

## FINANCIAL MANAGEMENT CURRICULA

### PREZI: Transcript

Welcome to “*Good Financial Management: A Well Oiled Machine.*”

[written instructions: how to use prez]i]

[video: Carline Fernandez

I think besides the obvious understanding what the requirements and regulations are, having documented policies in place that people are aware of and understand, probably is the most important thing. Secondly I’d say is communication. There needs to be good communication between program staff and financial staff. And then finally, generating a paper trail. Documenting decisions, and having that supportive documentation available for review is one of the best things that you can do to demonstrate your good faith effort to be compliant with financial management requirements.

This presentation introduces HUD’s online financial management curriculum, provides an overview of financial management, explains why it is important, and describes how different elements of the HUD financial management system fit together. This curriculum can help you understand and implement sound Financial Management, which in turn, will help you strengthen your programs.

Before we proceed, let’s clarify what we mean by the word “program”. When we refer to *your* program, we are referring to the services you provide within your community, like transitional housing or rental assistance. When we refer to a HUD CPD “program,” we mean programs like HOME, CDBG, ESG and HOPWA, that fund the services you are providing in your community. This presentation, and the overall curriculum, will focus on the financial management systems that enable you to run your programs efficiently and effectively.

Let’s begin by sharing the objectives of the online financial management curriculum.

The HUD Financial Management Curriculum will help you to:

- Understand Federal financial management requirements
- Develop and use effective systems for managing funds
- Identify and implement sound financial management, including accounting standards, and
- Understand program-specific requirements for a variety of CPD programs.

Ultimately, mastering these skills can help you to reduce costs, eliminate financial surprises, and improve your programs.

The more you engage with this curriculum, the more you will learn. Even after this short presentation, you will be able to:

- Identify strong financial management practices for Federal programs
- Define the key components of financial management, and
- Describe how the key components fit together for efficient and effective financial management

Let's begin with a definition of Financial Management. Financial management is the process of protecting and using Federal funds effectively, efficiently, and transparently. It is achieved through systematic application of procedures, forms, rules of conduct, and standards. It is important because Federal and local laws require it, it ensures accountability, and it helps to make sure that money is used as intended.

Imagine that a financial management system is a machine and the components are its parts. We will introduce each of these components in a few minutes.

But first, let's talk about the financial management machine, or system, as a whole. While financial management machines come in different shapes and sizes, they should all be guided by the same key principles, and share some important characteristics.

Good financial management systems adhere to core guiding principles:

First, they promote integrity by protecting funds from being wasted or misused, and by ensuring that all financial transactions are clearly documented using systems that are easy for HUD and their federal grantees to understand.

Another principle of good financial management is that all spending is planned through the budgeting process, and then actual expenditures are checked against the plan. Good financial management systems always operate in a planned and deliberate way.

Good financial management systems also comply with all applicable regulations, including federal cost principles, program-specific requirements and local rules.

Finally, good financial systems strengthen programs by increasing efficiency and providing valuable information for program managers and other stakeholders.

Just as a machine is guided by its design, and kept in good working condition through regular maintenance, a strong financial management system is guided by these principles in its actual structure and throughout all of its operations. Without a good financial management system that has integrity, accountability, transparency, careful planning, and measures to ensure compliance with all relevant regulations, programs are vulnerable and could stop altogether.

HUD financial management systems include key components, illustrated here as parts of our machine. These components are: cost principles, budgeting, procurement, internal controls,

accounting and records, reporting, and audits. The arrangement of these parts follows a program's cycles, and many of them impact operations all the time. Sound financial management requires that all of these components work properly and in connection to one another. Let's take a closer look at each of them.

All organizations receiving federal funds must follow overarching cost principles established by the Office of Management and Budget, or OMB. These rules apply both to direct recipients or grantees– the organizations receiving funds directly from HUD, and to subrecipients or subgrantees, the organizations receiving funds from the direct recipients.

In 2013, OMB revised all circulars into 2 CFR, Part 200, titled *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

These new regulations, referred to as the *omniscircular*, apply to new awards and incremental funding changes to existing awards made after December 26, 2014, and to audits of fiscal years beginning after December 26, 2014.

The OMB Cost Principles define what is an “allowable, reasonable and allocable” expense. There are three critical questions that must be asked about ALL costs. Is the cost allowed by our funding sources? Is the cost reasonable, meaning, is the cost what a prudent person would pay in this situation; is it an ordinary cost, and is it necessary? Lastly, can the cost be allocated to a specific funding source based on what we know about the cost and what it is paying for? These are critical concepts that tie to how budgets and accounting systems are constructed and how all purchasing by all entities is carried out.

Every project must be guided by a budget. The budget is the plan for how much we will spend overall within a given timeframe; and, based on careful analysis, how we expect this spending to be distributed across the different parts of our operations.

Budgeting is a Federal requirement as part of cost principles. The budgeting process includes planning for both revenue and expenditures at unit, project, and program levels. Budgeting also provides an ongoing check for reasonableness through comparing actual expenditure requests against the plan, and assures that funds will be available when needed. Budgets are included in written agreements, and promote accountability.

Based on the funds available to us and the programmatic objectives we hope to achieve, we budget for our organization, each program, and each project. Each of these budgets has details on specific items or categories of items. Budgets are included in our contracts or written agreements, so our partners all know what they have to spend, and for what.

In addition to spending, budgets also detail revenue projections, including both Match and Program Income. Many federal grant programs require a match, or cost sharing, meaning that the organization receiving federal funds must contribute other funds to cover a certain portion of the

program's costs. Planning to meet match requirements is a key aspect of the budgeting process. If an organization is not able to do this, entire projects are jeopardized.

Program Income, on the other hand, is money that is generated from carrying out a HUD-funded activity. Both types of revenue are program-specific, and must be documented within an organization's internal systems as well as within the HUD systems.

Ultimately, the budget outlines anticipated funding from all sources and establishes boundaries for all expenditures. Once those boundaries have been established for a given timeframe, we must operate within them.

When a request for payment enters a tracking system, it cannot be processed until it is compared to the budget for that item, and confirmed to fall within the boundaries of that budget line.

Therefore we cannot spend, or authorize anyone else to spend, more than the budget allows. Understanding this reality is essential to understanding the importance of careful, realistic budgeting.

After the budgeting process is complete, the organization's program plans are communicated to HUD using online systems, such as the Integrated Disbursement and Information System, or IDIS, and the Disaster Recovery Grant Reporting system, or DRGR.

Procurement, or purchasing procedures, are important not only to promote cost reasonableness, but also to ensure that goods and services are purchased in a way that is fair and transparent. All purchases must follow specific procedures and require the use of an appropriate federal procurement method.

Procurement is a component of cost principles requirements. It is important to learn about and follow Federal requirements as well as state and local requirements, as the strictest rules apply.

- At their most basic, procurement procedures must be fair, open, and well documented
- They may require RFQs, proposals or formal sealed bids, and they must
- Assure market price or better

Internal Controls require that multiple people with different roles review each and every financial transaction. In this way, internal controls make sure that funds are being used appropriately.

Internal Controls Include:

- Accurate listings of duties and procedures
- Segregation of duties, and a secure records system.

Internal controls always cross-check one another to make sure that budgets, costs, records, and reports all match up.

Internal controls are designed to minimize misuse of funds and poor record keeping, and to maximize the likelihood of detecting problems if they occur. The procedures for any expenditure request are spelled out: first, input documentation to compare to the budget. Then match procurement to the correct approvals. Record and report accurately. Ultimately, internal controls are a combination of tools designed to ensure that multiple people check any expenditure, so that no one person can defraud the organization.

The key elements of an internal control system include:

- Organizational structure and separation of duties, as documented within organizational charts and position descriptions
- Policies and procedures, including hiring policies
- Records
- Reconciliation of budgets and records, including within a HUD system such as IDIS or DRGR

Accounting is the process of keeping track of what money is taken in and what money is spent. All inflows and outflows of funds are recorded in detail, including both the category of expenditure and the funding source. All accounting activities must meet published standards for accountants. These uniform accounting standards exist in order to help ensure consistency and transparency. Records prepared in accordance with these standards, also called Generally Accepted Accounting Principles, can be understood readily by any accountant. Most basic accounting software will meet these standards.

Accounting and Records ensure that program costs are incurred for the proper period and are actually paid. Funds must be spent on eligible items and expended from the appropriate grant source. All spending should be approved by appropriate personnel.

Fund accounting, the type of accounting used by HUD grantees, is a method of recording data based on sources and uses of funds. In addition to promoting compliance with HUD regulations, fund accounting provides useful information regarding program performance.

Reporting is the mechanism that program staff and finance staff use to verify and document that funds have been used in accordance with the established budget and other requirements. Through reporting, organizations make sure that program reports coincide with financial records.

Records from both program staff and finance staff are cross-checked for accuracy, providing another level of oversight. Reports from accountants, partners, DRGR and IDIS are all compared and reconciled to ensure accuracy. Written agreements require comprehensive financial and programmatic reports to ensure compliance with all applicable OMB and HUD requirements.

The best recipient reports go above and beyond what is required by law to improve organizational management and accountability.

Local reports must be tailored to provide information that demonstrates compliance with program objectives and to identify potential problems.

Each CPD program has its own specific reporting requirements. For example,

- HOME must report match.
- CDBG must comply with and report on the 70% low-moderate expenditure.
- CPD Programs must report in the Consolidated Annual Performance and Evaluation Report, called CAPER, Financial Status Reports, and IDIS

IDIS and DRGR are online systems used by grantees to report financial and performance data to HUD on a quarterly or annual basis. HUD uses this information to track and monitor grantee progress and compliance. This may include tracking such things as timeliness, program income, and match requirements. Because some programs have very specific deadlines for expenditures, program staff and finance staff must work closely with one another to ensure that dollars are spent for eligible expenses and documented appropriately and in a timely fashion, either through DRGR or IDIS, as well as in the organization's own internal financial management system.

Audits are reviews of an organization's financial accounts and financial accounting systems by independent third party experts like accountants. Annual audits follow both Federal rules and Generally Accepted Accounting Principles.

An A-133 Audit is an independent third party review of an organization's finances that complies with OMB Circular A-133 .

Under the new consolidated circular, recipients and subrecipients who expend more than \$750,000 in Federal funds must complete and submit an A-133 audit.

An A-133 audit is an important component of your financial management system, but it is not adequate by itself to assure proper use of Federal funds. To keep your programs running, you need to make sure that all aspects of your financial management system are functioning well.

The topics introduced in this presentation will serve as guideposts as you delve more deeply into the nuances of responsibly managing federal funds. These topics interact with one another and apply to different organizations in different ways. As you progress through HUD's Financial Management curriculum, you will learn about each of these topics in greater detail, and you will see how they serve as building blocks for sound financial management.

Good financial management ensures successful programs. Keep your machine well oiled, and you will build strength into all your HUD-funded projects!

[video: Bob Shumeyko

What we really see is grantees, particularly nonprofits that have difficulty with capacity, the ones that have learned good financial management are able to stretch those critical dollars where others cannot. And we see them being more effective, better administration of the program, and happier.]

Thank you for participating in this overview of Financial Management. We look forward to sharing more detailed information with you as you advance through the this curriculum.

Stay tuned for additional materials on this topic, which may be found on HUD's OneCPD Resource Exchange.