



CALIFORNIA
DEPARTMENT OF
EDUCATION

JACK O'CONNELL
STATE SUPERINTENDENT OF PUBLIC INSTRUCTION

January 25, 2010

Dear County and District Superintendents, County and District Chief Business Officials,
and Charter School Administrators:

INTEREST EARNED ON FEDERAL FUNDS

Code of Federal Regulations, Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Subpart C – Post Award Requirements, Section 80.21 Payment, requires grantees and sub-grantees to promptly, but at least quarterly, remit to the federal agency interest earned on advances. The grantee or sub-grantee may keep interest amounts up to \$100 per year for administrative purposes.

Since federal regulations do not require grantees and sub-grantees to return interest earned on federal funds on an individual program basis, interest may be returned in total for all federal programs. However, grantees and sub-grantees are prohibited from reducing or offsetting federal interest earnings for the temporary use of non-federal cash resources for federal programs. For example, although a sub-grantee may have temporarily supported a federal program with non-federal funds, the amount of interest that the sub-grantee could have earned on those non-federal funds cannot offset or be netted against the interest earned on the unspent funds of that or another federal program.

To ensure compliance with federal administrative requirements, school district and charter school fiscal officials should coordinate with their county offices of education in developing internal controls and a sound methodology to calculate and return, at least quarterly, interest earned in excess of \$100 on federal program funds. Interest calculation methodologies must be based on actual, not estimated, interest earnings on federal funds. In calculating federal interest, it may be helpful to consider the enclosed guidelines (Enclosure I).

If you have any questions regarding the administrative requirements for interest earned on federal funds, please contact Teresa Palomino, Cash Management Analyst, Audits and Investigations Division, at 916-319-0698, or by e-mail at tpalomino@cde.ca.gov.

Sincerely,

Kevin W. Chan, Director
Audits and Investigations Division

KWC:dr
Enclosure

California Department of Education Guidelines on Calculating Interest on Federal Funds

The following guidelines are designed to assist the California Department of Education (CDE) federal program grantees and sub-grantees (referred to below as grantee or grantees) in calculating interest on unspent federal program cash advances.

Calculating Interest When Federal Cash is or can be Segregated from Other Grantee Resources

If federal funds are maintained in a manner in which the County Treasurer or County Office of Education can specifically determine the amount of interest earned on federal funds for a particular period (at least quarterly), then that is the interest amount that should be reported and remitted to the CDE. The interest due on federal cash balances should reflect the actual amount of interest earned on the unspent federal program funding advances. Therefore, interest calculations should be based on applicable interest rates applied to actual federal cash held in the grantee's bank or County Treasury.

Calculating Interest When Federal Cash is Pooled with Non-Federal Funds

If federal funds are pooled with non-federal funds in the grantee's bank or County Treasurer, then the grantee must reasonably determine the federal portion of total earned interest for the period. Since the amount of federal cash available for program costs can change daily, the grantee should apply applicable interest rates to the reporting period's average daily federal cash balances. Average daily federal cash balances can be calculated by combining all federal program cash, both negative and positive, for each day of the reporting period, using federal program resource codes, then dividing by the actual number of days in the reporting period. If the combined federal cash available under this approach is negative for any day during the period, the grantee must record the average daily federal cash balance as zero to avoid reducing or offsetting federal interest earnings for the temporary use of non-federal cash resources for federal programs (see the sample calculation methodology on page 2 of this enclosure for an example of this situation).

If the grantee includes non-federal match funding in the federal program resource codes, the grantee may reduce the daily federal cash balances by the corresponding proportionate share of required cash match for each program. For example, if federal program Title XYZ has a 20 percent match requirement and the grantee accounts for the non-federal match in the Title XYZ federal program resource code, then the 20 percent proportionate share of match may be excluded from the calculated daily and average daily balances.

Reporting and Remitting Federal Interest

CDE federal program grantees are required to report and remit interest to the CDE at least quarterly. Although grantees are allowed to keep interest amounts up to \$100 per year for administrative purposes, the \$100 is in total for all federal programs, not for each federal program. When reporting and remitting federal interest to the CDE, grantees should specify the time period of interest earning and the federal program resource codes. Interest on federal cash balances should be sent to the CDE at the following address:

California Department of Education
P.O. Box 515006
Sacramento, CA 95851
Attention: Cashier's Office

Interest on Federal Cash Balances
(Sample Calculation Methodology)

| Date | Federal Program | | | | Combined Daily Balance |
|----------|-----------------|--------|--------|----------|------------------------|
| | A | B | C | (ARRA) D | |
| 12/01/09 | \$500 | \$300 | \$400 | \$200 | \$1,400 |
| 12/02/09 | 500 | 300 | 400 | 200 | 1,400 |
| 12/03/09 | 500 | 300 | 400 | 200 | 1,400 |
| 12/04/09 | 500 | 300 | *(400) | 200 | 600 |
| 12/05/09 | 500 | 300 | *(400) | 200 | 600 |
| 12/06/09 | 500 | 300 | *(400) | 200 | 600 |
| 12/07/09 | 500 | 300 | *(400) | 200 | 600 |
| 12/08/09 | 500 | 300 | *(400) | 200 | 600 |
| 12/09/09 | 200 | 300 | *(400) | *(200) | **0 |
| 12/10/09 | 200 | 300 | 400 | *(200) | 700 |
| 12/11/09 | 200 | 300 | 400 | *(200) | 700 |
| 12/12/09 | 200 | 300 | 400 | *(200) | 700 |
| 12/13/09 | 200 | 300 | 400 | *(200) | 700 |
| 12/14/09 | 200 | 300 | 400 | *(200) | 700 |
| 12/15/09 | 200 | 300 | 400 | 200 | 1,100 |
| 12/16/09 | 200 | 300 | 400 | 200 | 1,100 |
| 12/17/09 | 200 | 300 | 400 | 200 | 1,100 |
| 12/18/09 | 200 | *(200) | 400 | 200 | 600 |
| 12/19/09 | 200 | *(200) | 100 | 200 | 300 |
| 12/20/09 | 100 | *(200) | 100 | 200 | 200 |
| 12/21/09 | 100 | *(200) | 100 | 200 | 200 |
| 12/22/09 | 100 | *(200) | 100 | 200 | 200 |
| 12/23/09 | 100 | *(200) | 100 | 200 | 200 |
| 12/24/09 | 100 | *(200) | 100 | 200 | 200 |
| 12/25/09 | 100 | *(200) | 100 | 200 | 200 |
| 12/26/09 | 100 | *(200) | 100 | 200 | 200 |
| 12/27/09 | 100 | *(200) | 100 | 200 | 200 |
| 12/28/09 | 100 | 0 | 100 | 200 | 400 |
| 12/29/09 | 100 | 0 | 100 | 200 | 400 |
| 12/30/09 | 100 | 0 | 100 | 0 | 200 |
| 12/31/09 | 100 | 0 | 100 | 0 | 200 |

Total of all Daily Balances in Reporting Period

\$17,700

| | | | |
|---------|--|---------------|------|
| Step 1: | Divide by the <u>actual</u> number of days in reporting period to derive | 31 | Days |
| | Average Daily Balance | \$571 | |
| Step 2: | Multiply by County Treasurer Interest Rate to derive | 2.4267% | APR |
| | Annual Interest Amount | \$14 | |
| Step 3: | Divide interest amount by number of days in year to derive | 365 | Days |
| | Daily Interest Amount | \$0.038 | |
| Step 4: | Multiply by number of days in reporting period to derive | 31 | Days |
| | Total Federal Interest Due: | \$1.18 | |

* In this example, negative federal program cash balances are assumed to be the result of costs paid by cash from other federal programs.

** In this example, the combined cash daily cash balance is negative \$100; however, for federal interest calculation purposes, combined daily cash balances cannot be negative. Negative combined daily balances would reduce or offset federal interest earnings due to the temporary use of non-federal cash resources. Therefore, any negative combined daily balances should be zero in calculating interest on federal cash balances.