

SERIES: 2002-03
CIRCULAR LETTER: C-2

TO: Superintendents of Schools
School Business Officials
RESC Directors

FROM: Theodore S. Sergi
Commissioner of Education

DATE: July 10, 2002

SUBJECT: Prepayment Grant Cash Management

The most recent federal and state audits of the Connecticut State Department of Education's (SDE) prepayment grants system have included findings regarding excessive local cash balances. These occur when school districts request more cash monthly on the cash management system (ED111 form) than is reasonably needed; do not spend cash already received and still request a monthly cash release; or do not monitor expenditures and cash on hand on a monthly basis.

In response to these audit findings, the SDE has reviewed grant payment and expenditure data covering the past three years. The data supports the findings, and, therefore, the SDE will be implementing new procedures effective immediately.

Federal regulations require that state and local grant recipients minimize the time elapsing between the receipt and disbursement of grant funds. While there is no specific threshold dollar amount or percentage in federal regulations, this definition implies a cash balance that is zero or close to zero. Under these regulations, we have released monthly payments based on your requests with the requirement the funds be expended by the end of the month following the request. Our analysis showed that an average of \$14 million was held at the local level at the close of the past three years. Last year, almost 50 percent of grantees had at year's end **unexpended balances in excess of 10 percent of their drawdowns for all federal grants combined**. This figure certainly seems to support the auditors' concerns.

Federal regulations also give us the authority to place special conditions and restrictions on subrecipients if it is determined there is a history of unsatisfactory performance or if the subrecipient has a management system which does not meet management standards. Special conditions include making payments on a reimbursement basis and requiring additional, more detailed financial reports.

Circular Letter: C-2
July 10, 2002
Prepayment Grant Cash Management
Page 2

Each year commencing with the FY2002 fiscal year, Department staff will review all ED141 Statements of Expenditure to identify grantees who appear to have excessive end of year cash balances in one or more grants. For this purpose, grantees with a total unexpended balance for all federal grants combined in excess of 25 percent of payments and \$100,000 will be required to submit a written explanation for the balance and the steps they will take to minimize unused cash. They will also be required to report actual cash disbursements at quarterly intervals beginning with the January, 2003 ED111 cash request form. Grantees identified as a result of this analysis will be notified by the Department no later than October 15, 2002.

Other districts may be identified based on unacceptable cash balance practices even if the percentage and dollar threshold is not exceeded. Payments may be held or adjusted based on the amounts of cash on hand.

It is important to note that these additional requirements will only affect districts that do not satisfy federal cash management requirements. **You are urged to monitor the fiscal activity of each grant on a continuous basis and carefully review grant cash requirements before cash drawdowns.**

Further details will be included in the ED111 mailings. We are also in the process of putting the ED111 data collection on the SDE Website.

If you have any questions, please feel free to contact the Process and Quality Control Unit at annette.mccall@po.state.ct.us or (860) 713-6470.

TSS:rb/am