



# Core Principles of Financial Management

Webinar 1

# Who Is Our Primary Audience?

- Our primary audience is grantees and sub-recipients of five Multifamily Housing grant programs:
- Assisted Living Conversion Program
- Congregate Housing Services Program
- Section 811 Project Rental Assistance (PRA) Program
- Service Coordinators in Multifamily Housing
- Supportive Services Demonstration for Elderly Households in HUD-Assisted Multifamily Housing



# Presentation Objectives – 5 Goals

- Communicate information clearly
- Define common terms and practices
- Increase understanding of Budgeting, Accounting & Financial Cost Principles
- Enhance competency in funds management
- Stimulate questions and critical thinking

# Financial Management Defined

- Critical characteristics of good financial management include:
- Transparency and clear accountability on all levels
- Accountability for making good financial decisions and following all rules and regulations
- Expenditures are planned, budgeted and revisited
- Costs are allowable, reasonable & properly allocated
- Funds are protected from misuse
- Records can be clearly understood by any accountant
- Reports are useful to program and agency leadership

# HUD's Integrity Bulletins

- HUD's Office of the Inspector General has developed a set of bulletins that offer a clear perspective on common difficulties that have been identified, as well as some suggestions for how to avoid them. They may prove helpful to you; topics include:
  - Conflicts of Interest
  - Documentation and Reporting
  - Financial Management
  - Internal Controls
  - Procurement and Contracting
  - Sub-recipient Oversight

# Operating Policies & Procedures

- What Controls Need to Be in Place?
- All HUD grantees and sub-recipients must have operating Policies and Procedures (P&P) that address the following federal financial management standards:
  - Budget controls
  - Accounting controls
  - Internal controls
  - Human Resources system

# Let's Talk about Budgets – Page 1

- A time-based financial plan, or budget, guides every project and program.
- Ongoing budget management compares actual outlays with budgeted amounts to:
- Monitor and control adherence to the planned budget
- Identify, understand and report variances
- Proactively plan for necessary revisions
- Obtain approval for budget and program plan revisions, as needed



# Let's Talk about Budgets – Page 2

- The basic elements of budget controls include:
- Comparing expenditures-to-date against planned expenditures and against projected accomplishments for such outlays
- Reporting deviations from budget and program plans
- Requesting approval for budget and program plan revisions



# Let's Talk about Budgets – Page 3

- Grantees' requests for payment will not be processed unless two conditions are met:
- There must be approved budget authority for the intended expense type, and
- There must be sufficient funds remaining in the line item budget to cover all current and projected expenditures and encumbrances.
- Understanding this reality is essential to understanding the importance of careful, realistic budgeting.

# Now Let's Talk About Internal Controls

- Internal controls are a combination of tools designed to minimize the misuse of funds and poor record keeping, and to maximize the likelihood of detecting problems if they occur.
- 2 CFR Part 200.303 requires non-Federal entities to establish and maintain effective internal control over Federal awards.
- Key to cash management is the requirement that multiple people with differing roles review and/or execute each financial transaction.

# Key Elements of Internal Control

Key elements in an internal control system include:

- Organizational structure, as documented through organizational charts and position descriptions
- Policies and procedures, including hiring policies
- Separation of duties, especially related to the handling of revenue and expenditures
- A secure recordkeeping system
- Regular reconciliation of budgets and records, including within a HUD system such as TRACS

# “But WAIT – I’m a Service Provider... not an Accountant!”

- Solid financial practices = a framework for success
- Case managers’ input and experience are needed
- Remember – only those expenses that meet federal cost guidelines will be reimbursed
- Streamlining internal systems frees up program staff time to focus on fulfilling the agency’s mission
- All managers contribute to positive audits/monitoring

# Why Good Financial Management Is Important for All Program Staff

- 2 CFR Part 200 requires financial management systems to:
  - Document compliance with all relevant rules & regs.
  - Generate grant-level financial & performance reports
  - Trace funds to individual funding sources & grant years, including program level:
    - Costs
    - Activities
    - Participants
- This is called grant-based or fund accounting.

# What is 2 CFR Part 200?

- 2 CFR Part 200, also known as the 'Omnibus Circular,' was issued by the federal Office of Management and Budget (OMB) in December 2014. It streamlines government guidance on administrative requirements, cost principles and audit requirements for all Federal awardees, with the stated intention of reducing both the administrative burden on non-Federal entities receiving Federal awards while also reducing the risk of waste, fraud and abuse.
- All awards received after this date follow this guidance.

# What is The Bottom Line Here?

- To be reimbursed, all federal expenditures must be:
  - Allowable
  - Reasonable
  - Documented properly
  - Allocated appropriately
  - Disbursed in a Timely manner
  - Benefiting only Eligible Households
  - Not Generating Profits for Grantees or Sub-Recipients

# How Do We Achieve Good Financial Management?

- Understand Basic Cost Principles
- Develop Policies and Procedures
- Implement System Controls
- Create Good Documentation
- Confirm Accuracy, Timeliness and Completeness through Financial Audits and Program Monitoring





# What are Accounting Controls?

## Page 1

- Accounting controls are the systems and methods used to:
  - Safeguard assets
  - Authorize transactions
  - Monitor disbursements
  - Ensure the validity and accuracy of accounting records

# What are Accounting Controls?

## Page 2

- Other aspects of financial management reinforce these:
- Separation of duties among accounting personnel
- Thorough staff training and effective supervision
- Board oversight through Audit and Finance Committees
- Periodic review and updating of Policies and Procedures
- Use of a Fund Accounting software system

# Key Accounting System Elements

- Chart of accounts: A list of account names and the numbers assigned to them
- Cash receipts journal: A chronological listing of when funds were received, in what amounts, and from what sources
- Cash disbursements journal: A chronological listing of how much was paid, when, and to whom payment was made
- Payroll journal: A chronological listing of payroll amounts, benefits and payroll taxes
- General journal: A record of all non-cash transactions
- General ledger: A comprehensive depiction, with details by account, of the activities recorded in each account of an organization

# Elements of Source Documentation

- Accounting records must be supported by source documentation that shows that all costs charged against the relevant HUD program were:
- Incurred during the effective period of the agreement between the grantee and HUD
- Incurred for eligible items, as outlined in the grant/contract agreement
- Approved by the appropriate official(s) within the organization
- Reasonable in nature and amount
- Actually expended (i.e., have proof of payment)
- Not reimbursed by another funding source

# Understanding Cost Principles

- Subpart E of the Omnibus Circular is the unified policy guide for federal cost principles. Cost principles define:
  - What Is an Allowable Cost
  - What Is a Reasonable Cost
  - How Costs Will Be Allocated Among Programs
  - The difference between Direct and Indirect Costs

# How is Reasonable Cost Defined?

## Page 1

- 2 CFR Part 200.404 states that a cost is Reasonable when it:
- Is generally recognized as ordinary and necessary
- Matches market prices for comparable goods/services
- Is in accordance with sound business practices, etc.

# How is Reasonable Cost Defined?

## Page 2

- In addition, for a cost to be deemed Reasonable:
- The individual(s) making the purchase must have:
- Followed established standard agency practices and policies
- Acted with prudence in the circumstances considering the grantee's responsibilities to the federal government

# What Are HUD's Standards re: Source Documentation for Costs?

- Source documentation must show that all costs were:
- Incurred during the grant agreement period
- Incurred for eligible items
- Approved by the appropriate agency staff
- Documented with proof of payment
- Not reimbursed by another funding source



# A Simple Documentation Example: Accounts Payable Processing

- Example: Accounts Payable three-way match:

| Document         | What It Shows                 |
|------------------|-------------------------------|
| Purchase Order   | What was ordered at what cost |
| Receiving Report | What was received and by whom |
| Vendor Invoice   | What the vendor billed        |

# Record Retention Requirements

- 2 CFR Part 200.333 states:
- Financial records, supporting documents, statistical records, and all other records be retained for a period of three (3) years from the date of submission of the final annual expenditure report,
- Or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report.

# A Favorite Mnemonic: RADAR Test

- When costs are:
  - Reasonable ✓
  - Allowable ✓
  - Documented ✓ ...and
  - Allocable, then they are
  - Reimbursable

# What about Personnel Costs?

- As with all other expenditures, to be reimbursed by HUD, wages, salaries and benefits must be:
  - Allowable ✓
  - Reasonable ✓
  - Allocated properly ✓
  - Well-documented ✓
  - Treated consistently ✓



# What Do We Mean by ‘Well-Documented’ Personnel Costs?

- § 200.430(i) states:
- Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed.
- In an ideal environment, all staff members would be completing both timesheets and activity logs.
- This provides the “3-way match” for client services.

# A Best Practice Timesheet Example



- Timesheets should both reflect actual time worked - not percentages based on budget – and account for all work hours every week.
- Timesheets should be signed and dated by staff AND their supervisor.
- If time is split between multiple programs, then the time sheets should reflect time splits (after the fact!).
- Only actual HUD-incurred costs should be charged to HUD.
- No time should be left un-allocated.

# What Do We Mean by ‘Well-Documented’ Personnel Costs? (continued)

- For Federal compliance, timekeeping records should be supplemented with an “activity” log that documents what they did during the time that is billed to HUD. Examples:
- Case Managers maintain daily case notes that indicate which clients they saw and what was discussed/undertaken
- Facility maintenance staff maintain a log of the units visited and problems addressed
- Van drivers record client trips, purposes and programs billed
- Accounts payable staff indicate what checks they were generating when billing time to HUD rent payments

# What Key Financial Policies and Procedures Do We Need?

- Cost Allocation Plan
  - Accounts Payable records
- Grant-Based Accounting System
- Internal Control Policy & Procedures
- Treatment of Salaries, Wages and Benefits
- Cost Documentation Procedures:
  - Personnel records
  - Client records
- Board oversight of financial management and audit activities



# How About Procurement?

## Written Procurement Policies

- Are required for all HUD recipients
- Govern the activities of employees so as to avoid real or apparent conflicts of interest
- Allow for free and open competition – to the extent practical
- Avoid purchasing unnecessary/overpriced items
- Solicitations issued are clear and accurate
- Federal guidelines differ based on category of purchase and total dollar amount  
(See 2 CFR §200.317-326)

# And Lastly, Financial Audits

- Audits answer several basic questions about how well an organization is managing its array of financial resources
- Are based on a series of tests to assess the effectiveness of the entity's financial management policies and procedures
- Ensure proper accounting for and disbursing of funds, as well as compliance with applicable regulations
- Submitted to the Federal Audit Clearinghouse
- See 2 CFR 200 Subpart F – Audit Requirements ( § 501-521).

# Q & A



# Additional HUD Exchange Resources

- HUD's Office of Community Planning & Development (CPD) has developed a suite of online resources that are very helpful in fleshing out key ideas introduced today:
- Online grant & financial management learning modules:  
<https://www.hudexchange.info/trainings/financial-management-curriculum/>
- Financial management 101 & 201 curricula address: Cost Principles, Budgeting, Internal Controls, Fund Accounting, Audits and Procurement.