



Financial Management: What You Need to Know



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Office of the State Superintendent of Education
(OSSE)

Federal Grants Management Conference

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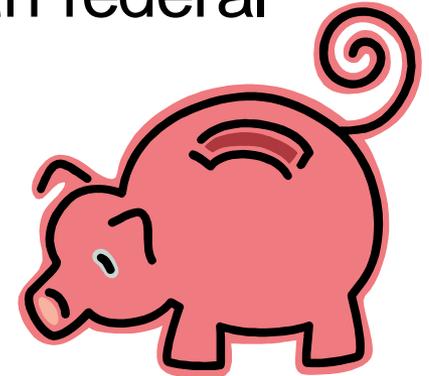
Marriott Wardman Park

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Financial Management Goals



1. Ensure federal money is spent correctly and timely;
2. Prove federal money was spent correctly; and
3. Safeguard property purchased with federal money.



7 Standards of Financial Management Systems



- Financial Reporting
- Accounting Records
- Internal Control
- Budget Control
- Cash Management
- Allowable Costs
- Source Documentation

EDGAR section 80.20

Financial Reporting



- Accurate, current and complete disclosure of financial information
 - Financial reporting (EDGAR section 80.41)



Accounting Records



- Must identify source and application of funds (expenditure level detail)
- Must contain information related to:
 - Authorizations
 - Obligations
 - Unobligated balances
 - Assets
 - Liabilities
 - Outlays or expenditures
 - Income



Internal Controls



- Effective control and accountability for all grant funds, property and other assets.
 - Internal controls are tools to help program and financial managers achieve results and safeguard the integrity of their programs
 - Includes processes for planning, organizing, directing, controlling, and reporting on agency operations
- Grantees and subgrantees must adequately safeguard all such property and assure that it is used solely for authorized purposes.
 - Internal controls play an important role in preventing and detecting fraud and protecting resources

Objectives of Internal Controls



- Effectiveness and Efficiency of Operations
- Reliability of Financial Reporting
- Compliance with Applicable Laws and Regulations
- Safeguarding Assets

Types of Internal Controls



- Preventative Controls - designed to discourage errors or irregularities
 - Documented policies and procedures
 - Trained, competent and trustworthy personnel
 - Process for approvals and authorizations
 - Director reviews purchases and validity prior to approval.
 - Access and Data entry
 - Computer application which checks validity and prevents entry of invalid account number
 - Access to equipment, inventories, securities, cash and other assets are restricted
 - Segregation of Duties
 - Responsibilities for authorizing transactions, recording and handing assets are divided

Types of Internal Controls (cont.)



- Detective Controls - designed to identify an error or irregularity after it has occurred
 - Monitoring transactions
 - Comparing vouchers to monthly financial statements / budgets
 - Audits
 - Reconciliations and Reviews
 - Supervisor reviews Pcard purchases to ensure charges are allowable
 - Verifications
 - An exception report detects and lists incorrect or invalid entries.

Types of Internal Controls (cont.)



- Corrective Controls
 - Detect if a risk has been realized and react.
 - Automated financial management systems are able to implement strong corrective controls.
 - Example: automatic rejection of transaction without proper approvals



The cost of any internal control should not exceed the benefit!

Budget Control



- Must compare actual expenditures to budgeted amounts on a routine basis.



Allowable Costs



- Must follow applicable cost principle to determine reasonableness, allowability, and allocability of all costs
 - A-21 Postsecondary Institutions
 - A-87 State, Local & Indian Tribal Governments
 - A-122 Non-Profit Organizations
 - 48 CFR pt. 31 For-Profit Organizations
- All costs must be reasonable, necessary and allocable.
- Must have written procedures.

Source Documentation



- Type of documents:
 - Canceled checks (or similar bank record)
 - Paid bills
 - Payrolls
 - Time and attendance records
 - Contract and sub-award documents
- Electronic copies ok
- Must retain for at least 3 years (OMB Circular A-110 § 215.53) – however, be aware that statute of limitations for audit liabilities may be longer. We recommend 5 years.



Cash Management



- Must have written procedures that minimize the time elapsing between the transfer of funds to the recipient from the US Treasury and use of the funds by the recipient (issuance or redemption of checks, warrants or payments by other means)
- Procedures must be consistent with Cash Management Improvement Act (CMIA) – 31 CFR Part 205.



Allowable Costs

OMB Circular A-87

- Grant funds may only be used for allowable costs.
EDGAR section 80.22



Cost Principles: Basic Guidelines



- All Costs Must Be:
 - Reasonable and Necessary
 - Allocable
 - Properly Documented
 - Consistent with Grant Program
 - Not Used for Cost-Sharing or Match (for any other grant agreement)
 - Legal under State and local law

OMB Circular A-87, Appendix A, Part C

Necessary & Reasonable



- **Necessary:**
 - Must be necessary for the performance or administration of the grant
- **Reasonable:**
 - Must not exceed that which would be incurred by a prudent person under similar circumstances.
 - Must follow sound business practices:
 - Arms length bargaining (hint: procurement processes)
 - Follow federal, state and local laws
 - Fair market prices
 - Act with prudence under the circumstances
 - No significant deviation from established prices

Necessary & Reasonable (cont.)



- **Practical aspects of “necessary”**
 - Do I really need this?
 - Surplus property/existing resources
 - Lease vs. purchase
 - Is this the minimum amount I need to spend to meet my need?
- **Practical aspects of “reasonable”**
 - Is the expense targeted to valid programmatic/administrative considerations?
 - Do I have the capacity to use what I am purchasing?
 - Did I pay a fair rate? Can I prove it?
 - If I were asked to defend this purchase, would I be comfortable?

Allocable



- Allocable
 - Can only charge in proportion to the value received by the program
 - Example: LEA purchases a computer to use 50% in the Title I program and 50% in unrelated activities— can only charge half the cost to Title I.





Selected Items of Cost

OMB Circular A-87, Appendix B

- Allowable to the extent that they benefit the grant.
 - Recruitment of personnel required for performance of the grant.
 - The procurement of goods and services for the performance of the grant.
 - Cost of communicating with the public about specific activities or accomplishments which result from the grant.
- Unallowable:
 - Cost of promotional items and memorabilia
 - Cost of advertising and public relations designed solely to promote the institution.



Entertainment Costs



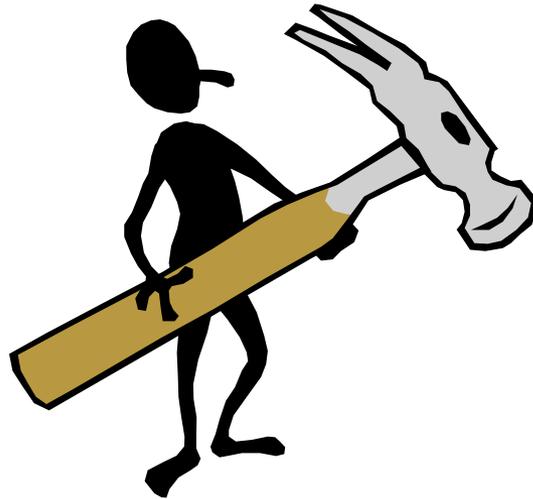
- Unallowable



Maintenance and Repair Costs



- Cost for necessary maintenance and repairs is allowed as long as they don't add to the permanent value of the property or appreciably prolong the property's life.



Meetings and Conferences



- Allowable as long as the primary purpose is the dissemination of technical information.
- Includes costs of meals, transportation, rental of facilities, speaker's fees and other items incidental to such meeting and conferences.
 - New Guidance re: Food and Beverages



Memberships, Subscriptions and Professional Activity Costs



- Cost of institution's membership in business, technical, and professional organizations is allowable.
 - Individual's membership unallowable.
- Cost of civic, community organization, or social organization membership is unallowable.



Travel Costs



- Includes costs associated with transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the institution.
- Allowable to the extent that they are consistent with the policies of the institution.







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