - \$1,000 = \$36,000

If a negative adjusted cash balance is indicated in a cash management report, ADE will process a payment for that amount as long as no project holds exist and the payment amount does not exceed the amount of unreleased monies for that project. The exception is the final cash management report, which only assesses cash management compliance status and does not generate a payment.

#### Example 2 Maximum Disbursement Allowable:

The Cash Management Report Data below shows the calculation of the maximum disbursement allowable for District B based on 20 percent of the total project budget.

#### District B

Cash Management Report Data	
<b>1. Total Budget</b>	100,000.00
<b>2. Project Revenue to Date</b>	
Disbursement from ADE to Date	10,000.00
Approved Local Carryover	1,000.00
<b>YTD Total Revenue</b>	<b>11,000.00</b>

## ACCOUNTING PROCEDURES

## STATE AND FEDERAL FINANCIAL ASSISTANCE

<b>3. Max Disbursement Amt (sys)</b>	20,000
<b>4. YTD Expenditure</b> <i>(Paid Invoices / Requisitions / Payrolls)</i>	14,000
<b>5. Cash Balance (Sys)</b>	-3,000
<b>6. Encumbrances/Requisitions</b>	30,000
<b>7. Adjusted Cash Balance (sys)</b>	-33,000
<b>8. Disbursement to subrecipient (sys)</b>	33,000
<b>9. Allocation Balance</b>	56,000

*District B is attempting to draw down \$33,000, which exceeds the maximum disbursement amount of \$20,000 for this project. The District will need to complete a cash management budget page in order for the system to allow this cash management report to be submitted, or the District could cancel the above cash management report and resubmit a cash management report that requests a payment that doesn't exceed its maximum disbursement amount. If a cash management budget page is submitted, ADE will review it and upon approval, the system will process the payment.*

## COMPLETION REPORTS

ADE requires project completion reports to satisfy the financial reporting requirements of each grant. The reports must be submitted for all state and federal grants/projects, as required by 34 CFR §80.20(b)(1), ADE, or state grant requirements.

Completion reports MUST be submitted to ADE via the Internet within 90 days after the project-end date, or sooner if required by specific program guidelines. There is no grace period. If a completion report and/or any required narrative data is NOT received by ADE within 90 days after the project-end date, further payments to the district on the current-year project will be suspended until ADE is in receipt of a valid report. If the county school superintendent's office handles a district's financial activities, it is the district's responsibility to allow the county ample time to approve the report within that 90-day period. Completion reports that are rejected must be corrected and resubmitted to ADE within 30 days after the rejection date or further payments to the district on the current-year project will be suspended until receipt of a valid report. Upon program area approval of a valid report, if there is negative cash on hand and the full allocation has not yet been released, monies will be released to reimburse the program costs incurred or to bring the balance to zero, whichever is less.

If a district can no longer substantially and meaningfully fulfill the requirements of a project because of school closure or inability to complete the term or intent of the grant/project, a completion report will be due to ADE within 90 days after the last day that the district substantially and meaningfully conducted business related to the grant/project and its intent.

## **ACCOUNTING PROCEDURES**

## **STATE AND FEDERAL FINANCIAL ASSISTANCE**

The amount reported as cash on hand must be in agreement with the records of the county treasurer's office or banking institution. Discrepancies must be resolved before the completion report is submitted to ADE.

If the county school superintendent's office handles a district's financial activities, the county-level user I.D. (electronic signature in the form of a username and password) will be accepted as the valid county-level signature.

Actual expenditures or outlays must be reconciled with budgeted amounts for each grant, pursuant to 34 CFR §80.20(b)(4). A budgeted line item may not be exceeded by more than 10 percent or \$1,000, whichever is greater. This allowance does not apply to indirect costs. Indirect costs may be recovered only to the extent that the indirect cost rate is applied to the amount expended (the allowable rate times the actual subtotal expenditures) or the amount allowed by individual program guidelines, whichever is less.

Actual expenditures reported should not exceed the total budget. A line item with a zero budget may not reflect any expenditures. If monies were used for unauthorized expenditures without a fiscal override, the district should make an adjusting journal entry to move the unauthorized expenditures out of the grant fund and into the Maintenance and Operation (M&O) Fund or other appropriate fund, preferably prior to submitting the completion report to ADE. Cash on deposit with the county treasurer may need to be adjusted depending on how the affected funds are accounted for (or pooled) by the treasurer.

If a completion report reflects an unauthorized expenditure, or an over-expenditure of a budgeted line item, the district has two options: (1) a fiscal override may be allowed by the program area at the time the completion report is submitted, or (2) the amount of the unauthorized expenditure or over-expenditure should be reversed in the grant fund and recorded in the M&O Fund or other appropriate fund within 60 days of being directed to do so after the completion report approval (a treasurer's transfer may be necessary to move the related cash between the funds), and the amount of the unauthorized expenditure or over-expenditure must be returned to ADE. Failure to comply within 60 days may result in the withholding of monies in accordance with 34 CFR 80.20, 34 CFR 80.43, or as provided by ADE or state grant requirements. If a district fails to comply within 60 days, the electronic system will place a Completion Report (CR) Adjustment Hold on the current-year project, and no payment will be made for the current or future projects. Upon receipt of the program area's consent or return of the misspent monies, the CR Adjustment Hold will be released. The district may appeal the hold following the procedures in AAC R7-2-805.

## **RETURN OF MONIES**

Some program regulations require the return of any unspent monies to ADE's Accounting Office at the end of the project period. Additionally, unspent monies in a project that is not funded in a subsequent year should generally be returned to ADE. Also, if a completion report reflects unauthorized expenditures or an over-expenditure, the district will be required to repay the monies, unless a fiscal override is approved, as discussed in the last paragraph on Completion Reports above.

## **ACCOUNTING PROCEDURES**

## **STATE AND FEDERAL FINANCIAL ASSISTANCE**

All returned or repaid monies must be clearly identified by project number and source of monies (interest, unspent project monies, disallowances, etc.) and remitted within 60 days of being directed to do so or after the completion report approval. If a district receives a completion report e-mail from ADE indicating the need to return monies, the district should print a copy of the e-mail and submit it along with a warrant for any monies due.

Expired monies from a federal grant or the interest earned from expired monies may not be carried over or amended into subsequent years. These monies must be returned to ADE's Accounting Office. Districts should avoid allowing federal monies to expire by amending the project or returning monies as soon as directed by the program area.

Expired and/or unidentified monies discovered through audits or other findings must be returned to ADE's Accounting Office along with the interest earned on those monies. Failure to return such monies within 60 days will result in the withholding of monies in accordance with 34 CFR 80.20, 34 CFR 80.43, or as provided by ADE or state grant requirements. If a district fails to comply within 60 days, the electronic system will place a Return Hold on the current-year project, and no payment will be made for the current or future projects. Upon receipt of the payment, the hold will be released.

### **CARRYOVER OF MONIES**

The ability to carryover balances and/or interest remaining from a prior-year's project varies depending upon legislation and funding guidelines. If carryover is allowed, the unexpended state or federal project monies from the preceding year (local carryover money) may be used to meet the initial obligations of the current year's approved project where monies have not yet been distributed. The monies may be used **ONLY** in the same program as originally assigned unless allowed by the authorizing statute. Grant-specific information should be obtained through the appropriate program area.

Once a completion report is approved and the district is directed to amend prior-year monies, the carryover should be amended into the current-year project within 60 days. If the district fails to amend the carryover within 60 days after the completion report approval date, the electronic system will place an Amendment Hold on the current-year project and no payment will be made for the current or future projects. Upon submission of the amendment, the hold will be released. All amendments should be submitted electronically at least 90 days prior to the current-year project-end date. Failure to amend within the specified timelines may result in the loss of monies.

A Multi-Year Fund CarryOver Matrix is published on ADE's Grants Management Enterprise Web page under Memorandums/Announcements. This downloadable matrix identifies the requirements by grant related to the carryover or return of unexpended budget balance and interest.

## INTEREST

The following rules and regulations apply to interest earned on federal and state projects:

- Interest earned from pooled investments should be apportioned, at least quarterly, to the fund earning the interest based on its average daily, weekly, or monthly cash balance in accordance with the Uniform Accounting Manual for Arizona County Treasurers.
- Interest earned on state and federal grants administered by ADE must remain with each fund that generated the interest subject to the limitations below.
- Interest earned on advances of federal monies in excess of \$100 per grant during the fiscal year must be returned to ADE's Accounting Office at least quarterly, pursuant to 34 CFR §80.21(h)(2)(i). However, in accordance with the Intergovernmental Cooperation Act, the Bureau of Indian Affairs/Johnson O'Malley, Title VIII, program is currently exempt from the preceding rule.
- Interest earned on state grant monies may be retained by the district and expended for the same purpose as the original allocation in the next year, if reported on the grant completion report and approved as carryover. Interest must be returned to ADE's Accounting Office if the project is discontinued, program guidelines require it, or the approved completion report requires the interest to be returned.
- Interest earned on expired monies must be returned to ADE's Accounting Office.

## AUDIT OF FEDERAL PROGRAMS

### The Single Audit Report

The *Single Audit Act Amendments of 1996*, under the guidelines of OMB Circular A-133, requires all subrecipients to contract for a single audit for any year in which the subrecipient expended \$500,000 or more in federal awards, regardless of which federal agency provided the money. The single audit must be completed and submitted to ADE, the Office of the Auditor General, and other applicable agencies within the required time frame mentioned below, and include:

- An opinion as to whether the recipient's financial statements are presented fairly in all material respects in conformity with U.S. generally accepted accounting principles and an opinion as to whether the schedule of expenditures of federal awards is presented fairly in all material respects in relation to the financial statements taken as a whole.
- A report on the recipient's internal controls over financial reporting and on compliance and other matters based on an audit of the financial statements.
- A report on the recipient's compliance and internal control over compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a direct and material effect on a major federal program.

- A schedule of findings and questioned costs.

If required to have a single audit, subrecipients have 9 months after the end of their fiscal year to submit the single audit results to ADE's Audit Unit. Subrecipients receive two notices from ADE's Audit Unit prior to the due date. If, by the due date, the subrecipient has not submitted the audit reporting package, nor provided substantiating evidence of an ongoing audit and a reasonable explanation for the lateness of such, the subrecipient will receive a 30-day notice to comply. Subrecipients that are not in compliance after the 30-day notice may be subject to an interruption of all federal project payments from ADE until the single audit has been performed and the results sent to ADE.

### **Audit Findings**

To comply with ADE Guideline and Procedure AS-3, ADE will issue a Management Decision Letter within 6 months from the date the audit is received by ADE's Audit Unit. If all audit findings are not resolved within 6-months of ADE receiving the audit, current-year funding for the affected grants may be suspended. During the 6 months, ADE will take the following actions to notify districts of unresolved findings and any impact on current year funding:

- If there are unresolved findings 120 days after receipt of the audit by ADE's Audit Unit, the program area will send a notice of unresolved audit findings to the appropriate subrecipient finance director/business manager (or grants manager at a larger district). The notice will state what appropriate corrective action must be taken and the date by which it must be completed. It will also indicate that failure to respond in a timely manner may interrupt current-year funding for the project.
- If unresolved audit findings still remain after 150 days, a notice will be sent from the program area to the finance director/business manager (or grants manager at a larger district). The notice will state what audit findings are still not resolved with the appropriate corrective action and the due date for audit resolution before suspension of current-year funding. The letter will also state that the district has the right to request an audit resolution review within 15 days of receiving the letter. The Audit Resolution Review Panel will be composed of a Chief Auditor from ADE's Audit Unit, ADE Grants Management Manager, and an ADE staff member from each affected program area.
- If audit findings are not resolved within 180 days after the audit is received by ADE's Audit Unit, a notice will be issued citing the appropriate corrective action for the district and suspending current-year funding until the findings are resolved. The notice will also state that the district has the right to appeal the repayment of misspent or misapplied monies to the Superintendent of Public Instruction (State Superintendent) within 30 days of receipt of the notice under AAC R7-2-805.

If an appeal is filed by certified mail, the State Superintendent shall select a hearing appeals panel from ADE staff. However, no panel member will be selected from the program area responsible for administering the federal program from which the appeal arose.

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- A hearing shall be scheduled before the appeals panel within 30 days from the receipt of the request for appeal. The complainant will be given at least a 10-day notice before the hearing date. The complainant may waive this 10-day notice.
- No later than 5 days after the hearing, the appeals panel shall forward its recommendation to the State Superintendent, and within 10 days after the hearing, his or her ruling must be issued in writing.
  - If the State Superintendent determines that the Department's action was contrary to the statutes and regulations that govern the applicable program, the State Superintendent shall rescind the action.
  - If the State Superintendent does not rescind the action, the applicant may appeal to the USDOE within 20 days after being notified of the State Superintendent's decision.

Once all findings are resolved and any appeal process is completed, ADE will issue a Final Management Decision Letter.

## **PROGRAMMATIC WAIVERS**

A district may submit to ADE, on its own behalf or for a school within the district, a request for a waiver of any statutory or regulatory requirements as permitted by federal statute or state and federal regulation, pursuant to 34 CFR §75.900 and A.R.S. §15-256. ADE will provide a Waiver Request Form to assist the district in applying for waivers. Federal waiver requests for the upcoming school year must be submitted to ADE's Audit Unit by March 1 of the current fiscal year. Contact the appropriate ADE program area regarding waivers governing program regulations.

**COMPLIANCE CHECKLIST**

This compliance checklist was developed to assist districts in establishing and maintaining adequate controls over state and federal grants/projects, and may be used to evaluate compliance with USFR requirements. Questions are phrased in such a way that “Yes” answers indicate satisfactory conditions while “No” answers indicate possible weaknesses that should be corrected.

**Applications**

1. Does the district have a current, signed General Statement of Assurance on file in ADE’s Grants Management Unit?
2. Did the district code budget line items in accordance with the USFR Chart of Accounts (§III)?
3. Did the district meet all requirements for the application, as specified by the program guidelines, including any required narratives?

**Indirect Cost Rate**

1. Did the district receive ADE’s approval of its indirect cost rate, if used?

**Amendments**

1. If needed, did the district submit an amendment (fiscal and/or programmatic) to a project no later than 90 days before the project-end date?
2. Did the district receive approval for an amendment from the appropriate program area prior to initiating requested changes?

**Cash Management (Federal Projects)**

1. Did the district submit cash management reports for cash advanced federal projects between the 1<sup>st</sup> and 18<sup>th</sup> of every eligible month?
2. Did the district maintain a zero or negative adjusted cash balance?
3. Did the district report only those encumbrances/estimated expenditures on its cash management reports that it anticipated paying by the end of the following month? NOTE: For the cash management report filed in the month before the project-end date, the district should have reported those encumbrances/estimated expenditures that it anticipated paying before the end of the 90 day encumbrance period following the project-end date.

**Completion Reports**

1. Did the district submit a completion report to ADE within 90 days after the project-end date?
2. Did the district also submit any required completion report narratives or other data to the program area?

## Return of Monies

1. Did the district comply with the program area's direction to amend or return monies in a timely manner?

## Carryover of Monies

1. Did the district amend allowable carryover and interest into the current-year project within 60 days after being given program area approval to do so?

## Interest

1. Did the district remit to ADE's Accounting Office interest earned during the fiscal year on advances of federal monies in excess of \$100 per grant at least quarterly (except for exempt programs/grants)?

## Audit of Federal Programs

1. If the subrecipient expended \$500,000 or more in federal awards during a fiscal year:
  - a) Did the district have a single audit?
  - b) Did the audit firm submit copies of the audit reporting package to the ADE Audit Unit, the Office of the Auditor General, the Federal Audit Clearinghouse, and to each federal awarding agency when the schedule of findings and questioned costs disclosed audit findings or the summary schedule of prior audit findings reported on the status of prior findings related to direct federal awards provided to the district?
  - c) Did the audit firm submit one copy of the audit reporting package to other pass-through entities when required? NOTE: Such reporting is required when the schedule of findings and questioned costs disclosed audit findings related to federal awards that the pass-through entities provided or the summary schedule of prior audit findings reported on the status of prior findings related to federal awards that the pass-through entities provided.
2. If the subrecipient had a single audit conducted, did the single audit contain an opinion as to whether the recipient's financial statements were presented fairly in all material respects in conformity with U.S. generally accepted accounting principles and whether the schedule of expenditures of federal awards was presented fairly in all material respects in relation to the financial statements taken as a whole?
3. If the subrecipient had a single audit conducted, did the single audit contain a report on the recipient's internal controls over financial reporting and on compliance and other matters based on an audit of the financial statements?
4. If the subrecipient had a single audit conducted, did the single audit contain a report on the recipient's compliance and internal control over compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a direct and material effect on a major federal program?

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5. If the subrecipient had a single audit conducted, did the single audit contain a schedule of findings and questioned costs?
6. Did the district resolve all audit findings within 6 months from the date that ADE's Audit Unit received the audit?