P1-19-5-101

To: Agency CFO's

From: Paul Louthian, Assistant Administrator, DFA-Office of Accounting

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Reference: Federal Grant Reimbursements

We are requesting that all agencies create transfer documents to move federal grant money within their agency or to send federal grant money to other agencies that will ultimately pay the final non-agency vendor payables. The current transaction process being used by many state agencies creates revenue 3 to 5 times for a single receipt of one federal fund's amount. Generally, the first agency to receive federal funds should record the receipt as revenue. Each subsequent transfer of the funds should be recorded as a "transfer out of funds" and the receiving agency should record the transaction as a "transfer in of funds". Currently agencies are incorrectly recording a receipt of the funds as revenue at each receiving agency and an expense by each transferring agency.

There are two circumstances that need to be addressed concerning duplication of revenue and expenses. The first involves intra-agency transactions and the second involves inter-agency transactions.

Intra-Agency:

Agency "A" Division "1" receives federal funds. The receipt is recorded as revenue by Agency "A" Division "1".   When Agency "A" Division "1" transfers the funds to Agency "A" Division "2", the funds are receipted as revenue again. When Agency "A" Division "2" transfers the funds to Agency "A" Division "3", the funds are receipted as revenue again.

Inter-Agency:

Agency "A" Division "1" receives federal funds. The receipt is recorded as revenue by Agency "A" Division "1".   When Agency "A" Division "1" transfers the funds to Agency "B", the funds are receipted as revenue again. When Agency "B" transfers the funds to Agency "C", the funds are receipted as revenue again.

When a review of these transactions in either scenario is made at the state level as a whole, the first receipt (example $100.00) has now been recorded as revenue 3 times ($300.00) and, in most instances, expensed 3 times ($300.00) all for the same $100.00 cash to the State.

In order to prevent duplicating revenues and expenses we are providing the following processes. The first process is for Intra-Agency transactions. The second process is for Inter-Agency transactions.

Process #1 – Intra-agency:

When Agency "A" Division "1" receives the grant money from the federal government, they will record a debit to cash and a credit to revenue through the cash receipt process.

DB	1100001002	Treasury Incoming	Receiving Treasury Fund
CR	4050004000	Federal Grants Reimbursement	Receiving Treasury Fund

When Agency "A" Division "1" transfers the money to Agency "A" Division "2", they will create a transfer document. This document must be created and parked with document type ZL. The document number must be e-mailed to the Office of Accounting at DFA.OAFunds@dfa.arkansas.gov for review and posting. It will be a four-legged entry:

DB	1100001002	Treasury Incoming	Receiving Treasury Fund
CR	6060002000	Intra-agency Transfers-In	Receiving Treasury Fund
DB	6061002000	Intra-agency Transfers-Out	Sending Treasury Fund
CR	1100001001	Treasury Outgoing	Sending Treasury Fund

The money is transferred to the correct fund without creating an expense or recording revenue a second time.

When Agency "A" Division "2" transfers the money to Agency "A" Division "3", the above process would be used again.

The money is transferred to the correct fund without creating an expense or recording revenue a third time.

When the accounts payable section of the Agency "A" Division "3" pays the vendor/employee for the expense, they will create a warrant through the accounts payable or payroll process.

DB	5xxxxxxxxx	Expense G/L Code	Sending Treasury Fund
CR	1100001001	Treasury Outgoing	Sending Treasury Fund

This will result in the expense being recorded once on AASIS.

If you choose to operate out of your commercial bank account, you must continue to process a warrant to get the federal monies from your Treasury fund to your commercial bank account. This will create an expense to the Treasury fund and an "intra-agency transfer in" will be recorded in the commercial bank account. Since all bank activity must be recorded in AASIS per the February 24, 2003 letter, the recording of this movement of monies will result in duplication of expense, as illustrated below.

To create a warrant to reimburse the cash fund, the following entries are completed through the accounts payable process for Agency "A" Division "2".

DB	5xxxxxxxxx	Expense G/L Code	Sending Treasury Fund
CR	1100001001	Treasury Outgoing	Sending Treasury Fund

To record the deposit of funds into the cash fund, the following entries are completed through the cash receipt process.

DB	1100002000	Non-AASIS House Bank	Receiving Cash Fund
CR	6060002000	Intra-agency Transfers-In	Receiving Cash Fund

When the cash fund pays the vendor/employee for the expense, a check will be recorded through the accounts payable process.

DB	5xxxxxxxx	Expense G/L Code	Sending Cash Fund
CR	1100002000	Non-AASIS House Bank	Sending Cash Fund

This records expense a second time.

A subsequent journal entry from Agency "A" Division 2 must be recorded to reduce the expense to the Treasury fund. The entry should be:

DB	6061002000	Intra-agency Transfers-Out	Sending Treasury Fund
CR	5xxxxxxxx	Non-Budget Relevant G/L Code	Sending Treasury Fund

Process #2 – Inter-agency:

When Agency "A" receives the grant money from the federal government, they will record a debit to cash and a credit to revenue through the cash receipt process.

DB	1100001002	Treasury Incoming	Receiving Treasury Fund
CR	4050004000	Federal Grants Reimbursement	Receiving Treasury Fund

When Agency "A" transfers the money to Agency "B" between Treasury funds, they will create a transfer document. This document must be created and parked with document type ZL. The document number must be e-mailed to DFA.OAFunds@dfa.arkansas.gov at the Office of Accounting for review and posting. It will be a four-legged entry:

DB	1100001002	Treasury Incoming	Receiving Treasury Fund
CR	6060003000	Interagency Transfers In	Receiving Treasury Fund
DB	6061003000	Interagency Transfers Out	Sending Treasury Fund
CR	1100001001	Treasury Outgoing	Sending Treasury Fund

The money is transferred to the correct fund without creating an expense and recording revenue a second time.

When Agency "B" transfers the money to Agency "C", the above process would be used if the money gets transferred between Treasury funds.

If at any point the money transferred from Agency "A" to Agency "B" or Agency "B" to Agency "C" involves the issuance of a warrant from a Treasury fund that is subsequently deposited into a commercial bank account, the following process must be used.

When Agency "A" transfers the monies to Agency "B", a warrant will be created.

DB	5xxxxxxxx	Expense G/L Code	Sending Treasury Fund
CR	1100001001	Treasury Outgoing	Sending Treasury Fund

A subsequent journal entry from Agency "A" must be recorded to reduce the expense to the Treasury fund. The entry should be:

CR	5xxxxxxxx	Non-Budget Relevant G/L Code	Sending Treasury Fund
DB	6061003000	Inter-agency Transfers Out	Sending Treasury Fund

Agency "B" will deposit the money as follows:

DB	1100002000	Non-AASIS House Bank	Receiving Cash Fund
CR	6060003000	Inter-agency Transfers In	Receiving Cash Fund

When the cash fund pays the vendor/employee for the expense, a check will be recorded through the accounts payable process:

DB	5xxxxxxxx	Expense G/L Code	Sending Cash Fund
CR	1100002000	Non-AASIS House Bank	Sending Cash Fund