



## Statewide Accounting Policy & Procedure

**Accounting Manual Reference:**

Section: Grants and Other Financial Assistance  
Sub-section: Overview

**Effective Date:** 07/01/1999

**Revision Date:** 07/01/2004

State organizations that administer Federal programs must maintain sufficient accounting records to allow for the recording of Federal funds at an expenditure level adequate to establish that the funds have not been used in violation of Federal laws and regulations. These records must provide for the identification of individual grants, expenditures and revenues from such grants, unobligated grant balances and grant assets and liabilities. The accounting records must also support the preparation of required Federal financial reports and support Federal program matching requirements. In the past, most State organizations have met these requirements through the use of fund source identifiers and financial project identifiers. The State's PeopleSoft accounting system allows for these accounting practices.

A separate fund source may be established for each grant received under a Federal program and each Federal fund source may have the Federal program's *Catalog of Federal Domestic Assistance* (CFDA) number listed on the accounting system. Financial project activity may record any match required by a Federal grant. Separate financial projects must be established for each funding combination associated with a Federal fund source and only one Federal fund source may be assigned to each financial project identifier.

Accounting for Federal funds, in the manner described above, is designed for State organizations on the statewide financial system. State organizations not on the statewide financial system must maintain their records in a similar manner to provide the same accounting information as described above.

### **Pass-Through Grants**

GASB Codification Section N50 establishes standards for accounting for non-exchange transactions. Section N50.128 discusses determining fund types for reporting pass-through grants which are often administered by State organizations. These types of grants are defined as grants which are received by a governmental entity to transfer or spend on behalf of a secondary recipient. All cash pass-through grants received by a governmental entity should be reported in its financial statements. As a general rule these types of grants should be recognized as revenue and expenditures or expense in a governmental, proprietary, or trust fund. Such grants should only be accounted for in an agency fund if the State organization is operating simply as a "cash conduit." To operate as a "cash conduit" an organization must not have any secondary recipient monitoring requirements, must not have to determine eligible sub-recipients, and must not have any discretion in how the grant is allocated. In addition, the State organization must not have any direct financial involvement with the grant program such as a requirement to finance some direct program cost (e.g., matching requirements) or have any exposure to liability for disallowed cost.

**On-behalf Payments**

State organizations may make payments on-behalf of the employees of another entity and in limited instances may be the recipient of on-behalf payments. Examples of on-behalf payments are fringe benefit payments made on-behalf of the employees of another entity (e.g., payments made by a State organization directly to a pension fund on-behalf of the employees of a local board of education). These types of payments also encompass salary payments made directly to employees of another entity. GASB Codification Section N50.130 requires an employer government to recognize revenue and expenditures or expenses for on-behalf payments for fringe benefits and salaries. If the employer government is not legally responsible for the payment (salaries and/or fringe benefits), it should recognize expenditures/expenses equal to the amount recognized as revenue. If the employer government is legally responsible for the payment, it should follow accounting standards applicable for that type of transaction to recognize the expenditures/expenses and related liabilities or assets.

Recognizing that the required information necessary for an employer government to record revenue and expenditures/expense must come, in most instances, from the paying entity, GASB Codification Section N50.131 recognizes the need for “inter-entity cooperation.” It is further stated that if the employer government cannot obtain such information either from the paying entity or the third-party, then the employer government should make their best estimates of the amounts.

Finally, GASB Codification Section N50.135 states that the paying government should classify the expenditure or expense for the on-behalf payments that it makes in the same manner that it classifies similar cash grants to other entities.