OFFICE OF
HOUSING COUNSELING

U.S. Department of Housing and Urban Development
Office of Housing Counseling

Facilitated by
Booth Management Consulting
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Understanding Financial Management Systems
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2pm Eastern Standard Time

Webinar Logistics

1. Audio is being recorded. The playback number along with the PowerPoint and a transcript will be available on the HUD Exchange at www.hudexchange.info/programs/housing-counseling/webinars/
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Training Objectives

- Provide a clear definition of a Financial Management System (FMS)
- Understand the regulatory requirements for a FMS
- Review the components of a compliant FMS
- Provide best practices for maintaining a compliant FMS
- Available Services from HUD/OHC
- Questions

Financial Management System (FMS) Definition

What is a FMS?

Uniform Guidance
§200.302 Financial management.

"….In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award."

What is a FMS?

Provide for the following (§200.302**):**

1. Identification of Federal Awards
2. Accurate, current, and complete financial disclosure
3. Grant award records
4. Internal controls consistent with §200.303
5. Budget vs. Actual Reporting
6. Written procedures for §200.305 Payment
7. Written procedures for determining allowability of costs

What is a FMS?

Federal Acquisition Regulations (FAR) 44.302:

Accounting system means the Auditee's system or systems for accounting methods, procedures, and controls established to gather, record, classify, analyze, summarize, interpret, and present accurate and timely financial data for reporting in compliance with applicable laws, regulations, and management decisions, and may include subsystems for specific areas such as indirect and other direct costs, compensation, billing, labor, and general information technology.

FMS Requirements

Key System Criteria

Effective Management System

1. Regulatory Requirements
2. Efficient Accounting System
3. Efficient Accounting System
4. Documentation of Expenses
5. Compliance with Cost Principles
6. Budget Controls
7. Time and Activity Documentation
8. Leveraged Funds
9. Reporting
10. Internal Controls

FMS Requirements

REGULATORY REQUIREMENTS

1. **CODE OF FEDERAL REGULATIONS (CFR)**
   a. 24 CFR § 1.6 Compliance Information
   b. 24 CFR § 84.21 Standards for Financial Management System
2. **PART 200—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (UNIFORM GUIDANCE)**
   a. §200.302 Financial management
   b. §200.303 Internal Control
3. **HUD GRANT AGREEMENT**
   a. Article X (G)
   b. Self-Certification in Grant Execution Package
4. **HUD HANDBOOK 7610.1 REV 5, CHAPTER 5**
5. **GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)**
6. **GENERALLY ACCEPTED GOVERNMENT ACCOUNTING STANDARDS (GAGAS)**

Key Financial Statements

EFFICIENT ACCOUNTING SYSTEM

1. Account for each award/grant separately
2. General Ledger
3. Chart of Accounts
4. Segregation of direct and indirect expenses
5. Segregation of unallowable costs
6. Identification of direct expenses to Federal award
7. Identification of costs to budgetary line items and grant/program year
8. Leveraged funds reported as both revenue and expenses

FMS Requirements

WRITTEN POLICIES AND PROCEDURES

1. Basis of Accounting (Cash vs. Accrual)
2. Budgeting
3. Cash Management (Receipts/Disbursements)
4. Payroll
5. Leveraged funds
6. Cost Policy
7. Unallowable costs
8. Timekeeping and personal activity reporting
9. Travel
10. Financial Reporting
11. Record Retention

FMS Requirements

DOCUMENTATION OF EXPENSES

1. Source documentation of direct costs, such as invoices, receipts, cancelled checks, documentation of personnel expenses, and indirect cost rate agreements to support all payments
2. Travel - include an expense report (indicating purpose, grant, number of participants, and receipts)
3. Training - agenda/program with purpose, date, number of participants, and fee (preferably itemized)
4. Must be made available to HUD if requested
5. Based on actual expenses incurred
6. Maintain consistent with **§200.333 Retention requirements** for records. (Generally 3 years from submission of final expenditure report.)

FMS Requirements

COMPLIANCE WITH COST PRINCIPLES (UNIFORM GUIDANCE, SUB-PART E

1. Costs must be allowable, reasonable, allocable, necessary, and consistently treated
2. Segregate unallowable costs
    a. Uniform Guidance, Subpart E §200.420 to §200.475 for expressly unallowable costs
    b. Grant agreement
3. Policies and procedures

FMS Requirements

BUDGET CONTROLS

1. Monitoring actual vs. budget costs
2. Tracking to program/grant by year
3. Explanation of budget variances
4. Tracking budget revisions/modifications
5. Procedures for requesting budget modifications
6. Costs are allowable, reasonable, and necessary consistent with Uniform Guidance, Subpart E

FMS Requirements

TIME AND ACTIVITY DOCUMENTATION

1. Must reflect an after-the-fact distribution of the employee actual activity (not budgeted on hours worked)
2. Charge time to program/fund/grant
3. Include employee name, title, and dates recorded
4. Must account for the total activity for all time charged
5. Must be signed by the employee or supervisor having first hand knowledge of staff activity
6. Policies and procedures

FMS Requirements

LEVERAGED FUNDS

1. Documentation - same standards as other expenditures
2. The basis for determining the value of personal services, material, equipment, building, and other non-cash donations, source, and time period
3. Entered into the general ledger and other reports for both support and expenditure
4. Charged to the specific grant/program in the accounting system

FMS Requirements

REPORTING

1. Accrual basis of accounting
2. Basic financial statements (Statement of Financial Position/Balance Sheet and Statement of Activity/Profit & Loss)
3. General ledger and trial balance by grant and grant year
4. Identify cost by grant year and budget category
5. Include leveraged funding (support and expense)
6. Complete and accurate - reflecting timely posting of transactions
7. Prepared with information from the accounting system
8. Review and reconciliation of reports

FMS Requirements

INTERNAL CONTROLS

1. Written policies and procedures
2. Key control areas:
    a. Personnel and fringe benefits
    b. Travel
    c. Supplies
    d. Contractual arrangements
    e. Grant management
    f. Cash receipts and disbursements
    g. Assets
3. Transactions must be authorized, approved, and recorded in compliance with program objective
4. Funds, property, and other assets are safeguarded
5. Communicate internal controls to employees, Board of Directors, and grantors

Best Practices

Best Practices

EFFICIENT ACCOUNTING SYSTEM

Best Practices

1. Keep the system simple
2. Revise Chart of Accounts periodically and use account numbers
3. If using for profit accounting software (i.e. QuickBooks) work with accountant to design for grant reporting
4. Ensure system users are trained and knowledgeable of FMS requirements for Federal awards

Best Practices

WRITTEN POLICIES AND PROCEDURES

Best Practices

- Consistent with regulatory requirements for Federal awards
- Approved by Board of Directors
- Reviewed and updated every 2-3 years
- Ongoing training
- Distributed to all program managers for Federal awards

Best Practices

SUPPORTING DOCUMENTATION

Best Practices

1. Maintain in electronic and/or hard copy
2. Distribute record retention policy to program and accounting
3. Archive records for easy retrieval
4. Hardcopy documents - maintain in fireproof file cabinets
5. Electronic documents - ensure backup system
6. Centralize the location of documents retained
7. If emails, save with other documentation
8. Train staff on required documentation (i.e. timekeeping, travel, etc.)

Best Practices

COMPLIANCE WITH COST PRINCIPLES (UNIFORM GUIDANCE, SUB-PART E

Best Practices

1. Communicate unallowable costs to all employees, board members, sub-grantees
2. Training on unallowable costs related to timekeeping, travel, training, etc.
3. Review each grant/funding source to verify allowable vs. unallowable costs

Best Practices

BUDGET CONTROLS

Best Practices

- Work with accounting to prepare budget prior to submission
- Cross reference accounting for Chart of Accounts to the budgetary line items
- Give accounting a copy of the “approved” budget from the final grant execution package
- Review actuals vs. budget monthly to identify possible overruns
- If budget modification is required, work with accounting
- Submit written request for budget modification to the HUD POC in writing

Best Practices

TIME AND ACTIVITY DOCUMENTATION

Best Practices

- Provide written notification to individuals working on the grant - including the grant/funding/project code and associated activity codes
- Include activity codes on timesheet
- Complete timesheets more frequently, if not daily then weekly
- Provide training for new employees and every 2-3 years for existing employees

Best Practices

LEVERAGED FUNDS

Best Practices

- Obtain written documentation that includes value and type of service
- Confer with accounting on leveraged funding and the proper treatment in the accounting system

Best Practices

SUPPORTING DOCUMENTATION

Reporting

1. Review grant agreement reporting requirements with accounting for format, content, and due dates
2. Obtain financial reports from accounting
3. Review the reports and compare to the grant agreement requirements
4. Reconcile accounting to program reports, where applicable, for consistency

Best Practices

INTERNAL CONTROL

Best Practices

- Knowledgeable person (i.e. accountant, auditor, etc.) to complete an internal control assessment
- For smaller agencies, the Board of Directors can assist with internal controls by reviewing documents, approving certain transactions, etc.
- Develop a compliance program for internal test of controls (i.e. spot checks, management reviews, and/or peer reviews)

Available Services

Available Services

Training

Menu	Description	Onsite and/or Remote
Understanding Internal Controls	What are internal controls? How to determine proper internal controls, segregation of duties, etc.	Remote
Financial Management System	Training staff on maintaining a compliant financial management system; configuration of the accounting system; and development and training on relevant policies, procedures and internal controls	Optional

Available Services

Financial Analysis

Menu	Description	Onsite and/or Remote
Financial Management System Review	Review agency financial management to determine whether the agency accounting system is adequate to meet the criteria found in the Uniform Guidance, HUD/OHC award/agreement, and other regulatory requirements.	Optional
Financial Review of Sub-Grantees for Parents	Conduct Financial Capability Assessments, grant execution documents, and/or review of other financial data of sub-grantee for a Parent	Remote
Accounting System Configuration	Assist agency in designing accounting system to be compliant with FMS	Optional

Available Services

Action Plans

Menu	Description	Onsite and/or Remote
Assessment of Financial Management System	Assess agency financial management system for compliance with the Uniform Guidance, identify deficiencies, recommend a corrective action plan	Optional
Assessment of Compliance with the Uniform Guidance	Conduct readiness assessment of agency compliance with Uniform Guidance and recommend technical assistance and/or training	Optional
Internal Control Assessment	Conduct an assessment of the grantee internal control to verify compliance with Uniform Guidance and recommend technical assistance and/or training	Optional

Requesting Services

1. **REQUEST:** HUD POC emails a BMC GTM and requests the service. States service required, grantee name, agency contact information, and available information to complete the service
2. **APPROVAL**: GTM reviews the request, verifies it meets contractual requirements, and schedules with BMC
3. **COMPLETION**: BMC will complete the service and submit the final deliverable to the GTMs

Please forward any questions to:

housing.counseling@hud.gov

with

"Understanding Financial Management Systems"

in the Subject line

Note: Only questions related to the HUD Office of Housing Counseling Comprehensive Housing Counseling grant will be accepted and responded to.