

Webinar 1 - Financial Management

PRESENTER: Welcome to the webinar on the core principles of financial management, presented by the US Department of Housing and Urban Development. Many of the ideas we will be talking about today are applicable to all HUD programs, but our primary audience is the grantees and sub-recipients of five multifamily housing grant programs-- Assisted Living Conversion Program, Congregate Housing Services Program, Section 811 Project Rental Assistance, Service Coordinators in Multifamily Housing, and Support Services Demonstration for Elderly Households in HUD-Assisted Multifamily Housing. Our primary objective is to help assure that grantees and sub-recipients are able to safeguard grant funds and ensure that all funds are used for the purposes for which they were awarded.

This toolkit provides straightforward statements of compliance and responsibility along with references to the underlying rules, regulations, and legislation that affect the financial and administrative management of multifamily housing grant awards. Today's presentation has five primary objectives-- to communicate this information clearly, to define common terms and practices, to increase participants' understanding of budgeting, accounting, and financial cost principles, to enhance competency in funds management, and to stimulate questions and build participants' ability for critical thinking.

Let's begin by defining financial management. Financial management is the process of using funds effectively, efficiently, and transparently. It is accomplished through a combination of procedures, methods, rules of conduct, and standards. Effective and efficient financial management systems have key characteristics in common. Primary critical characteristics of good financial management include transparency and clear accountability on all levels, accountability for making good financial decisions and following all applicable rules and regulations, demonstrating that expenditures are planned, budgeted, and these budgets are revisited, that costs are allowable, reasonable, and properly allocated, funds are protected from misuse, financial records can be clearly understood by any accountant, and reports generated by the financial management system are useful to program and agency leadership.

HUD expects grantee and sub-recipient financial management systems to include the following key components-- budgeting, internal controls, federal cost principles, accounting and record keeping, procurement, reporting, and audits. Sound financial management requires that all of these components work properly and in connection to one another. In addition to the materials we're presenting today, we wanted to draw your attention to some additional resources that have been prepared by the Office of Inspector General and the Office of Community Planning and Development at HUD, who have developed a set of what they are calling Integrity Bulletins that address issues that HUD grantees struggle with most often. Each of these topics is referenced in this tool kit and these bulletins offer a clear perspective regarding the difficulties HUD has identified and suggestions for how to avoid them. We believe that they may prove helpful to you.

Topics include conflicts of interest, documentation and reporting, financial management, internal controls, procurement and contracting, and finally, sub-recipient oversight. Please remember that every grantee is required to provide oversight for their sub-recipient or contracted entity's financial activities.

Operating policies and procedures. In order to properly maintain accountability at all levels of operation and to assure that funds are used for the purposes intended, HUD grantees must have in place operating policies and procedures that will address the following federal financial management standards-- budget controls, accounting controls, internal controls, and human resources systems. We'll begin by talking about budgets.

Every project must be guided by a budget. A budget is a plan for how much money will be received and expended within a given time frame, and based on careful analysis, how management expects these financial flows to be distributed across the different parts of an entity's operations. Budgeting is a federal requirement as part of implementing the uniform cost principles articulated in 2 CFR Part 200. This is sometimes known as part of implementing the uniform cost principles articulated in 2 CFR Part 200.

Ultimately, budgets outline anticipated funding from all sources and they establish boundaries for all expenditures. Once those boundaries have been established for a given time frame, grantees must operate within them. Based on the funds available and the programmatic objectives we hope to achieve, we develop budgets for organizations, for each program, and each project. Each of these budgets has details on specific items or categories of items. In this way, budgets help promote accountability at all levels.

Looking now at the bullets, we'll see here budgets are a time-based financial plan that guides every project and program. Ongoing budget management compares actual outlays with budgeted amounts, with the goal of monitoring and controlling adherence to the plan and approved budget, identifying, analyzing, understanding, and reporting any variances, proactively planning for any necessary revisions to the current or future budgets, and obtaining approval for budget and program plan revisions, as needed.

The basic elements of budget control include comparing expenditures to date against planned expenditure, as well as against projected accomplishments for such financial outlays. Reporting deviations from budget and program plans and again requesting approval for any budget or program plan revision.

Grantees' requests for payment will not be processed unless two conditions are met. First, there must be approved budget authority for the intended expense type and there must also 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.

Next, let's talk about internal controls. These controls should provide reasonable assurance that the entity is managing its federal awards in compliance with federal statutes, regulations, and the terms and conditions unique to each award or contract. One internal control that is important to cash management is the requirement that multiple people with differing roles review each financial transaction. They cross-check one another to make sure that budgets, costs, records, and reports all match up. In this way, internal controls help make sure that funds are being used appropriately and that no one person can defraud an organization.

The Controller General of the United States has issued standards for internal control in the federal government, which is often referred to as the Green Book. Grantees and sub-grantees can use these GAO standards as a reference in setting up strong internal controls in their entities. These standards can be downloaded from the GAO website.

Moving out to the bullets, 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 Subpart 303 requires non-federal entities to establish and maintain effective internal control over federal funds. Key to cash management, as we noted earlier, is the requirement that multiple people with differing roles review and/or execute each financial transaction. In some smaller entities, there's one person who manages all of the money. To meet this requirement, that person's work must be reviewed and signed off on by a supervisor or someone else in a responsible position higher up in the organizational chart.

Looking at the key elements of internal control, we find organizational structure, as documented through organizational charts and position descriptions, organizational operating policies and procedures, including hiring policies and accounting policies, the separation of duties, especially related to the handling of revenue and expenditures, a secure recordkeeping system, and regular reconciliation of budgets and records, including within a HUD system such as TRACS.

But wait, I'm a service provider, not an accountant. Well yes. And here we'll explain some reasons why everyone is a player in good financial management. Solid financial management practices provide a sound framework for successful program outputs and outcomes. Budget and outcome projections rely on program managers' input and experience in the real world. Only those expenses that meet federal guidelines will reimburse, so knowing the parameters is essential.

Positive financial audits and program monitoring are a shared responsibility. All managers within the agency are accountable to positive-- positive financial audits and program monitoring are a shared responsibility. All the managers within an organization are accountable for the financial outcomes. And streamlining internal systems will free up programs staff time to focus on fulfilling the agency's mission.

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 and regulations, to generate grant-level financial and performance reports, and to trace funds to individual funding sources and grant years, including program-level costs, activities, and participants. This is called grant-based or fund accounting. So program staff count the participants, document the activities, and generate the requests to expend money. Therefore, all staff have to play a role in sound financial management.

We have already mentioned 2 CFR Part 200 a couple of times, so let's take a minute here to define what it is. 2 CFR Part 200, which has also been called the Omnibus Circular, was issued by the Federal Office of Management and Budget for OMB at the end of 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 will follow this guidance.

Please note, however, that all Section 811 PRA grants awarded under the federal year 2012 notice of funding availability, and the only these grant recipients must follow the federal grant guidance presented in older circulars which the 2 CFR Part 200 replaced. And these particular circulars are 24 CFR Parts 84 and 85.

What's the bottom line here? In order to be reimbursable, all federal expenditures must meet the following criteria. They must be allowable under the grants program and within federal guidelines, they must be reasonable, they must be documented properly, they must be allocated appropriately, they must be dispersed in a timely manner, and they must benefit only eligible households. Further, grantees must demonstrate that they are not generating profits from the use of federal funds.

How do we achieve good financial management? We propose five key steps. First, understand basic cost principles. Using these principles, develop policies and procedures. Implement system controls, create good documentation, and confirm the accuracy, timeliness, and completeness of your financial records through conducting regular financial audits and through program monitoring.

Let's dive a little deeper into accounting controls. Accounting controls are the systems and methods a grantee uses to safeguard assets, authorize transactions, monitor disbursements, and ensure the validity and accuracy of accounting records. Moving on to the next slide, we see that other aspects of financial management reinforce these controls, such as the separation of duties among accounting personnel, through thorough and effective staff training and supervision, board oversight through their audit and finance committees, periodic review and updating of policies and procedures by management of the organization, and through the use of a true fund accounting software system.

Just briefly, we wanted to review the key elements of an accounting system. We start with a chart of accounts, which is a list of all the account names and the numbers assigned to them. We have four basic journals. The first is the cash receipts journal-- a chronological listing of when funds were received, in what amounts, and from what sources. In complement, we have a cash disbursements journal, which is a chronological listing of how much was paid, when it was paid, and to whom the payment was made. We usually have a specific journal for payroll, which again is a chronological listing of the payroll amounts, benefits, and taxes paid by the organization, and what we call a general ledger-- a record of all non-cash transactions.

Let's quickly review the key elements of an accounting system. First of all is the chart of accounts-- a list of account names and the numbers assigned to them. Then we have four primary journals. The cash receipts journal, which is a chronological listing of when funds were received, in what amounts, and from what sources. Complementing that is the cash disbursements journal-- a chronological listing of how much was paid, when it was paid, and to whom the payment was made. We have a separate journal for payroll activities-- a chronological listing of payroll amounts, benefits, and payroll taxes-- and lastly, a general journal-- a record of all non-cash

transactions, such as depreciation. And lastly, we talk about a general ledger, which is a comprehensive depiction with details by account of all the activities recorded in each account of an organization.

One question that comes up has to do with source documentation. HUD standards for accounting records require that all grantees, sub-recipients, and sub-contractors maintain records that adequately identify the source and application of funds provided for financially-assisted activities. Grantees must also assure that these records contain complete and accurate information pertaining to grant or sub-grant awards, as well as any authorizations, obligations, un-obligated balances, the entity's assets and liabilities, as well as the outlays or expenditures and income. All of the journals that we've discussed will document those.

And per HUD standards for source documentation, accounting records must be supported by such source documentation as canceled checks, paid bills, payroll records, time and attendance records, contract, and sub-award documentations, et cetera. These source documentations must be based on accounting records that show that all costs charged against the relevant HUD program were, first of all, incurred during the effective period of the grant's agreement between the grantee and HUD. Next, that they were incurred for eligible items, as outlined in the grant or contract agreement. These expenditures must also have been approved by the appropriate officials within the organization, they must be reasonable in nature and amount, they must have been actually expended, and lastly, they must not be reimbursed by another funding source.

While all reimbursable expenses should have appropriate source documents that identify such things as the amount of expense, the method of payment, the purpose, date of transaction, authorization, and other pertinent details, specific documentation requirements will vary by program. Program-specific requirements are detailed in the relevant Notice of Funding Availability and/or the Cooperative Agreement and Grant Award documents.

Let's talk for a moment about 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, and the difference between direct and indirect costs.

How is a reasonable cost defined? 2 CFR Part 200 Subpart 404 states that cost is reasonable when it is generally recognized as ordinary and necessary, when it matches market prices for comparable goods and services, and when it is in accordance with sound business practices. In addition, for a cost to be deemed reasonable, the individual or individuals making the purchase must have followed established standard agency policies and practices and must also have acted with prudence in the circumstances considering the grantee's responsibilities to the federal government.

When we're looking at costs, what are HUD standards regarding the source documentation? The source documents must show that all costs were first of all incurred during the grant agreement period. This is really essential. If the grant agreement starts on October 1, then the costs must be incurred after October 1. If the grant agreement ends on September 30, then the costs must be incurred before September 30.

They must also be incurred for eligible items. That is, they must relate to the activities that are specifically outlined in the grant agreement and they must be eligible expenditures for any federal funding under 2 CFR Part 200. As mentioned earlier, all expenditures must be approved by appropriate agency staff. And typically, above a certain dollar amount, there might be the need for a second signature, not just on the check but also on the request for funding. There must always be documentation that shows proof of payment. And again, the accounting records must demonstrate that the cost is not reimbursed by another funding source. Furthermore, there may be additional program-specific requirements in the HUD NOFA or Grant Award documents.

On this slide, we give a very simple example of what we call a three-way match in accounts payable. We always want to see a three-way match because it helps assure us that only valid and accurate vendor invoices are recorded and paid. In this example, the document we're looking at is a purchase order, and what it shows us is what was ordered and what was the cost that was quoted-- what do we expect to pay for it. The second document would be a receiving report-- when an item was received. We'll document who received it and when that occurred. And finally, we also receive an invoice from the vendor, and the invoice will show us what the vendor believes they sent us and what they're charging. Those three documents should be pulled together and the elements in each document should match. Only when the details in these three documents are in agreement should the vendor's invoice be entered into the accounts payable system and scheduled for payment.

We've spoken a fair amount about source documentation, so let's quickly mention, what are the requirements for record retention? 2 CFR Part 200 Subpart 333 states, financial records, supporting documents, statistical records, and all other non-federal entity records pertinent to a federal award must be retained for a period of three years from the date of submission of the final expenditure report, or for those federal awards that are renewed quarterly or annually, this three-year period starts from the date of the submission of the quarterly or annual financial report. Practically speaking, we'll retain some records for four years, because if your grant year starts again on October 1, records from that October will be kept for three years starting the following October.

Going back to costs and how they are reimbursable, I have a favorite mnemonic that I like to employ, which is called the RADAR Test. You'll see here, if you look at the first letter of all of the sub-bullets on this slide, you'll see that they spell the word "radar," and what this mnemonic tells us is that when costs are Reasonable-- R-- Allowable-- A-- Documented-- D-- Allocable-- A-- then they are Reimbursable-- R. R-A-D-A-R, documented costs.

As with all other expenditures, to be reimbursed by HUD, all wages, salaries, and benefits must be allowable, reasonable, allocated properly, well-documented, and treated consistently. What do we mean by well-documented in regards to personnel costs? 2 CFR Part 200 Subpart 430(i) states that 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 three-way match we talked about earlier for client services.

This next slide presents a best practice to ensure compliance, using timesheets. Timesheets should both reflect actual time worked, not just percentages or estimates based on budgeted amounts, and timesheets should account for all work hours every week. If a staff member's regular work week is 35 hours, then every timesheet should include an accounting of at least 35 hours. There should never be a blank in a regular work week timesheet.

Timesheets should be signed not only by the employee but they should be signed and dated by their supervisor as well. If the supervisor is on vacation, then they should be signed by someone else who knows and is reasonably familiar with the assignment and work scope of the staff member, to assure that the timesheets are accurate. If a staff member's time is split between multiple programs, then the timesheet should reflect those time splits-- again, after the fact, not based on budgets. Only actual HUD-incurred costs should be charged to HUD, so if a person is working on multiple programs or within a program that has multiple funding sources, the level of detail for the timesheets and time logs should be specific enough to identify only those costs that are eligible for HUD reimbursement. And as noted earlier, no time should ever be left unallocated on a timesheet.

When we talk about well-documented in regards to personnel costs, what do we mean? Again, 2 CFR Part 200 Subpart 430(a)(i) states, to be allowable, labor costs, whether charged directly or indirectly, must be based on accurate time records reflecting the actual activities of all employees. These records must account for the total activity for which employees are compensated and which are required in fulfillment of their obligations to the organization.

For federal compliance, time-keeping records should be supplemented with an activity log. That log should document what staff did during the time that is billed to HUD. A few examples include-- case managers routinely maintain daily case notes that indicate which client they saw and what was discussed or undertaken. In addition to that basic information, the case manager might add a note if they spent an exceptionally long period of time with one client, so that they could say that they spent 45 minutes with this one client and that's why they only saw three clients in a four-hour period.

Facility maintenance staff routinely maintains a log of all the units that are visited and the problems addressed. Again here, the maintenance staff could note when they arrived at each unit and when they departed each unit. Van drivers should record client trips, the purposes, and programs billed. They could have a listing of all the clients who were on the van and where they were taken, and cross-reference that against the federal or non-federal source that was paying for the trip. And lastly, accounts payable staff can indicate which checks they were generating when billing time to HUD rent payments. So if they're making 20 rent payments, they could say that the checks were numbers 1550 to 1570.

As we start to wrap up this presentation, let's review, what key financial policies and procedures do we need to have in place? First of all, we have to have a cost allocation plan and the accounts payable records to document that. We also want a grant-based accounting system. Internal control policies and procedures. We need to make sure that we have the proper treatment of salaries, wages, and benefits. We need cost documentation procedures for both personnel records

and client records, and we need to assure board oversight of all financial management and audit activities.

One cost area that is well documented and has quite a few specific requirements has to do with procurement. We won't go into this in detail today, but just a reminder that written procurement policies are required for all HUD recipients. These policies should govern the activities of employees so as to avoid real or apparent conflicts of interest. They should also allow for free and open competition to the extent that it's practical. They should help the entity avoid purchasing unnecessary or overpriced items.

Solicitations that are issued under these policies must be clear and accurate. And it's good to remember that federal guidelines differ based on the category of purchase and total dollar amount. For more information and detailed explanation of procurement policies, please go to 2 CFR Part 200 Subparts 317 through 326.

The last thing we'll talk about today is financial audits. Audits answer several basic questions about how well an organization is managing its array of financial resources. Audits are based on a series of tests to assess the effectiveness of the entity's financial management policies and procedures. They help ensure proper accounting for and the distribution of funds, as well as compliance with all applicable regulations.

Remember that financial audits must be submitted to the federal audit clearinghouse within a certain time frame. Typically, your outside auditor will make that submission on your behalf, but it's worth verifying that it's submitted on time. And then if an agency is spending more than \$750,000 in aggregate federal funding during the operating year, what's called a single audit is required for that agency for that year. The last bullet here shows you where to go to find more information on the audit requirements. That would be Subpart F of 2 CFR 200, Subsections 501 through 521.

And now, on our last slide, we want to call your attention to some additional resources on the HUD exchange. Like the Integrity Bulletins, these resources were developed by HUD's Office of Community Planning and Development. They have provided a suite of online resources that are very helpful in fleshing out some of the key ideas introduced today. They have online grant and financial management modules-- you can see here the web address-- and I want to point out that the Financial Management 101 and 201 curricula address the cost principles, budgeting, internal controls, fund accounting, audits, and procurement topics that we discussed today. Thank you very much for your participation in this webinar.