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 **MSBO**


- Federal Timekeeping
- Supplanting
- Written Policies and Procedures
- Common Audit Findings
- Reminders

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 **Federal Timekeeping**


- 2 CFR Part 225, Appendix B
- a.k.a. OMB Circular A-87
- Semi-annual certifications are required for employees working on a single federal award or cost objective
- PARs are required for employees working on multiple cost objectives


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 **Federal Timekeeping**

Q: How does an LEA document employee time and effort in schools that operate schoolwide programs?


Excerpt from NON-REGULATORY GUIDANCE, TITLE I FISCAL ISSUES: MAINTENANCE OF EFFORT, COMPARABILITY, SUPPLEMENT, NOT SUPPLANT, CARRYOVER, CONSOLIDATING FUNDS IN SCHOOLWIDE PROGRAMS, GRANTBACK REQUIREMENTS. REVISED February 2008.


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 **Federal Timekeeping**


A: Same as above EXCEPT if a school operating a schoolwide program consolidates Federal, State, and local funds under section 1114(a)(3) in a consolidated schoolwide pool (see E-2), an employee who is paid with funds from that pool is not required to file a semi-annual certification. Because Federal funds are consolidated with State and local funds in a single consolidated schoolwide pool, there is no distinction between staff paid with Federal funds and staff paid with State or local funds.

Note: Michigan does not allow consolidation of funds in a schoolwide pool.

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 **Answer continued:**

If a school operating a schoolwide program does not consolidate Federal funds with State and local funds in a consolidated schoolwide pool, an employee who works, in whole or in part, on a Federal program or cost objective must meet the OMB Circular A-87 requirements as

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Federal Timekeeping

Q I have an employee that spends all of her time on one activity but, because of insufficient federal funds, must be split funded with federal funds and state aid. What federal timekeeping records are required?

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Federal Timekeeping

A. That depends. The USED Special Ed and Career Tech Ed staff would say PARs are required. The Office of Chief Financial Officer would say that semi-annual certifications are allowable because the person is working on a single cost objective. The Office of General Counsel (federal attorneys) agree with the latter.

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Supplanting

- First, the district must figure out what its basic program is. It must provide its basic instructional program with its own funds.
- If, in the absence of federal funds, the cost would be born by state or local funds, it would be supplanting to use federal funds.
- Normally, the prior use of State or local funds for an activity creates a presumption that the use of federal funds is supplanting.

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Supplanting

OMB Circular A-133 COMPLIANCE SUPPLEMENT – ESEA:
 Presumption of supplanting:

- The LEA used federal funds (except Bilingual) to provide services that the LEA was required to make available under other federal, state or local laws.
- The LEA used federal funds to provide services that the LEA provided with non-federal funds in the prior year.
- The LEA used Title I, Part A or MEP funds to provide services for participating children that the LEA provided with non-federal funds for nonparticipating children.
- These presumptions are rebuttable if the LEA can demonstrate that it would not have provided the services in question with non-federal funds had the federal funds not been available.

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Supplanting

March 6, 2003 Oklahoma letter:

- Secretary is prohibited from waiving the supplanting limitation (ESEA Section 9401(c)(4))
- Presumption of supplanting may be overcome by documentation confirming that, in the absence of the federal funds, the LEA would not have maintained these personnel or services with state or local funds.
- This is unique to each LEA's factual circumstances.
- The LEA will need to maintain fiscal and programmatic records confirming that, in the absence of federal funds, they would have eliminated the staff or services.
- The Oklahoma letter offers a Title II-A example.
- A new decision should be made before the beginning of each school year about whether, based on the availability of State and local funds, the LEAs' fiscal situation compels the continued availability of ESEA funds for the personnel and services.

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Supplanting

Q: How can a schoolwide program demonstrate that it supplements, and does not supplant, State and local funds?

Excerpt from NON-REGULATORY GUIDANCE, TITLE I FISCAL ISSUES: MAINTENANCE OF EFFORT, COMPARABILITY, SUPPLEMENT, NOT SUPPLANT, CARRYOVER, CONSOLIDATING FUNDS IN SCHOOLWIDE PROGRAMS, GRANTBACK REQUIREMENTS. REVISED February 2008.

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Supplanting

A: It is generally an LEA's responsibility, and not a school's, to ensure that the "supplement not supplant" requirement is met and that a schoolwide program school receives all the State and local funds it would receive were it not a Title I schoolwide program school.

In other words, an LEA may not reduce its allocation of State and local funds and resources to a schoolwide program school because the school receives Federal funds to operate a schoolwide program.

An LEA should be able to demonstrate, through its regular procedures for distributing funds and resources, that it distributes State and local funds fairly and equitably to all its schools—including schoolwide program schools—without regard to whether those schools are receiving Federal education funds.





Supplanting

Answer, cont'd:

A schoolwide program school is not expected to keep records of the particular services paid for with Federal education funds that are used in the schoolwide program, nor is it required to demonstrate that any particular service supplements the services regularly provided in that school.





Supplanting

Michigan supplanting examples

Supplanting Example 1- slide of Title I duties to classroom teacher

- Teachers with traditional contracts teach five classes per day and get one prep class.
- These districts usually have some teacher vacancies due to retirements, etc.
- When budget cuts hit, they don't want to lay off teachers.
- So they move the Title I teachers into the vacancies and charge 1/6 of each teacher's pay to Title I.
- They say that the teachers are doing supplementary instruction to accelerate student learning.
- But, they are not documenting that anything has changed in the classroom.




Supplanting

Example 2- Kindergarten

- Kindergarten is not required by state law in Michigan
- Community expectation is that districts will provide ½ day kindergarten.
- The USED looks at the legal requirement as well as the community expectation.
- If a district only offers ½ day kindergartens and adds a full day section, that section can be charged to Title I if 1) it is a schoolwide building or 2) it is a targeted assistance building and the pupils are Title I eligible. Pupils must be screened in the targeted assistance building.
- Those districts that have been offering full day kindergartens all along cannot start charging the second half of the day to Title I. That would be supplanting.
- This results in inconsistencies between districts. Some are allowed to use Title I for the second half of full day kindergarten and some are not.

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Supplanting

Example 3 – Supplies

- The state office approves Title I supplies for reading, math, science and social studies.
- The final expenditure reports come in over budget in supplies and materials for these subjects.
- Upon investigation, State office staff learns that the districts charged both regular and supplemental supplies and materials to Title I. They tried to fund the basic program with Title I funds.

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Supplanting

Example 4 – classroom teachers

- The state office approves a title I teacher.
- Upon monitoring, the state learns that the Title I teacher is in a regular classroom, supplanting the basic program teacher.

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Supplanting

Louisiana Example

The district used Title I for reading specialists in its four elementary schools for several years. They opened a new elementary but didn't have enough Title I funds for the reading specialist. They used their own funds for the reading specialist. The state said that because they used their own funds in the new building, they had to use their own funds for the reading specialists in the other four buildings.

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Written Policies & Procedures

As a precondition to receive federal funds, prospective recipients must have effective administrative and financial internal controls. As described in 34 CFR Part 80, 2 CFR Part 215 and OMB Compliance Supplement Part 6, school districts must have written procedures for the following:

- Financial management systems
- Payments
- Allowable costs
- Period of availability



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Written Policies & Procedures

- Matching or cost sharing (if applicable)
- Program income (if applicable)
- Procurement
- Equipment
- Real property (if applicable)
- Supplies
- Copyrights (if applicable)
- Subawards to debarred and suspended parties
- Monitoring and reporting program performance (if applicable)
- Financial reporting
- Retention and access requirements for records


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 **Written Policies & Procedures**


In addition, districts should also have written procedures for:


- Cash management
- Conflict of interest
- Payroll
- Federal timekeeping

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 **Written Policies & Procedures**


- Michigan believes that written procedures should include provisions for training and consequences for compliance failures.
- Procedures need to include enough details for auditors to determine if sufficient internal controls exist and determine compliance.
- Policies do not take the place of procedures.

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 **Written Policies & Procedures**

- Districts should not continue to expect federal funds if they are unwilling or unable to develop written procedures.
- Auditors should report the lack of applicable written procedures.

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Written Policies & Procedures

OIG Audit Dallas, April 2009, ED-OIG/A06H0011

- The OIG found that Dallas' practices, policies, guidelines, and processes were not applied consistently throughout the district.
- Written policies and procedures and effective employee training were lacking, resulting in documentation that could not be located or otherwise not presented for audit, and the Grants Department did not effectively monitor grant expenditures.
- The auditors found that implementation and understanding of written policies and procedures varied. While district-level personnel were able to convey district policy and procedures, campus employees were unsure of those procedures.
- Campus employees often directed the auditors to the DISD website. The campuses maintained a "Title I Notebook". However, the procedures usually consisted only of excerpts from Federal and State regulations and handwritten notes. The written policies and procedures provided by DISD for review primarily addressed only purchasing requirements, yet grant purchases were not authorized in a consistent and efficient manner.

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COMMON OIG AUDIT FINDINGS


USED Office of Inspector General Releases

See report at:
<http://www2.ed.gov/about/offices/list/oig/auditreports/fy2009/x05j0005.pdf>

- **Personnel** costs totaling \$1,398,564 were reported as unallowable because they were not allocable to the grant to which they were charged in 8 of 16 audit reports (50 percent) that included a review of personnel costs.
- **Personnel** costs totaling an estimated \$66,666,155 were reported as inadequately documented because time and effort certifications were missing, incomplete, inaccurate, or untimely in 11 of 16 audit reports (69 percent) that reviewed time and effort certifications.

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COMMON AUDIT FINDINGS

- **Personnel** costs totaling an estimated \$36,710,230 were reported as inadequately documented because personnel activity reports or timesheets were missing or incomplete in 9 of 15 audit reports (60 percent) that included a review of personnel activity reports or timesheets.
- **Non-personnel** costs totaling \$826,183 were reported as unallowable because they were unnecessary or unreasonable to carry out the grant or not-for-program purposes in 9 of 20 audit reports (45 percent) that included a review of non-personnel costs.


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COMMON AUDIT FINDINGS


- **Non-personnel** costs totaling \$810,055 were reported as unallowable because contracts were missing required elements, were unfulfilled, were not approved, or included expenditures that exceeded the contract amounts in 8 of 11 audit reports (73 percent) that included a review of contract expenditures.
- **Non-personnel** costs totaling \$16,010,550 were reported as inadequately documented because of missing or inaccurate supporting documentation in 11 of 19 audit reports (58 percent) that included a review of non-personnel costs.


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COMMON AUDIT FINDINGS

- Improper **inventory** control systems resulted in a total of \$2,693,004 in lost or unaccounted for property reported in 9 of 9 audit reports (100 percent) that included a review of inventory control systems.
- **Supplanting** of \$2,504,617 in Federal grant funds was reported in 6 of 6 audit reports (100 percent) that included a review for supplanting.


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COMMON AUDIT FINDINGS

Pervasive Internal Control Weaknesses

- Inadequate policies and procedures (34 times);
- No policies and procedures (15 times);
- Not understanding the regulations and guidance (10 times); and
- Policies and procedures in place but not followed (5 times).



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COMMON AUDIT FINDINGS

Reminders:

- If you adopt a requirement that is stricter than the federal requirement, the federal auditors will hold you to the requirement.
- Don't set up transactions to automatically default to the federal programs if there are cases in which the charges are not federally allowable, such as procurement cards.
- Always be able to explain to the auditors why the expenditure is reasonable and necessary for the federal program.
- Auditors are now looking to see that you paid a reasonable price for purchases. This goes beyond bidding. See the Dallas audit.



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COMMON AUDIT FINDINGS

- Prior approval is required for equipment purchases. The auditors may bundle individual purchases so that they exceed the equipment threshold.
- The auditors are looking to see if your purchases (both equipment and supplies) are used or just made to expend federal funds so that they don't lapse.
- Double check that staff understands and are following written procedures. Auditors are also looking for consistent application.
- Each district is expected to have a self-monitoring system. See the Dallas audit.
- The auditors are looking for uncorrected prior audit findings. You are at risk if you have repeat audit findings.
- Auditors continue to expect adequate inventory procedures.



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COMMON AUDIT FINDINGS

- Auditors continue to expect written procedures. A notebook of federal regulations, nonregulatory guidance and memos does not substitute for written procedures.
- Auditors continue to expect up to date position descriptions.
- Auditors continue to expect adequate controls on IT systems.
- No more using lesson plans as a substitute for PARs.
- Auditors are also looking at parental involvement, nonpublic participation, procurement, and cash management.

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MSBO CPA June 8, 2011



Giving something extra puts students on top!

Mike Radke, Director, Office of Field
Services, Michigan Department of Education

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OFS MISSION

**Accelerate student achievement
through school Improvement
by working as partners to
maximize the allowable use
of supplementary resources.**



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Tough Economic Times

■ Temptations

- ◆ Use grant funds to replace state & local funds = supplanting
- ◆ Cut corners: loss of internal controls

■ Challenges:

- dramatically improve student achievement
- Balance the budget, and
- Use appropriate accounting procedures

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MDE using risk criteria to select LEAs for monitoring

■ Quantitative

- ◆ Single Audit & Findings
- ◆ Time since last monitoring
- ◆ Size of grant(s)
- ◆ Findings from other monitoring
- ◆ Deficit or watch list

■ Qualitative

- ◆ School improvement plan quality
- ◆ Leadership expertise
- ◆ Knowledge of the rules

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Consolidated Application Monitoring

LEA characteristics

- Large, medium and small
- Urban, suburban and rural
- New PSAs, mature PSAs

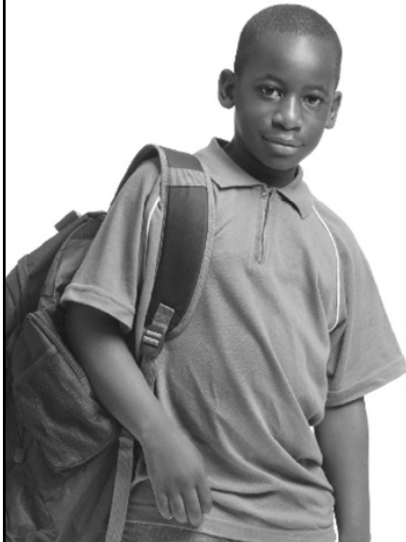
Monitoring type

- Program
- Fiscal
- On-site
- Desk
- Combination

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Fiscal Monitoring Findings



- Fiscal internal control policies and procedures
- Procurement
- Contract management
- Personnel timekeeping (PARs or Time & Effort certifications)
- Supplanting
- Unallowable costs or documentation problems
- Equipment inventory



Fiscal Monitoring Findings

- Deficient documentation for transfers between accounts
- Draws for federal programs occur prior to actual expenditures
- Conflicts of interest or related party transactions
- Final expenditure report deviations



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Program Findings: Planning

- Comprehensive needs assessment, analysis of total and subgroup data or educational processes
- School improvement plans: Schoolwide or Targeted Assistance
- Planned supplementary services or programs not aligned with needs



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Program Monitoring Findings: Planning


- Supplementary services or activities not research based
- Stakeholder involvement in school improvement planning, implementation and evaluation
- Evaluation of effectiveness for program reforms, strategies or activities



Program Findings: Planning


- No (little) school-level decision making in plan design, implementation or evaluation
- Professional development plan not developed with stakeholder input or not aligned with needs
- Inadequate program monitoring of implementation






Program Monitoring Findings


- Core academic program not aligned to state standards, instruction or assessments
- Inadequate parent involvement district policy, school plan and compact
- Program grant management inadequate

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Required Actions

- Develop & implement corrective action plan
- Payback Federal programs with general funds
- Contract for program expertise at district expense
- Contract with CPA firm (at district expense) to establish amount to be paid back retrospectively

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Required Actions

- Contract with CPA firm (at district expense) to verify allowability prior to draw down of federal funds
- Carry over funds to subsequent year
- Revise or amend application consistent with requirements
- Require a single audit



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Required Actions

- Implement internal controls to be eligible for funds
- Develop and implement policies and desk procedures
 - ◆ Approved by MDE
 - ◆ Require training of staff annually
 - ◆ Consequences for failure to implement
- Open criminal investigation
- Federal High Risk status

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Region Three Pilot “Virtual” Consolidation



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What Does Consolidation Mean?

- Schoolwide school treats the funds it is consolidating as a single “pool” of funds.
- Funds from the contributing programs lose their identity.
- The school uses funds from this consolidated schoolwide (SW) pool to support any activity of the SW program.

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What is the Purpose of Consolidation?

The purpose of consolidating funds is to help a SW program school effectively design and implement a comprehensive plan to upgrade the entire educational program in the school based on the school's needs identified through its comprehensive needs assessment [E-1].

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Which funds can be consolidated in the Pilot?

- State Aid and local tax revenue
- State Section 31a
- Title I, Part A
- Title II, Part A
- Title II, Part D
- Title III
- Title VI



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Prerequisites to participation: High Quality

- School level comprehensive needs assessment
- School improvement plan meeting Schoolwide requirements
- Define your basic program and demonstrate it is funded
- Identify funds and amount of funds in consolidation

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Program and district requirements

- Evidence that intent and purposes of programs were fulfilled.
- LEA fulfills all usual responsibilities, e.g. MOE, supplement not supplant, equitable services, internal controls, set asides, etc.



Financial Accounting

- “Virtual” pooling – maintain multiple grant numbers, function codes and cost objectives.
- Two drawdown options:
 - Proportionate charging
 - Sequence charging
- Functional category reporting must still be maintained



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Flexibility with Accountability

- | | |
|--|---|
| <ul style="list-style-type: none">■ Flexibility<ul style="list-style-type: none">◆ Whatever it takes to get results◆ Within the models you choose◆ Earned not entitled | <ul style="list-style-type: none">■ Accountability<ul style="list-style-type: none">◆ For student learning◆ For your Plan◆ For following the rules◆ To your stakeholders |
|--|---|

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