MANAGING THE MULTI-FUND ASPECT OF SCHOOL BUILDING PROJECT ACCOUNTING

One of the challenges of school facility project accounting is managing the project fund contributions from multiple sources. There are three major approaches. This paper will cover each approach and discuss the strengths and weaknesses of each.

Typically school facility projects are funded using more than one funding source. The most common would be local developer fees and general obligation bonds coupled with a state match through the School Facilities Program (SFP) administered by the Office of Public School Construction (OPSC).

Each funding source has specific nexus requirements. You must be able to show that the funds were spent within the specific requirements for that funding. For example, local general obligation bonds must be spent on the projects permitted by the bond language. Developer Fees are to be spent for the benefit of the project that generated the fee and must be reported in the Monteith Report every year. Virtually every type of funding has nexus requirements.

At the same time, you must also compile a project record. For SFP projects this record has very specific requirements that will be reviewed at the final audit. It should contain the expenditures that were covered by the multiple funding sources.

Each district must compile this record within the account code structure mandated by the California Standardized Account Code Structure (SACS) as administered by the California Department of Education and further defined by their county office of education.

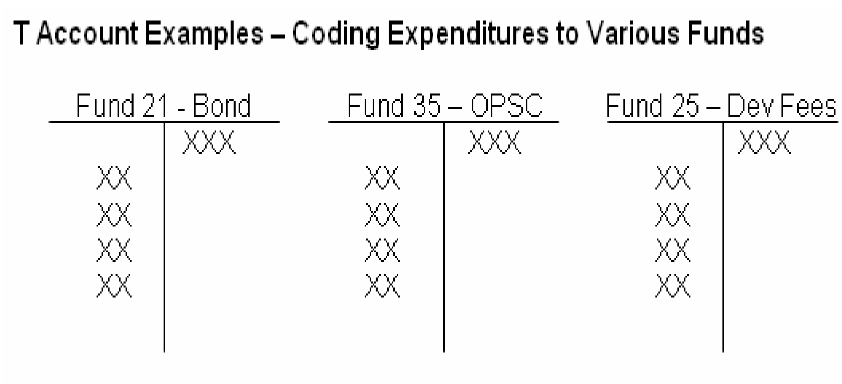
The coordination of these requirements can be challenging. Best practice is to establish a methodology for the management of the project at the beginning of the project and to be consistent in that methodology. However, if you have begun a project and find that your system isn't working well, change and then be consistent from that point on.

There are several ways that the information can be organized to coordinate the various requirements of the SACS system and OPSC.

CODING EXPENDITURES TO VARIOUS FUNDS

One method is to keep the various funds for the project in their original source fund and track expenditures by coding each purchase order to eventually use all the various funding sources. This usually involves modifying the purchase order/contract coding at some point. As one funding source is depleted, you need to begin to use a different source. Some districts use split coding on purchase orders/contracts to deplete the various sources simultaneously.

> *Weaknesses:* Someone must track the expenditures to assure that the correct amount is coming from each source. This often occurs by default, when the funding source is depleted payments are put on hold until the purchase order is re-coded to access different funds. With this method the fiscal record of the project is spread throughout multiple funds in the accounting system. There are typically multiple purchase orders/contracts for each vendor thus making it more difficult to follow the audit trail.



Strengths: The nexus for each fund is maintained as the funds are never combined in the fiscal record.

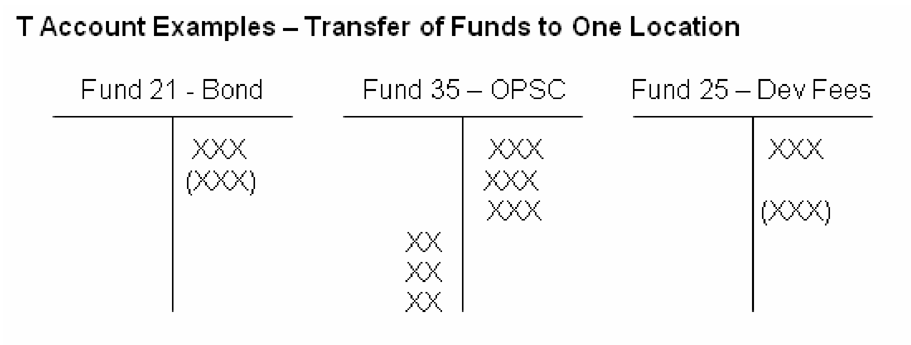
This method is probably the most labor intensive and least efficient of the methods typically used by districts.

TRANSFER OF FUNDS TO ONE LOCATION

Another method is to transfer all of the funds for a project to one location. The project expenditures are coded to access those combined funds.

> *Weaknesses:* By combining the funds it becomes more difficult to clearly draw the nexus for each funding source. This may not seem significant if the district has one project, however as you begin multiple projects, each in different stages and with a different mix of funding sources the nexus trail becomes confusing. This is a major concern because though the district is doing the combining to legitimately manage the projects, it

closely resembles the process that one would use to confuse the trail if you were inappropriately using funds – laundering the money. This raises concerns from board and oversight committee members regarding the clarity of the system in use by the district. Also, if the funds are maintained in Fund 35, then interest must be reported and expended per OPSC criteria.



Strengths: The expenditure side of the record is easier to manage. All the purchase orders/contracts for the project are coded to one place in the fiscal record.

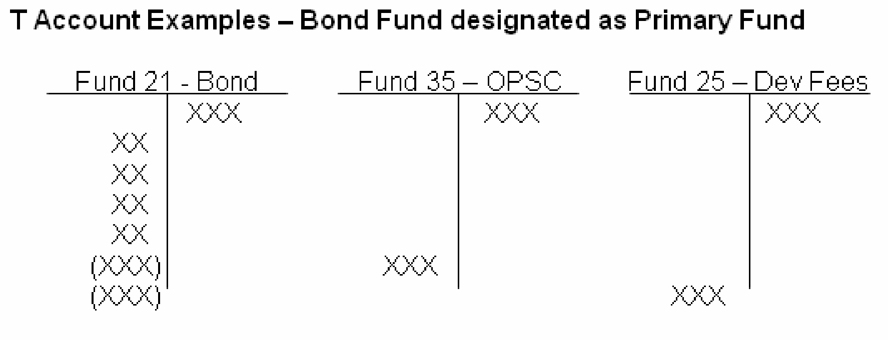
PRIMARY FUND CODING WITH TRANSFER OF EXPENDITURES

With this method each project is assigned a primary fund. This would typically be the fund that would have the most funding for the project or the fund that would have money available the earliest in the life of the project.

All expenditures for the project are coded to the primary fund source in the fiscal ledgers of the district. When adequate expenditures have been made or when additional balance is needed in the primary fund, an expenditure transfer is made to transfer expense coding from the primary fund to one of the other contributing funds. This expenditure transfer will use up the contributing funds in the secondary source(s) and free up funds to be used in the primary source.

The costs for land acquisition, architect, and contractor are usually large enough that all secondary sources can be depleted by transfers from only those three object codes. They also span the phases of a project so at least one of them is typically in use within each fiscal year of a project.

Weaknesses: It is important to make sure that the transfers are completed before the end of each fiscal year or set up for transfer in a subsequent year. The annualized nature of the fiscal record makes it difficult to go back to prior years and make these adjustments.



Strengths: All of the project record is maintained in one location in the fiscal record. One side of every transfer is located there as well so the project record is complete within the fiscal record, at least for that fiscal year. Each expenditure is coded the same, except for the object code, minimizing the potential for coding errors and saving staff time. There is no co-mingling of funds so the nexus requirements are easily documented for each fund.

It is important with any approach to maintain a project funding budget that shows all funding sources and contrasts that with the project expenditure budget to assure that the overall project funds are adequate.

Each fund should also be monitored to assure that the fund has not been over-prescribed and that it maintains a positive cash flow in each fiscal year.

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