Financial Literacy

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Walker and Company LLP
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 – 1st 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
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
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

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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 (and 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 know 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)
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