Developing and Implementing a Financial Management System: To ensure Goals, Objectives, and Standards are met
Administrative Requirements

- Non-profits, For profits, Institutions of Higher Education, Indian Tribal Governments:
  - OMB A-110
- State & Local Governments:
  - OMB A-102
Cost Principles

- Non-profits, Indian Tribal Governments
  - OMB A-122
- State & Local Governments
  - OMB A-87
- Institutions of Higher Education,
  - OMB A-21
- For profits
  - CFR 48 Part 31.2
- Hospitals
  - 45 CFR Part 74: Appendix E
Audit Requirements

- OMB Circular; A-133
  - Non-profits, Indian Tribal Governments,
  - State & Local Governments,
  - Institutions of Higher Education,
  - For profits; and
  - Hospitals
Standards Associated with Goals and Objectives

SEC. 642. POWERS AND FUNCTIONS OF HEAD START AGENCIES Sec. (f)(9) requires each agency:

- To establish **goals** and **measurable objectives** for the provision of:
  - health,
  - educational,
  - nutritional, and
  - social services,

- **provided** and related to the **program mission**.
Regulations Associated with Goals and Objectives

Sec. 1304.51 Management systems and procedures.

(a) Program planning.

(1) Grantee and delegate agencies must develop and implement a systematic process of planning that include:

(ii) The formulation of (long-range) goals and (short-term) program and financial objectives.
Guidance: Goals

- **A goal** is a broad statement that describes an **end** or an **outcome** we try to achieve.
  - Goals help us focus on reaching our **destination** and setting our **direction** for the future.
  - In the planning process, **goals** focus on **changing** and **improving** the **major issues** identified in the Needs Assessment data.
Guidance: Goals

- Consider the example below.
  - Major Issue: Fifty percent of the eligible families in the agency services area unemployed. Also, data concluded that 40% of the family members have less that a high school diploma.

- Goal: Reduce the unemployment rate and assist family members in obtaining a High School equivalent.
Guidance: Objectives

- The agency shall develop two (2) types of objectives:

  **PROGRAM AND FINANCIAL OBJECTIVES**

- Example of Program and Financial Objectives:
  - **Program Objective:** The agency shall provide for 40 families to be employed within 12 months.
  - The agency shall provided for 30 families to receive a GED within 12 months
  - **Financial Objective:** The agency shall provide $250,000.00 in Federal Funding for staff, consultants, supplies and transportation to work with the families in order to meet their employment and education objectives.
THE FINANCIAL MANAGEMENT SYSTEM
The term "financial management systems" means the financial systems and the financial portions of mixed systems necessary to support financial management.
Definitions

The term "financial system" means an information system, comprised of one or more applications, that is used for any of the following:

- collecting, processing, maintaining, transmitting, and reporting data about financial events;
- supporting financial planning or budgeting activities;
- accumulating and reporting cost information; or
- supporting the preparation of financial statements.
Definitions

- **Internal control:** means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
  - (a) **Effectiveness** and **efficiency** of operations;
  - (b) **Reliability of Financial Reporting**; and
  - (c) **Compliance** with applicable laws and regulations.
Standards Associated with the Financial Management System

I. Financial reporting: Accurate, current, and complete disclosure of the financial results must be made in accordance with the financial reporting requirements.

II. Accounting records: Must maintain records that identify the source and application of funds provided for activities.

III. Internal control: Effective control and accountability must be maintained for all cash, real and personal property, and other assets and must assure that it is used solely for authorized purposes.

IV. Budget control: Actual expenditures or outlays must be compared with budgeted amounts and financial information must be related to performance data.
Standards Associated with the Financial Management System

- **V. Allowable cost:** Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

- **VI. Source documentation:** Accounting records must be supported by source documentation.

- **VII. Cash management:** Procedures for minimizing the time elapsing between the transfer of funds and disbursement by grantees and delegate must be followed whenever advance payment procedures are used.
The Basics of the Financial Management System

- **I. Financial reporting**: Accurate, current, and complete disclosure of the financial results must be made in accordance with the financial reporting requirements.
The Basics of the Financial Management System

- Reporting:
  - Allows for informed decision-making and active involvement
  - Is necessary for monitoring financial expenditures and program operations
  - Identifies potential risks
  - Accurate and timely reports are only possible when a strong record keeping system exists
  - Provides checks and balances by keeping everyone in the loop
  - Increases accountability
The Basics of the Financial Management System

- Reporting is most effective when:
  - Reports:
    - Provide accurate information and sufficient detail
    - Are presented in an easy to interpret way
    - Are presented in a timely manner
  - Individuals receiving the reports must know:
    - How to interpret the information provided
    - How to apply to the information to their responsibilities
    - What critical questions to ask about the information
    - How to use the information to identify red flags or problem areas
The Basics of the Financial Management System

- **Annually**
  - Audits A-133(200)(a); A-133(320)(a);
    - A-133 Compliance Supplement;
  - Annual Report to the Public;
  - IRS 5500;
  - IRS 990 (for non-profits); and
  - Reconciliation of the Inventory

- **Semi-Annually**
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- **Quarterly**
  - SF-425, Federal Financial Report (Formerly PSC-272)
  - IRS 941

- **Monthly**
  - Financial statements, including credit card expenditures
  - Monthly Monitoring reports, including fiscal
  - Program Summary reports;
  - USDA Reports
The Basics of the Financial Management System

- **Financial Report Content**
- For reports to be meaningful, they must include:
  - Budget to actual comparisons
  - Non-Federal share reporting, including fundraising
  - Administrative cost reporting (Functional Allocation)
  - Breakouts by cost categories, as reflected on the Award
  - Reporting of any one-time funding for which the agency is accountable (e.g. one-time money for buildings, vehicles)
  - Financial Monitoring Activities;
  - Translations, when necessary
  - For programs with Board members whose preferred or primary language is a language other than English.
The Basics of the Financial Management System

- Governing Body need to understand the content of the reports.
  - CFO should make themselves available to the Governing Body.
    - To act as a resource.
    - To foster understanding of the role and importance of accounting and budgeting.
The Basics of the Financial Management System

- Staff and Governing Body members need to have TIME to:
  - Digest information in reports
  - Think critically and ask questions
  - Discuss the implications of the numbers
  - Tie the information in the reports back to the bigger picture (program goals, objectives and overall operation)
II. Accounting records: Must maintain records that identify the source and application of funds provided for activities.

- Records must contain information pertaining to
  - Grant or sub-grant awards and authorizations,
    - Financial Assistance Awards
    - Delegate Agency Awards
    - Award Letter/Contracts
  - Obligations,
    - Purchase Orders
    - Requisitions
    - Procurements Records
    - Annual operating budget
The Basics of the Financial Management System

- Un-obligated balances
  - Accounting System Records (GL)
  - Summary of Financial Activity
- Assets
  - Inventories
  - Balance Sheets
  - Leases (facilities, equipment, supplies)
  - Titles
  - Disposal Instructions
- Liabilities
  - Debt Instruments
  - Balance Sheets
The Basics of the Financial Management System

- Outlays or expenditures,
  - Audits
  - Ledgers
  - Major financial expenditures

- Income
  - Income Statements
  - Bank Statements
  - Program Income Records
  - Checks
  - Interest Statements
  - Rebates
  - Refunds
  - Recoveries (Audits, etc.)
The Basics of the Financial Management System

- Record Retention: Generally 3 years
  - *Financial records, supporting documents, statistical records, and all other records* retained for 3-years from the date of submission of the final expenditure report
  - *Litigation, claim, financial management review, or audit* is started before the expiration of the 3-year period, the records retained until all litigation, claims or audit findings resolved
  - *Real property and equipment* retained for 3-years after final disposition
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III. Internal control: Effective control and accountability must be maintained for all
- cash,
- real and personal property, and
- other assets and
- must assure that it is used solely for authorized purposes.
The Basics of the Financial Management System

- Internal controls are comprised of systems designed to:
  - Promote compliance with laws, regulations and grant requirements
  - Ensure proper recording of and accounting for transactions
  - Control assets and records to protect against loss, theft or misuse
  - Maintain reliability of financial reporting
  - Support adherence to the agency's policies and procedures
  - Ensure appropriate oversight by the agency's governing body/tribal council
  - Increase effectiveness and efficiency of operations
The Basics of the Financial Management System

Why are internal controls important?

- To ensure the proper use of funds
  - Safeguards assets to prevents illegal or unauthorized transactions or acts
- To strengthen grantee operations
  - Increase efficiency of operations and maximize use of limited resources
  - Provide reliable financial information, allowing managers and governing bodies/tribal councils to make more informed programmatic decisions
The Basics of the Financial Management System

- Elements of the agency Internal Controls:
  - 1. Duties for key employees of the organization are defined.
  - 2. An organization chart which sets forth the actual lines of responsibility.
  - 3. Written procedures are maintained covering the recording of transactions.
    - a. Covering an accounting manual
    - b. Covering a chart of accounts
  - 4. Procedures, chart of accounts, provide for identifying receipts and expenditures of funds.
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5. The accounting system provide for accumulating and recording expenditures by cost category shown in the approved budget.

6. The organization maintain a policy manual covering
   a. approval authority for financial transactions and
   b. guidelines for controlling expenditures, such as purchasing requirements and travel authorizations.
The Basics of the Financial Management System

7. There are procedures governing the maintenance of accounting records.
   - a. Subsidiary records for accounts payable, accounts receivable, etc., are balanced with control accounts on a regular basis.
   - b. Journal entries are approved and explained or supported.
   - c. Accrual/cash accounts provide adequate control over income and expense.
   - d. Accounting records and valuables are secured in limited-access areas.
The Basics of the Financial Management System

- 8. Duties are separated so that no one individual has complete authority over an entire financial transaction.
- 9. The organization use an operating budget to control funds by activity.
- 10. Controls are in place to prevent expenditure of funds in excess of approved, budgeted amounts.
  - For example, purchase requisitions are reviewed against remaining amount in budget category.
- 11. The organization has obtained fidelity bond coverage for responsible officials?
- 12. Financial reports are prepared for required accounting periods.
The Basics of the Financial Management System

IV. Budget control:
- Actual expenditures or outlays must be compared with budgeted amounts; and
- financial information must be related to performance data.
The Basics of the Financial Management System

- Compare actual expenditure to budgeted costs in the following areas:
  - Program Accounts:
    - Cost of Program Operations;
    - Training and Technical Assistance Services (T/TA);
    - Non-Federal Share;
    - USDA Programs;
    - Others (Federal/Non-Federal)
The Basics of the Financial Management System

- Functional Allocation
  - Administrative
  - Education
  - Health
  - Disabilities
  - Nutrition
  - Family Services
  - Transportation
  - Occupancy
  - Others
The Basics of the Financial Management System

- OMB A-110 and OMB A-102 Require:
  - Performance reports shall generally contain, for each award, the following:
    - A comparison of actual accomplishments with the goals and objectives established, such quantitative data should be related to cost data for computation of unit costs;
    - Reasons why established goals were not met;
    - Other information including, when appropriate, analysis and explanation of cost overruns or high unit costs.
The Basics of the Financial Management System

Financial information must be related to performance data.
The Basics of the Financial Management System

- **V. Allowable cost:**
  - Applicable cost principles,
  - agency program regulations, and
  - the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs. (OMB A-110 in...
The Basics of the Financial Management System

- Allocable Costs:
  - a. A cost is allocable to a particular cost objective, such as:
    - a grant,
    - contract,
    - project,
    - service, or
    - other activity, in accordance with the relative benefits received.
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- A cost is allocable if it’s treated consistently with other costs:
  - (1) Is incurred specifically for the award.
  - (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or
  - (3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.
b. Any cost allocable to a cost objective **may not be shifted** to other Federal awards to **overcome funding deficiencies**, or to **avoid restrictions** imposed by law or by the **terms of the award**.
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- Reasonable Costs:
  - A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs.
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In determining the reasonableness of cost, consideration shall be given to:

- a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.
- b. The restraints or requirements imposed by such factors:
  - as generally accepted sound business practices,
  - arms length bargaining,
  - Federal and State laws and regulations, and
  - terms and conditions of the award.
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- c. Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the
  - organization,
  - its members,
  - employees, and clients,
  - the public at large, and
  - the Federal Government.

- d. Significant deviations from the established practices of the organization which may unjustifiably increase the award costs.
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- Allowability of costs. To be allowable under an award, costs must meet the following general criteria:
  - a. Be reasonable for the performance of the award and be allocable under the cost principles.
  - b. Conform to any limitations or exclusions set forth in the principles or in the award as to types or amount of cost items.
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- c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.
- d. Be accorded consistent treatment.
- e. Be determined in accordance with generally accepted accounting principles (GAAP).
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- f. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.
- g. Be adequately documented.
The Basics of the Financial Management System

- VI. Source documentation: Accounting records must be supported by source documentation such as:
  - cancelled checks,
  - paid bills,
  - payrolls,
  - time and attendance records,
  - contract and
  - Sub-grant award documents, etc.
The Basics of the Financial Management System

- **VII. Cash management:** Procedures for minimizing the time elapsing between
  - the transfer of funds and
  - disbursement by grantees and delegate must be followed whenever advance payment procedures are used. (OMB A-110 in writing)
If the agency develops and implements a **Financial Management System**, the result is ....