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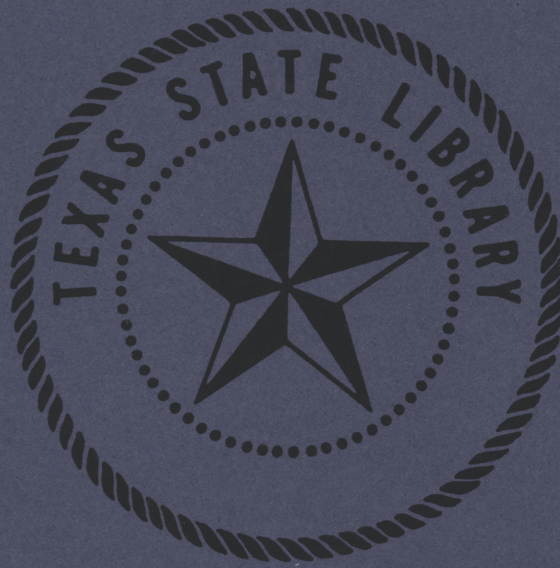
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# AUDIT GUIDE FY 1991

Library Grants Made to Local Governments

Library Services and Construction Act  
Titles I, II, III  
and  
Library Systems Act



## TEXAS STATE LIBRARY

THE UNIVERSITY OF TEXAS-PAN AMERICAN



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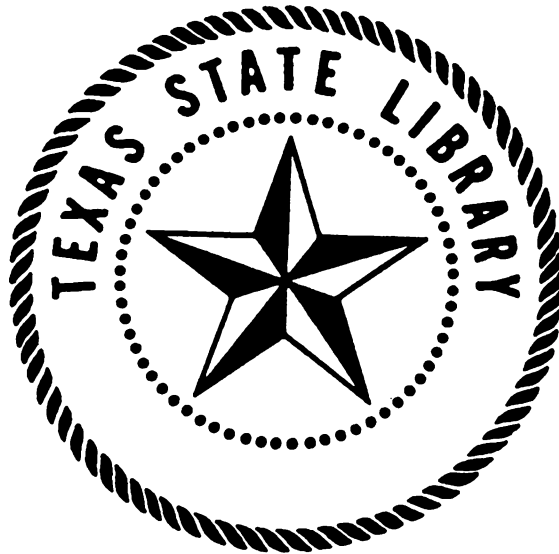




**AUDIT GUIDE  
FY 1991**

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**TEXAS STATE LIBRARY**







## AUDIT GUIDE - FY 1991

### INTRODUCTION

The Texas State Library made cash grants to local agencies of government with funds appropriated through the State Library Systems Act, Title I, and Title II of the federal Library Services and Construction Act. In addition, a limited number of cash grants were made to eligible subgrantees with funds appropriated through Title III of the federal Library Services and Construction Act. Grant funds were to be expended for Library Services as per the terms of the contracts between the local agencies and the Texas State Library and Archives Commission. These funds must have been expended or obligated by a specified date. Any unobligated funds as determined by audit must be returned to the Texas State Library.

One copy of every audit conducted for these library grants must be retained by the local agency and one copy forwarded directly to the Texas State Library by the state cognizant agency or the auditor. If the entity being audited has received \$100,000 or more in federal funds, a copy of the audit must be submitted to the Bureau of Census - National Clearinghouse for Single Audits. Accounting records must adequately identify all revenues and expenditures from grant awards and all records pertaining to grants must be retained at the local level for five years from the date the final expenditure report is submitted to the Texas State Library.

### FY 1991 GRANT AWARDS

The Texas State Library awarded grants under the following programs in FY 1991:

<u>Grant Program</u>	Catalog of Federal Domestic Assistance <u>Number</u>	Contract <u>Number</u>	Source of <u>Funds</u>
<i>Public Library Construction</i>	<i>84.154</i>	<i>430</i>	<i>Title II-LSCA</i>
<i>Public Library Systems</i>	<i>N/A</i>	<i>426</i>	<i>General Revenue</i>
<i>Public Library Systems</i>	<i>84.034</i>	<i>427</i>	<i>Title I-LSCA</i>
<i>Interlibrary Loan</i>	<i>84.034</i>	<i>428</i>	<i>Title I-LSCA</i>
<i>Interlibrary Loan</i>	<i>84.035</i>	<i>429</i>	<i>Title III-LSCA</i>
<i>Services to the Disadvantaged</i>	<i>84.034</i>	<i>434</i>	<i>Title I-LSCA</i>
<i>Interlibrary Cooperation</i>	<i>84.035</i>	<i>435</i>	<i>Title III-LSCA</i>
<i>Major Urban Resource Libraries</i>	<i>84.034</i>	<i>436</i>	<i>Title I-LSCA</i>
<i>Public Library Establishment</i>	<i>84.034</i>	<i>437</i>	<i>Title I-LSCA</i>



## THE SINGLE AUDIT

Subgrantees receiving Texas State Library grants, who are local governmental units, must comply with the provisions of the Single Audit Act of 1984. Subgrantees who receive \$100,000 or more per year in state and/or federal funds, must have a single audit. Recipients of \$25,000 to \$100,000, in state and/or federal funds, may elect to perform a single audit or a project audit. Recipients of less than \$25,000 are exempt from the Single Audit Act and other federal audit requirements. Educational institutions and non-profit organizations receiving \$100,000 or more must conduct a single audit in compliance with Office of Management and Budget Circular A-110.

## SINGLE AUDIT OBJECTIVES

1. To verify the appropriateness, reliability and effectiveness of the internal control system.
2. To verify the accuracy and reliability of the financial information contained in the Financial Status Reports and Request for Advance or Reimbursement.
3. To verify that funds were expended in accordance with the terms of the grant agreement and those provisions of federal and state law which could have a material effect on the financial statements of the grants tested.
4. To verify that program income, if any, was properly credited to the grant account.
5. To verify that purchases were made in accordance with established procurement policies and procedures.
6. To verify that indirect costs charged to the grant were in conformity with the negotiated indirect cost plan.
7. To verify that authorization was obtained for all costs requiring prior approval from the Texas State Library.
8. To verify that appropriate cash management has been instituted.
9. To verify that personal property acquired with grant funds has been reported and inventoried in accordance with Texas State Library guidelines.

## SINGLE AUDIT REQUIREMENTS

1. Each grant must be identified individually in the audit reported by its unique contract number, e.g., #434.1.
2. All audits must be performed in accordance with the provisions of:

Office of Management and Budget Circular A-128, *Audits of State and Local Governments* or A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-profit Organizations*.



General Accounting Office (GAO) publication, *Standards for Audit of Governmental Organizations, Programs, Activities, and Functions* (The Yellow Book)

*Audits of State and Local Governmental Units* issued by the American Institute of Certified Public Accountants

*Compliance Supplement for Single Audits of State and Local Governments* issued by the Office of Management and Budget

Office of Management and Budget Circulars A-87, A-21, or A-122, as applicable.

3. The audit for each grant must report, at a minimum, a fund balance of the grant accounts and of program income accounts as of the end of the entity's fiscal year.
4. The audit must be conducted in conformity with generally accepted auditing principles established by the American Institute of Certified Public Accountants (AICPA).

### THE PROJECT AUDIT

Subrecipients of \$25,000 to \$100,000 in state and/or federal funds may elect to perform a project audit. In addition, non-profit organizations receiving Texas State Library grant awards will generally conduct their audit on a project basis. For those grantees utilizing this auditing approach, the following audit objectives and audit requirements are applicable.

### PROJECT AUDIT OBJECTIVES

1. To ascertain that funds provided to the local agency have been properly accounted for and have been expended for the purposes set forth in the contract between the local agency and the Texas State Library.
2. To verify that all personnel and financial records described in the contract are properly maintained.
3. To verify the accuracy and reliability of the financial information contained in the Financial Status Reports.
4. To verify that payments by the local agency were: (a) actually made to the vendors; (b) in conformity with applicable laws and regulations including procurement requirements; and (c) supported by adequate evidence of the delivery of goods or performance of services.
5. To verify that refunds, discounts, etc., were properly credited to the specific grant as a reduction of expenditures.
6. To verify the amount of unexpended funds, if any, to be refunded to the Texas State Library.



7. To verify that all program interest earned on these grant funds, if any, was refunded to the Texas State Library.
8. To verify that program income was properly credited to the grant account, was expended for the purposes of the grant program, and, if unexpended at the end of the contract period, was refunded to the Texas State Library.
9. To verify that indirect cost expenditures, if any, do not exceed the rate established in the contract or in the negotiation indirect cost plan.
10. To verify that authorization was obtained for all costs requiring prior approval from the Texas State Library.
11. To verify that property acquired with grant funds has been reported and inventoried in accordance with Texas State Library guidelines.
12. To present, in accordance with the sample format shown on pages 11-12 a schedule of revenues, expenditures, a cash balance and an unobligated fund balance as of August 31, 1991 and a schedule of Total Expenditures and Final Fund Balance as of October 31, 1991.
13. To cite, in the audit proper, or in the supplementary notes, any findings that are contrary to the purposes of the contract or to any of the auditing requirements herein stated.

#### PROJECT AUDIT REQUIREMENTS

1. All audits must be conducted by an independent certified public accountant or a public accountant licensed by the Texas State Board of Public Accountancy.
2. Each grant must be identified separately in the audit by its unique contract number and must be audited separately. All grants may be included in one audit document if the requirement of separate reporting is maintained.
3. The audit for each grant must determine an unobligated fund balance and a cash balance of grant accounts and of program income accounts as of August 31, 1991 and a final fund balance as of October 31, 1991. Any deobligated funds resulting from obligations being cancelled after August 31, 1991 must be refunded to the Texas State Library. They cannot be reobligated during the 60-day liquidation period. If total actual expenditures during the liquidation period exceed total obligations as of August 31, 1991, the difference must be paid from local funds unless the auditor verifies in a note to the Financial Statements that all such expenditures were for liquidation of valid obligations incurred on or before August 31, 1991. Any unpaid bills remaining after the termination of the 60-day liquidation period are the financial responsibility of the local agency except in special cases as provided for per Major Reporting Requirements and Administrative Procedures, Section 1: 60-Day Liquidation and Section 8: Transfer of Obligations.

MAJOR REPORTING REQUIREMENTS AND ADMINISTRATIVE PROCEDURES

1. **60-DAY LIQUIDATION**

A. *Definition*

A liquidation occurs when a legally binding obligation is terminated by means of a cash disbursement for goods received or services rendered. In general, an obligation should be entered on the accounting records in the month in which legal commitment is made. The following table, which was taken from the Rules and Regulations governing the Department of Education, delineates when a State or subgrantee has effectively incurred a legally binding obligation for various kinds of property and services.

<b>If the obligation is for --</b>	<b>Then the obligation is made--</b>
(a) Acquisition of real or personal property.	On the date the State or subgrantee makes a binding written commitment to acquire property.
(b) Personal services by an employee of the State or subgrantee.	When the services are performed.
(c) Personal services by a contractor who is not an employee of the State or subgrantee.	On the date the State or subgrantee makes a binding written commitment to obtain the services.
(d) Performance or work other than personal services.	On the date the State or subgrantee makes a binding written commitment to obtain the work.
(e) Public utility services.	When the State or subgrantee receives the services.
(f) Travel.	When travel is taken.
(g) Rental of real or personal property.	When the State or subgrantee uses the property.
(h) A preagreement cost approved by the Texas State Library.	On the first day of the grant period.

B. *Audit Procedures*

The determination of valid liquidations as per the 60-day requirement is governed by local accounting procedures subject to verification by a qualified independent auditor. The timing of a liquidation will differ depending on whether the subgrantee is using an accrual or modified accrual system of accounting or a cash system. Generally, in an accrual system, a liquidation will be recognized as having occurred when its corresponding obligation has been reclassified as an account payable or voucher payable on the subgrantee's ledgers. In a cash system, a liquidation will occur when the cash is actually disbursed, i.e., when the check is written.



If the subgrantee is a local agency of government, such as a city, and uses the cash basis system of accounting, it may credit its library with having liquidated an obligation when the library completes processing a voucher for payment, provided that a Supplemental Audit of the library's separate ledgers is submitted. This Supplemental Audit must verify that all liquidations pertaining to library grant funds occurred on or before October 31. In this limited instance, the actual process of cash disbursements, i.e., writing checks, to liquidate library obligations could occur after October 31.

*C. Transfer of Obligations*

Valid obligations of a given contract period which cannot be liquidated within the 60-day limit may be transferred forward into the succeeding contract period provided that the conditions described in Section 8: Transfer of Obligations, are met. No prior authorization is required from the Texas State Library, but the auditor must verify that liquidation of encumbrances carried forward from a preceding contract period are in accordance with the provisions of Section 8.

*D. Audit Expense*

Liquidation of audit expense is the one exception to the 60-day rule, since it will naturally occur after the completion of the audit. The actual amount to be paid will be added to total expenditures as of October 31, 1991. For project audit, the actual amount expended for audit costs will be entered as an expenditure in the final schedule of Total Expenditures as of October 31, 1991.

*E. 60-day Rule Exception*

System operations grants which are funded with state general revenue funds are exempt from the 60-day rule. The systems have until February 29, 1992 to encumber and expend grant funds as stated in Rule 1.97 (1) of the *Rules for Administering the Library Systems Act* (13 TAC Chapter 1),

2. **PROGRAM INTEREST** is defined as interest earned on grant funds advanced to the subgrantee by the State Library. Program interest must be accounted for separately from program income and from other budgeted expense categories. The audit must show the amount of program interest earned, if any, indicating by contract number the source of funds from which it was earned and verify that interest in excess of \$100 was directly refunded to the Texas State Library. During the grant year, \$100 of interest may be retained by the grantee to cover administrative costs. Program interest, unlike program income, cannot be credited to the grant account to meet disbursements and obligations. If no program interest is earned, the project audit should explicitly indicate this fact by listing program interest as a discrete category in the Income section of the audit with zero (0) in the amount column.

3. **PROGRAM INCOME** represents earnings by the subgrantee realized from state and federally supported activities as a result of a grant. Such earnings exclude interest income and may include, but will not be limited to, income received for services provided under contract and recovery of costs for sale of publications, e.g., posters, catalogs, etc., and income generated from the sale of equipment no longer useful. The audit must identify the receipt of any program income generated by the grant. The audit must verify that program income has been expended for the purposes of the program. Unexpended program income, as of the end of the contract period, must be refunded to the Texas State Library. If no program income is earned, the audit should explicitly indicate this fact by listing program income as a specific category in the audit with zero (0) in the amount column.

Program income received in one grant period that was generated by the state and/or federal grant funds from a preceding grant period will be credited to the contract in effect when the income is actually received and will be used to meet allowable grant expenses incurred during that contract period or will be refunded to the Texas State Library if not used.

Whenever program income is expended for program purposes, the amount spent and the expense category to which it was applied must be specifically identified in the audit. Program income may be applied to expenditure categories not specifically authorized in the contract provided that it is expended for the purpose of the grant program.

If two subgrantees enter into a service contract involving use of grant funds initially granted from the Texas State Library, the following auditing requirements pertain. The Receiving Agency audit will identify the costs of the transaction as expenditures for services received. The Performing Agency audit will identify the costs of the transaction as program income received for services rendered. The procedures for auditing program income are described above.

4. **INDIRECT COSTS** are charged to the grant account based on the rate established in the subgrantee's indirect cost allocation plan or the Indirect Cost Computation Table (refer to page 13). The indirect cost rate is specified in the grant application and in the contract.

Where the subgrantee has an indirect cost plan on file, the auditor should examine the costs charged to the indirect cost expense pool. The examination should determine that:

- a. Indirect cost accumulated in the expense pool are in conformity with the approved plan;
- b. Indirect costs accumulated in the expense pool are not also charged directly to some projects;
- c. The indirect cost rate applied by the subgrantee agrees with the rate negotiated under the approved plan.

If the subgrantee does not have an indirect cost allocation plan, the auditor must verify that the level of indirect costs charged to the grant conforms to the amount allowable per the Indirect Cost Computation Table.



5. **PRIOR APPROVAL COSTS** are costs which require the specific written approval of the Texas State Library before the subgrantee may obligate or expend grant funds. These costs are:

- Automatic Data Processing
- Building Space and Related Facilities
- Capital Expenditures
- Insurance and Indemnification
- Management Studies
- Professional Services
- Proposal Costs

If prior approval costs are charged to the grant account, the subgrantee must have written authorization from the Texas State Library on file. The auditor must verify that authorization was secured for all prior approval costs before grant funds were obligated or expended. The dollar amount authorized is a budget estimate and provides a parameter for the expenditure.

6. **UNAUTHORIZED EXPENDITURES.** Expenditures in any cost category which exceed ten (10) percent of the total grant must have received prior written approval from the Texas State Library to be allowable expenses. This provision only applies to grants of \$100,000 or more.

It is the responsibility of the auditor to identify all expenditures which exceed the ten percent limit and to note them in the audit proper or in the supplementary notes. The Texas State Library is authorized to request refunds for expenditures in excess of the 10 percent limit which did not receive prior approval through a mutually signed contract amendment. This rule does not apply to expenditures of program income.

7. **PAYMENTS** of grant funds must be identified in the audit. To ensure a complete audit report, all grant payments received at the time of the audit should be included in the schedule of payments. Payments received after the end of the contract period should also be reported.

8. **TRANSFER OF OBLIGATIONS** is an administrative procedure designed to alleviate exceptional situations where a subgrantee has incurred obligations in excess of the grant funds available to liquidate them in the course of regular business operations, as of the end of the contract period. In essence, it provides for shifting obligations from an overburdened account (deobligation) to another account having unobligated funds available that can legitimately be encumbered to meet the excess obligations (reobligation).

- A. If a subgrantee incurs obligations in a particular expense category in excess of available program income or unobligated funds in the same contract, the obligations thus incurred may be paid with funds from a corresponding contract of the same contract period provided that provisions (1) - (3) are met:

- (1) There is an approved annual program of the same type in place with the corresponding contract authorizing that expense.

- a. *SYSTEM CONTRACTS*, such as 426 and 427, are examples of corresponding contracts. One plan of service is supported from two different funding sources that are governed by two separate contracts.
    - b. An Interlibrary Loan Contract and a System Contract are not corresponding contracts. Obligations may not be transferred from one to the other.
  - (2) There are identical expense categories in the under-obligated grant to which the excess obligations may be assigned and the subgrantee cancels the excess obligation(s) of the over-obligated grant and reissues a new order for the same obligation(s) to be charged against the surplus grant funds of the under-obligated grant.
  - (3) The unobligated funds balance is adjusted by the amount deobligated.
- B. If a subgrantee incurs obligations in excess of any available unobligated funds or program income in the same contract as described above in Paragraph A, and no eligible unobligated funds or program income are available from other contracts in the same contract year, the obligations thus incurred may be paid from a subsequent contract period provided that provisions (1)-(4) are met:
- (1) There is a corresponding contract authorizing the same program of service, for example, System Contracts 426 and 427.
  - (2) There are identical expense categories in the under-obligated grant to which the excess obligations may be assigned, and the subgrantee cancels the obligation(s) for the prior contract period and reissues a new order for the same obligation(s) to be charged against grant funds of the subsequent contract period.
  - (3) Receipt of goods has not occurred before August 31, 1991.
  - (4) The unobligated funds balance is adjusted by the amount deobligated.
9. **TRANSFER OF OBLIGATIONS - LIMITATIONS.** The transfer of obligations process is restricted to non-service related expense categories, e.g., materials, supplies, equipment. Determination of eligible expense categories is governed by the conditions outlined above as applied to local accounting procedures subject to verification by a qualified, independent auditor. Service related expense categories cannot, in the event of over-obligation, be covered by this process, since a service once rendered is not subject to subsequent cancellation. The obligation incurred must be paid from the grant in effect at the time the service is performed.



The following costs are not eligible for the transfer of obligations process: salaries, fringe benefits, workmen's compensation, travel, postage, telephone, rentals, consulting and contractual services, and indirect cost. Once an obligation has been liquidated, i.e., reclassified as an account payable and/or expenditure by the subgrantee's accounting system, it can no longer be charged to or reobligated against an otherwise eligible corresponding contract either in the current or subsequent contract period.

Under no circumstances can this procedure be used to transfer obligations from an over-obligated grant of one contract period to an under-obligated grant of a preceding contract period.

In the event that a reaudit proves necessary to establish the existence and/or extent of an over-obligation(s), the cost of the reaudit may be eligible for the transfer of obligation process subject to prior written authorization by the Texas State Library.

10. **AUDITS** are due at the Texas State Library per the following schedule:

Single Audit - 180 days following the close of the municipal fiscal year.

Project Audit - February 1, 1992 - The cost of audits received after this date must be paid from local funds.

At least one copy of all completed audits should be mailed by the auditor to:

Catherine W. Lee, Director  
Administrative Services  
Texas State Library  
P.O. Box 12927  
Austin, Texas 78711

Recipients of more than \$100,000 in federal funds must submit a copy of the audit report to the Bureau of Census within thirty (30) days of issuance. Reports should be submitted to the following address:

National Clearinghouse for Single Audits  
Bureau of Census  
1201 East 10th Street  
Jefferson, Indiana 47132

If you should have any questions about this audit manual, please do not hesitate to call or write: Sharon R. Conable, Grants Administrator, Library Development Division, Texas State Library, P.O. Box 12927, Austin, Texas 78711, 512/463-6626.





Unliquidated Obligations  
(as of August 31, 1991)

Equipment	\$3,904
Supplies	79
Contractual	6,900
Other	290
Indirect Costs	1,132

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Total Unliquidated Obligations (as of August 31, 1991)	\$12,305
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<b>Unobligated Fund Balance (as of August 31, 1991)</b>	<b>(\$12,547)</b>
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Income after August 31, 1991:

Payment #7	November 1, 1991	\$12,547
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<b>Total Receipts</b>	<b>\$88,177</b>
<b>Total Cash Available</b>	<b>\$88,177</b>

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Total Disbursements  
(as of October 31, 1991)

Personnel	\$30,423
Fringe Benefits	8,474
Travel	227
Equipment	5,533
Supplies	1,176
Contractual	36,900
Other	2,582
Indirect Cost (Indirect Cost Computation Table)	2,862

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Total Expenditures as of October 31, 1991	\$88,177
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Final Fund Balance as of October 31, 1991	\$ <u>    </u> 0
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Refund to Texas State Library	\$ <u>    </u> 0
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