



# Financial Literacy

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Walker and Company LLP



Corporation for  
NATIONAL &  
COMMUNITY  
SERVICE 

# Session Objectives

Familiarize participants with definitions of financial terminology

Provide an understanding of federal grants managements and the OMB Circulars

Review an effective financial management system needed to successfully manage a CNCS grant program

Examine how weaknesses in financial management systems can cause instances of non-compliance and audit findings

# Why should I understand Financial Information?

- Project Directors share responsibility for compliance
- Accurate financial information is critical for decision making
- Accurate financial management and reporting are critical for compliance with federal grants

# Effective Financial Management

## **Strong Financial Management Components**

- Comprehensive chart of accounts
- Strong internal controls
- Written policies and procedures
- Proper documentation of expenditures

## **Strong Accountability & Compliance Components**

- Know of and comply with rules and regulations
- Communication among fiscal and program staff
- Timely & accurate financial information



# Financial Terminology

What non-financial folks should  
know....

# Financial Terminology - Acronyms

- CFR – Code of Federal Regulations
- Direct Costs – Cost attributable to one specific program or funding stream
- FCR – Federal Cash Report – 1<sup>st</sup> part of FFR sent to HHS quarterly
- FFR – Federal Financial Report sent to funder
- GAAP – Generally Accepted Accounting Principles
- Indirect Costs – “Administrative Overhead”
- OIG – Office of the Inspector General
- OMB – Office of Management and Budget
- PMS – Payment Management System



# Federal Grants Management

Rules and Regulations

# Regulatory Requirements

- Federal Rules and Regulations
  - AmeriCorps (AC)
    - 45CFR §§2520 - 2530
  - OMB Circulars
    - Circular No. A-133 - Audits
    - 45CFR §§2541 – 2543 - Uniform Administrative Requirements
    - 2CFR §§220 – 230 - Cost Principles

# OMB Circulars

All Corporation grants are governed by Office of Management and Budget (OMB) Circulars. OMB establishes government-wide grants management policies and common rules.

Each grantee must comply with three specific circulars related to:

- Cost Principles,
- Administrative Requirements, and
- Audit Requirements

# Summary of Relevant OMB Circulars

	Educational Institutions	Non- Profit Organizations	State & Local Governments
Uniform Administrative Requirements	45 CFR 2543	45 CFR 2543	45 CFR 2541
Cost Principles	<u>2 CFR 220</u>	<u>2 CFR 230</u>	<u>2 CFR 225</u>
Audits	Circular No. A-133	Circular No. A-133	Circular No. A-133

[http://www.whitehouse.gov/omb/grants/grants\\_circulars.html](http://www.whitehouse.gov/omb/grants/grants_circulars.html)

# Cost Principles

- Established principles to determine allowable costs that can be charged under grants or contracts
- Principles are designed so that Federal awards bear their fair share of costs recognized under these principles
- Provide guidance about reimbursement requirements
- Provide uniform standards of allowability and allocation
- Encourage consistency of treatment of costs



# Factors affecting allowability of costs

- **To be allowable under an award, costs must meet the following general criteria:**
  - Be reasonable, ordinary, necessary and allocable under OMB principles.
  - Conform to any limitations set forth in OMB principles or in the award as to types or amount of cost items.
  - Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.

# Factors affecting allowability of costs

- **To be allowable under an award, costs must meet the following general criteria:**
  - Be accorded consistent treatment.
  - Be determined in accordance with generally accepted accounting principles (GAAP).
  - Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program. (unless authorized by statute such as for AmeriCorps)
  - Be adequately documented.

# Administrative Requirements

- Provide consistency and uniformity among Federal agencies in the management of grants and cooperative agreements.
- Specific grantmaking requirements for CNCS are in the Code of Federal Regulations (CFR).



# Administrative Requirements

- Examples of items addressed in Circulars
  - Pre-Award policies
  - Special award conditions
  - Purpose of financial and program management
  - Standards for financial management systems
  - Cost sharing or matching

# Audit Requirements

- OMB-133 Audit
  - Standards for obtaining consistency and uniformity among Federal agencies for the audit of organization's expenditure of Federal funds.
  - Applicable to organizations that expend \$500,000 or more of federal funds in their fiscal year.





# Financial Reporting

# Federal Financial Reports

- Federal Financial Report (FFR)
  - Report that summarizes federal expenses, match and federal cash on hand (& volunteer hours for Senior Corps only) submitted to CNCS via eGrants
- Federal Cash Report
  - Report that verifies cash disbursements and reports cash on hand submitted to HHS via the Smartlink System
- Grant Budget
  - Tool to describe how grantees will utilize their Federal and local resources in meeting their program goals and objectives

# Financial Terminology

- Financial Statements
  - Statement of Financial Position
    - Also known as “Balance Sheet”
    - Assets, or items “owned” by the organization
    - Liabilities, or items “owed” to another organization or employees
    - Net Assets, what is “left over” after all liabilities have been paid
    - Represents a specific point in time

# Financial Terminology, Cont.

- Statement of Activities
  - Also known as “Income Statement”
    - Reports the Revenues and Other Support, “inflows” of resources to the organization
    - Reports the Expenditures, “outflows” of resources from the organization
    - Reflects the outcome of the period reported for Surplus/Deficit, also known as “profit or loss”
    - Summarizes transactions over a specified period of time

# Financial Terminology, Cont.

- Statement of Cash Flows
  - Reports cash flows in and out of the organization
    - Categorized by: Operating, Financing and Investing Activities
    - Traces cash from the ending balance of the prior statement to the current ending balance
- Statement of Functional Expenses
  - Distributes expenses across departments, activities or divisions of an organization as represented in the Statement of Activities

# How can I use the financial information?

- Review to ensure accuracy and increase internal controls
- Used to complete external reports, i.e. FFRs
- Used to monitor status of matching funds
- Used to insure budget controls



# Internal Financial Reporting

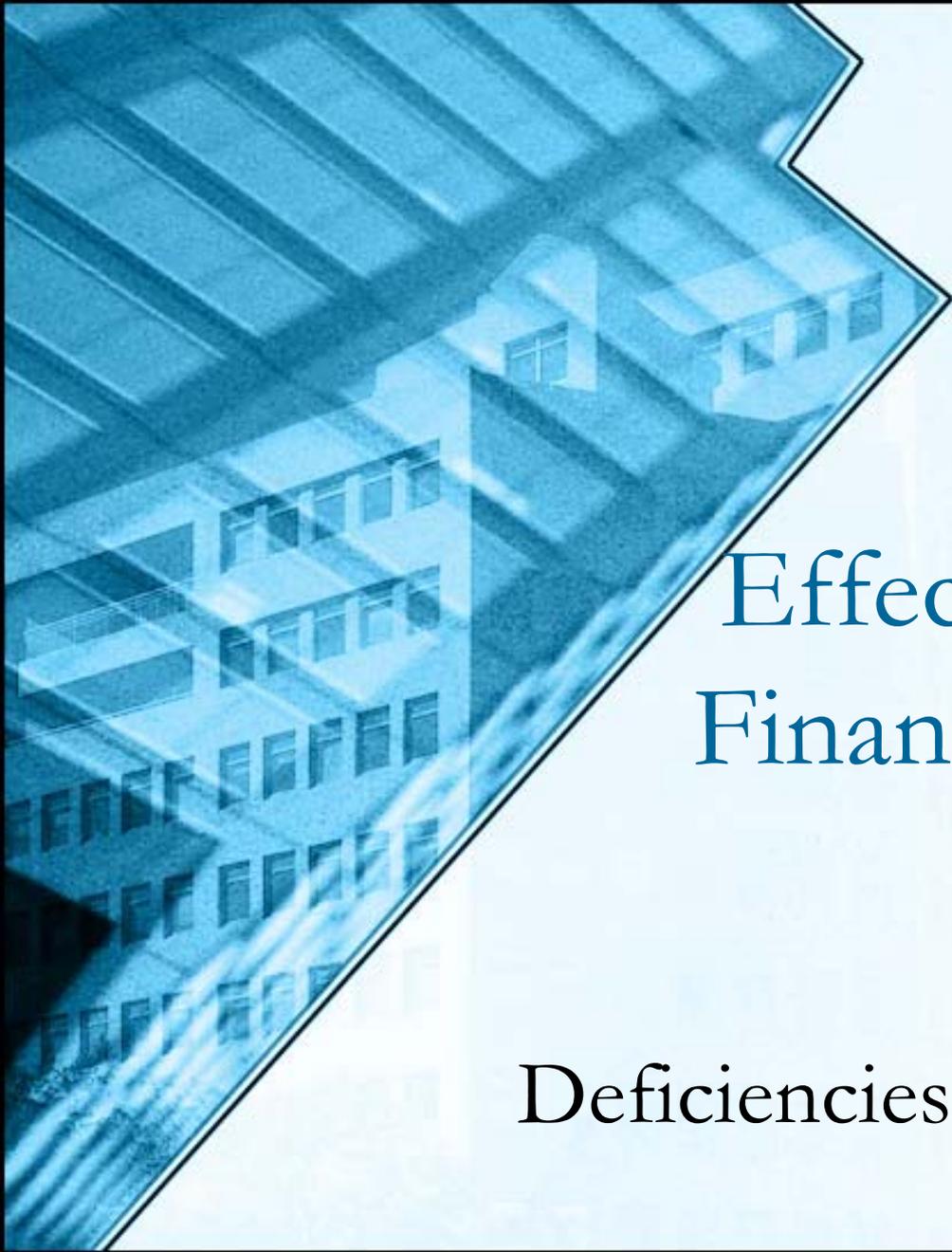
Organization needs to determine

- What reports and information are needed?
- Who should be involved in the review? (i.e.. Executive Director, Project Directors, Managers?)
- How often should the information be reviewed?
- How can the information be utilized to inform actions?

# External Financial Reporting

Organization should list and itemize

- Types and frequency of required financial reports
- Due dates
- Review process to ensure all reports are complete, submitted timely, and accurately.
- Roles for the program and fiscal staff of the organization



# Effects of Ineffective Financial Management Systems

Deficiencies/Audit Findings

# Common Deficiencies

- Inadequate documentation of expenses
  - Salaries and Wages
  - Match & In-kind
- Lack of allocation plans
- Lack of internal controls and separation of duties
- Inappropriate accounting, charging costs to improper time period
- Late or incomplete Federal Financial Reports that do not reconcile to accounting system or HHS
- Inadequate systems for member documentation requirements (background checks, evaluations and time tracking)
- Sub-recipient monitoring

# Time and Activity Reporting

- All salaries and wages charged to CNCS grants must be supported by signed time & attendance records that allocate time to appropriate funding source
  
- **Exceptions:**
  - State, local and Indian tribal governments must comply with requirements of OMB A-87
  - Educational Institutions must comply with requirements of OMB A-21
  
- Time must be based on after-the-fact activity not on a predetermined basis or on the budgeted amount

# Effective Financial Management

- Documentation of Expenditures

- All expenditures should contain documentation (i.e. brief descriptions, agendas, etc.) that support why transaction is allowable for grant purposes
- Accounting records should trace back to source documentation
- Documentation should also ensure that costs:
  - Conform to grant/contract limitations
  - Are treated consistently
  - Determined in accordance with Generally Accepted Accounting Principles (GAAP)



# Effective Financial Management, Cont.

## Internal Controls

- Codes of Conduct
- Process of communicating written policies and procedures
- Examples
  - Comprehensive written policies and procedures
  - Organizational Chart
  - Chart of Accounts
  - Job Descriptions
  - Organizational Documents



# Questions