Core Principles of Financial Management

National HOPWA Institute - 2017
Tampa, FL

The HOPWA Institute:

"Housing's Role in Ending the HIV Epidemic"

Presentation Objectives – 5 Goals

- Communicate clear guidelines

- Increase understanding of Cost Principles

- Define common terms

- Provide information and resources

- Stimulate questions and critical thinking

How This Presentation Is Organized

The next slide presents:

- The flow of information called the "Paper Trail"

- Key Grantee and Project Sponsor meetings/milestones

- Major administrative and service-delivery activities

- The role that statues & HOPWA requirements play in organizing and supporting everything

Grant Management Life Cycle
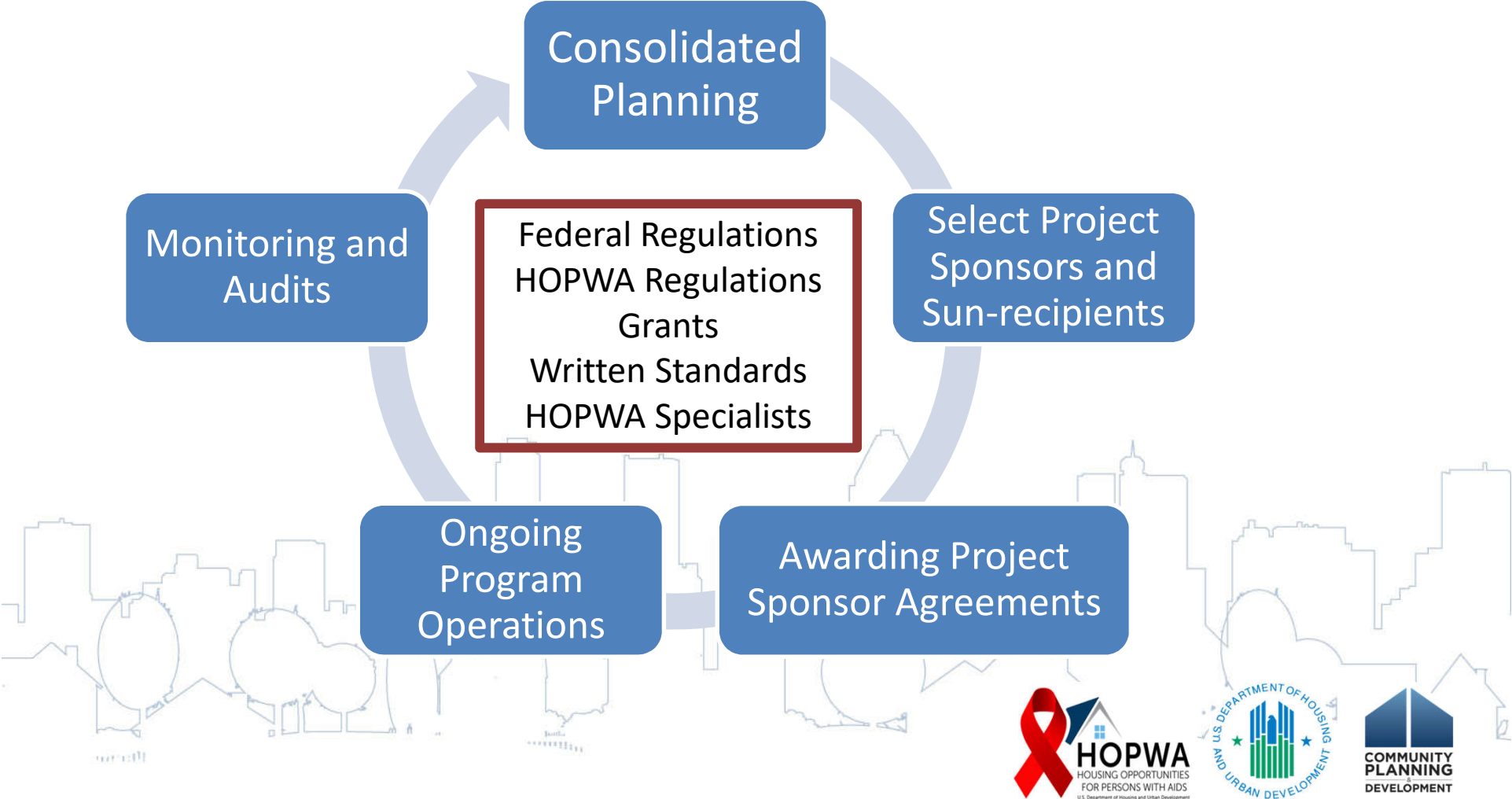
Good News, Today's Focus Is Limited!

Ongoing Operations	
Frameworks	**Activities**
Budget Controls, Financial Systems, Internal Controls, Personnel Management, and Operating Policies & Procedures	Administration (finance and grants management), Fundraising, Facilities Management and Program Services

Additional HUD Exchange Resources

- 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.

- There's a **HOPWA-specific module** & the older "HOPWA Financial Management Online Training Course." https://www.hudexchange.info/trainings/courses/hud-hopwa-financial-management-online-training/

"But WAIT – I'm a Service Provider… not an Accountant!"

- Solid financial practices = a framework for success

- Program managers' input and experience are needed

- Only expenses meeting guidelines will be reimbursed

- All managers contribute to positive audits/monitoring

- Streamlining internal systems frees up program staff time to focus on fulfilling the agency's mission

Why Good Financial Management Is Important for All Agency Staff

2 CFR Part 200 requires financial management systems:

- **Document compliance**

- 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**.

The Bottom Line

To be reimbursed, all HOPWA **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

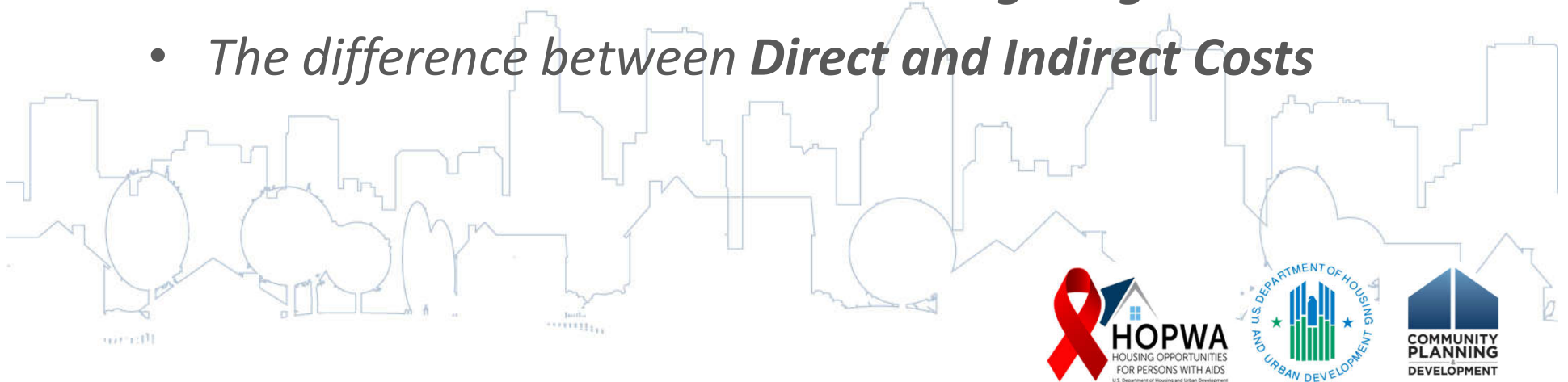# How Do We Achieve Good Financial Management?

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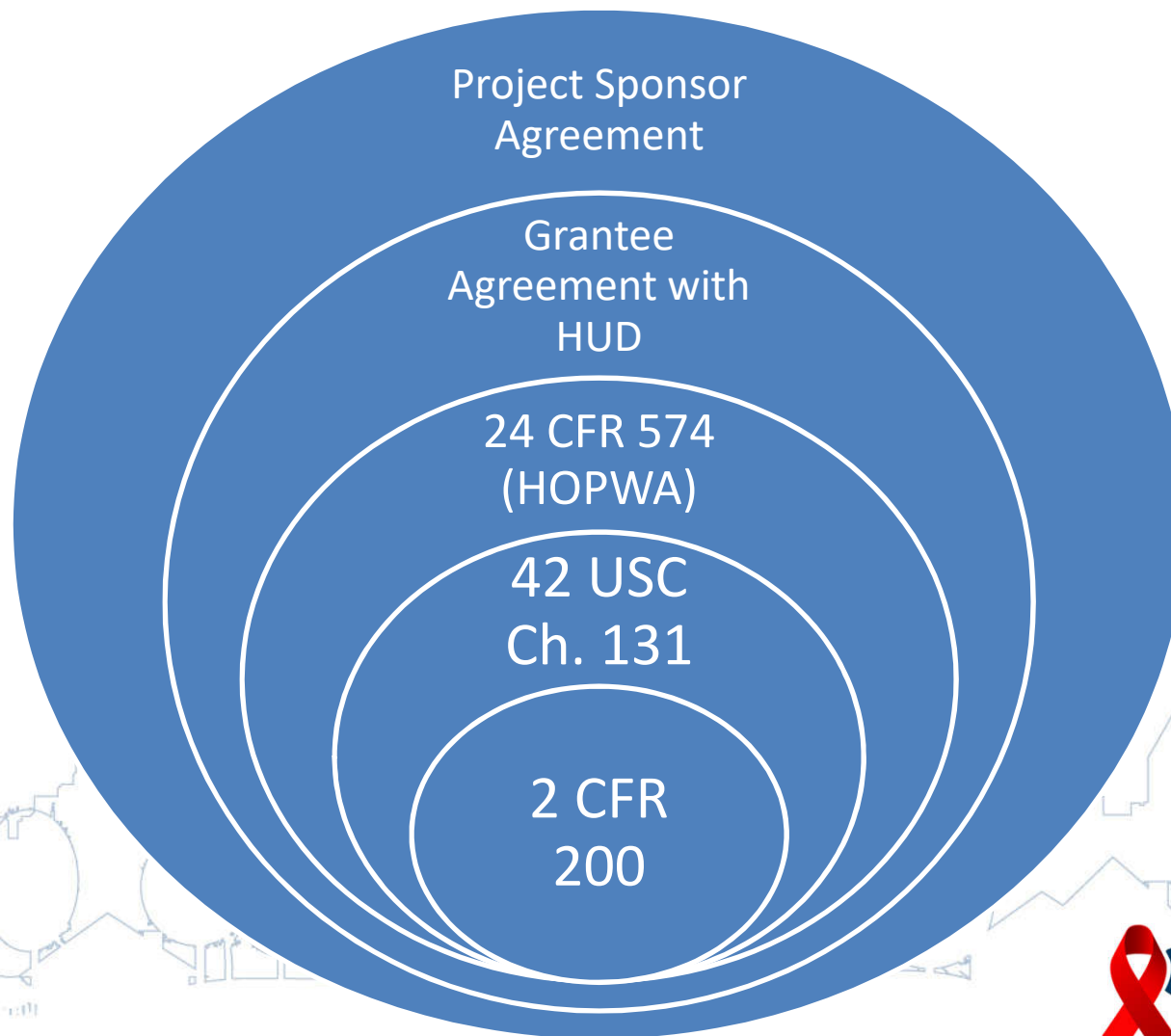
1. Understanding Cost Principles

Subpart E of the omni-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***

What Determines Cost Allowability?

Project Sponsor Agreement

Grantee Agreement with HUD

24 CFR 574 (HOPWA)

42 USC Ch. 131

2 CFR 200

To be reimbursable, costs must be allowable in all four domains.

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.
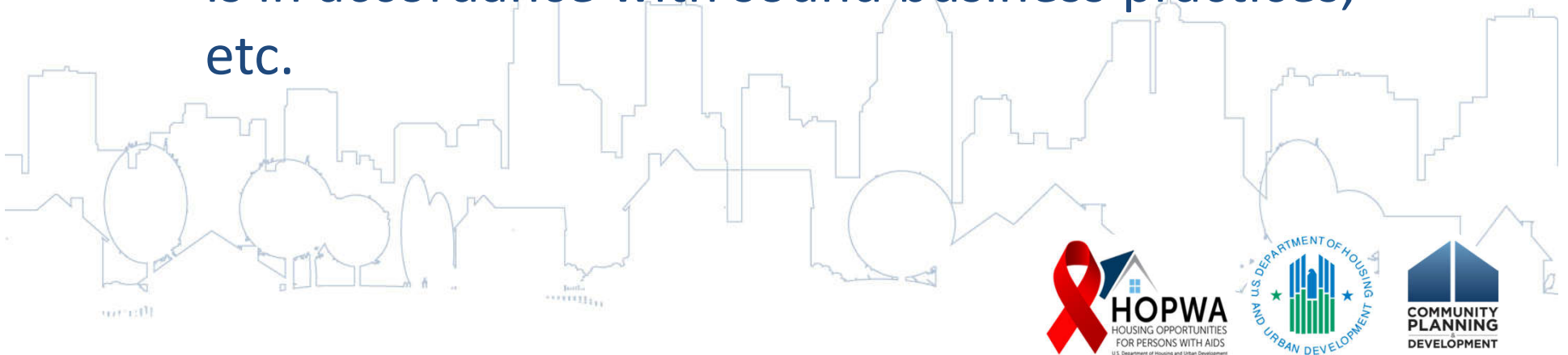
How is Reasonable Cost Defined?

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
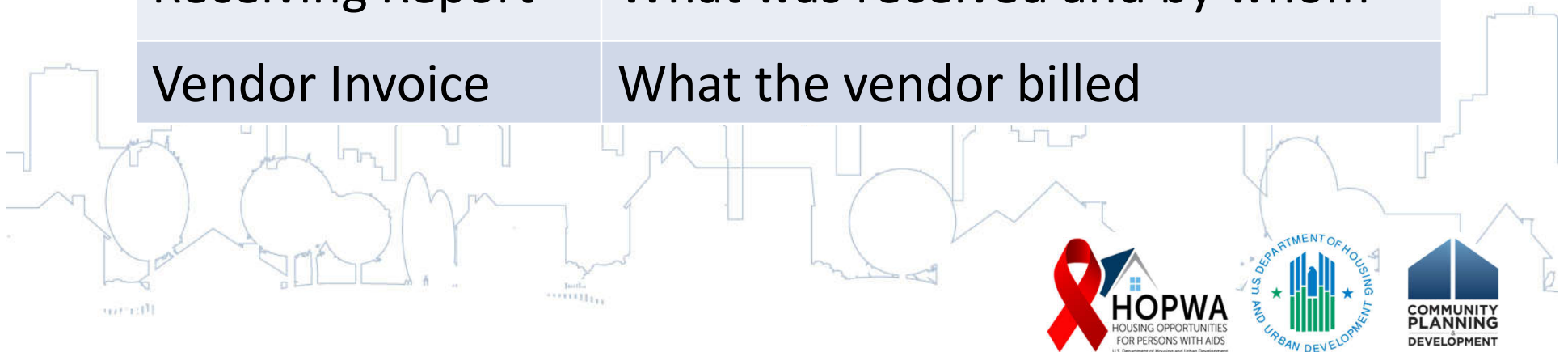- Documented with proof of payment
- Not reimbursed by another funding source
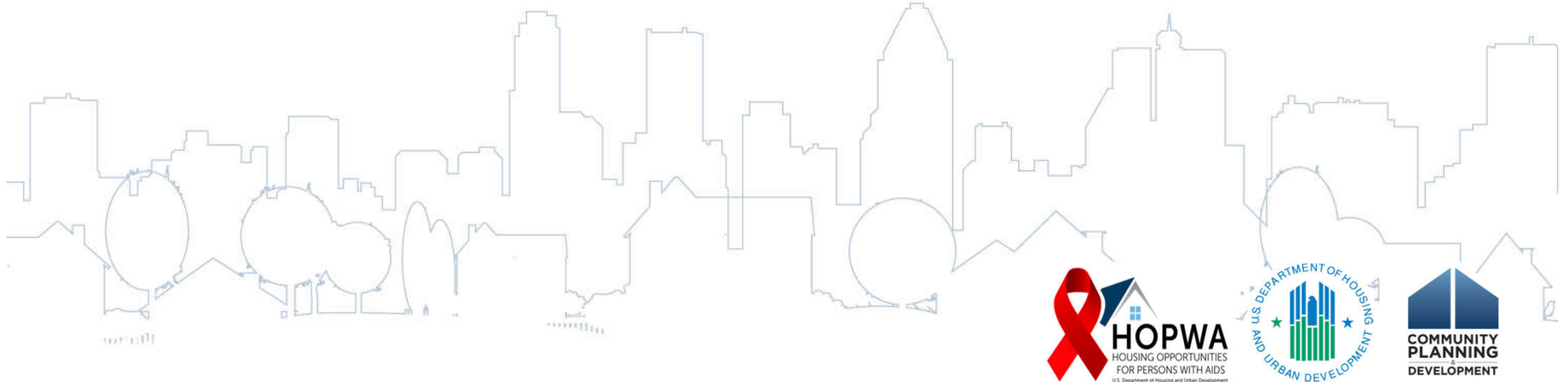
A Simple Documentation Example: Accounts Payable Processing

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

HOPWA regulations at §574.530 require:

Financial records, supporting documents, statistical records, and all other records be **retained for a period of four (4) years** from the date of submission of the final annual expenditure report.
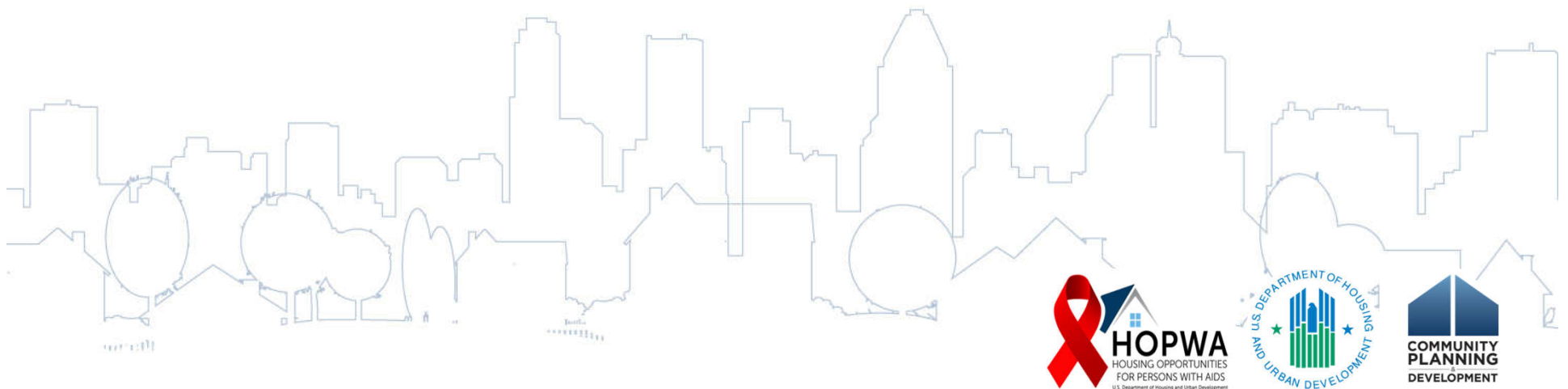
A Favorite Mnemonic: RADAR Test

When costs are:

Reasonable ✓

Allowable ✓

Documented ✓…and

Allocable, then they are

Reimbursable

So, let's look next at Cost Allocation…

What is Cost Allocation?

Cost Allocation:

- Charging an expenditure (in part or as a whole) to a particular contract or project

- Each cost must be fully allocated to one or more '**cost centers**'

- Each cost incurred for the same purpose must be treated consistently in similar circumstances – as either a direct or an indirect cost

What's in a Cost Allocation Plan?

- **Shared Costs** are are allocated based on their relative benefit to the respective program activities
- Different cost types may be divided using different methods, which should be:
  - ❖ Reasonable for the cost type and program environment
  - ❖ Consistent with agency policies and Generally Accepted Accounting Principles (GAAP)
  - ❖ Described in a Cost Allocation Plan
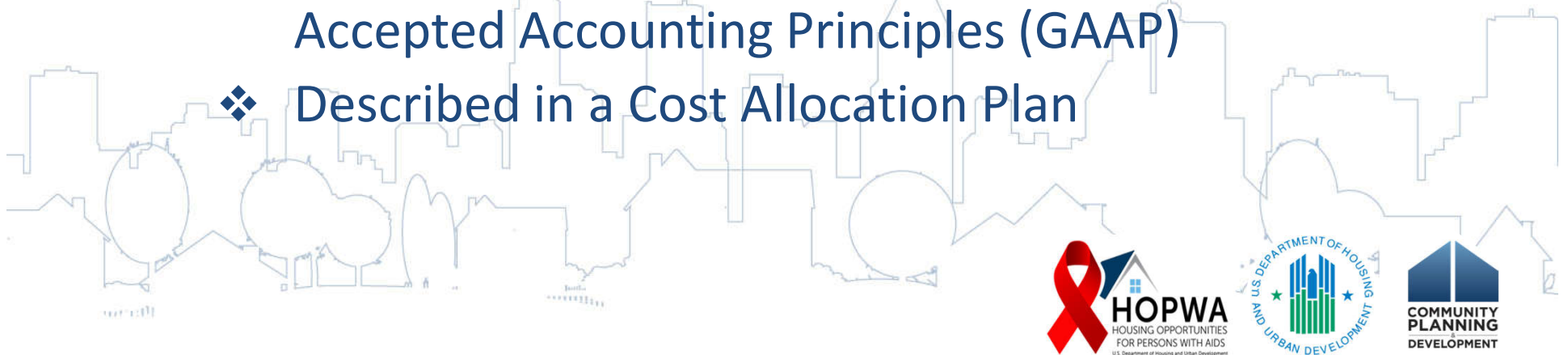
What's the Basis for Cost Allocation?

Pro-rata methods, based on resource type and how costs are expended, include:

- Percentage of total staff FTE's allocated
- Ratio of clients served relative to total #
- Percent of building square footage used
- Revenue contribution relative to the total

How Are Direct Costs Defined?

Direct Costs can be **specifically identified** with a particular award or activity

Examples of direct costs include:
- Case Managers' salary & benefits
- Rent checks paid directly to landlords
- Mileage reimbursement for staff making home visits

What Are Indirect Costs?

Indirect Costs = Costs of goods or services 'common' or 'shared' across multiple programs/cost centers.

- **Facilities** may include leasing, utilities, depreciation on buildings and equipment, and costs of maintaining and operating facilities.

- **Administration** typically = admin & general expenses

- *Not all 'administrative' costs are 'indirect' and not all 'indirect costs' are 'administrative'.*

2. 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

What Is Grant-Based Accounting?

A **Paper Trail** is the means to trace all costs **charged** to a funding source back to a specific contract and funding year through accounting records & cost documentation.

Charts of Accounts are the standard tool for 'tagging' all expenses in accounting systems with **traceable** codes.

Account numbers are listed in an organization's financial manual. They work like a phone number, for example:

- 'Area Code' = **Contract number** (e.g. '2017 HOPWA Contract')
- 'City Code' = **Cost Type** (e.g. 'Supportive Services')
- 'House Code' = **Cost Sub-Type** (e.g. 'Nutrition,' 'Transportation')

What Controls Need to Be in Place?

All HUD grantees and project sponsors must have operating Policies and Procedures that address the following federal financial management standards:

- Budget controls
- Accounting controls
- Internal controls
- Human Resources system

Let's Talk about Budget Controls

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

Handling Program Income in HOPWA

The tenant's portion of rent = Program Income (PI)

- Should be tracked as a separate funding source
- Must be used for HOPWA-eligible activities
- Although non-Federal, it is handled the same way
- The "Addition Method" is authorized for HOPWA Grantee and Project Sponsor accounting:
  - ❖ Program Income is added to the base HOPWA amount to increase total program activities
  - ❖ Combined outputs and outcomes reported

What are Accounting Controls?

Accounting controls are the systems & methods used to:

- Safeguard assets
- Authorize transactions
- Monitor disbursements
- Ensure the validity and accuracy of accounting records
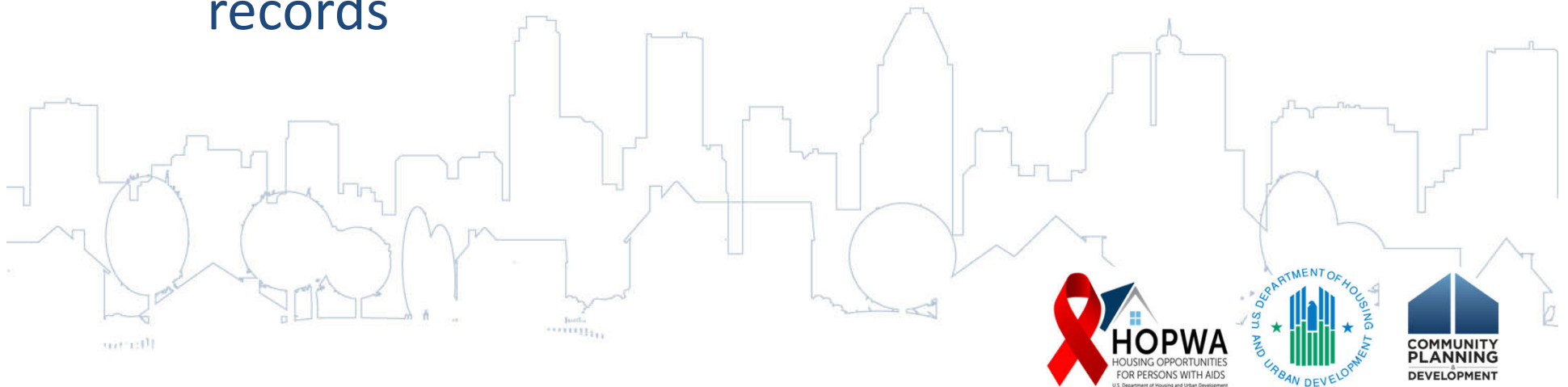
What are Accounting Controls? Page 2

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

What's in a Fund Accounting System?

- **Chart of Accounts**: A list of account names & 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 all the accounts.

How About Procurement?

Written Procurement Policies

- Are required for all HOPWA 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)

What are Internal Controls?

Internal controls help to provide reliable financial reporting, reduce the risk of mismanagement or fraud, and assure compliance with laws, regulations and policies. They typically include:

- Chart of accounts and other accounting controls
- Multi-level authorization of expenditures and records
- Time-keeping systems for personnel
- Separation of duties

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

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.
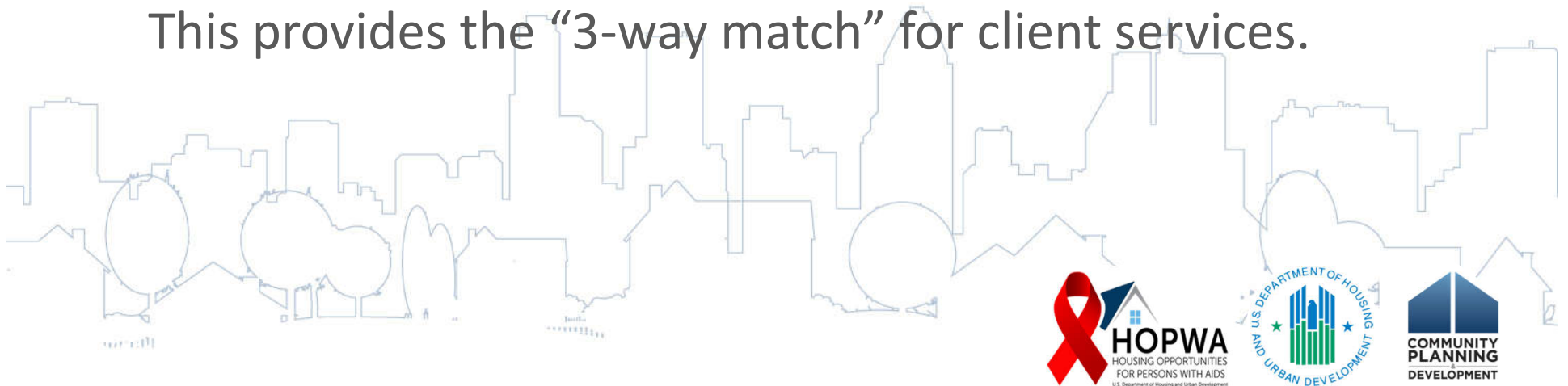
A Best Practice Timesheet Example

- 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 programs (RW, HOPWA, homeless), then the time sheets should reflect time splits (after the fact!).

- Only actual HOPWA-incurred costs should be charged to HOPWA.

- No time should be left un-allocated.

What Do We Mean by 'Well-Documented' Personnel Costs?

For Federal compliance, timekeeping records should be supplemented with an "activity" log that documents what they did during the time that is billed to HOPWA. 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 HOPWA rent payments

Now Let's Talk about Client Records

Information on the HIV/AIDS status of a client is subject to confidentiality requirements:

- HOPWA Grantees and Project Sponsors must agree to ensure the confidentiality of the name of any individual assisted and any other information regarding individuals receiving assistance

- See 24 CFR Part 574.440 and

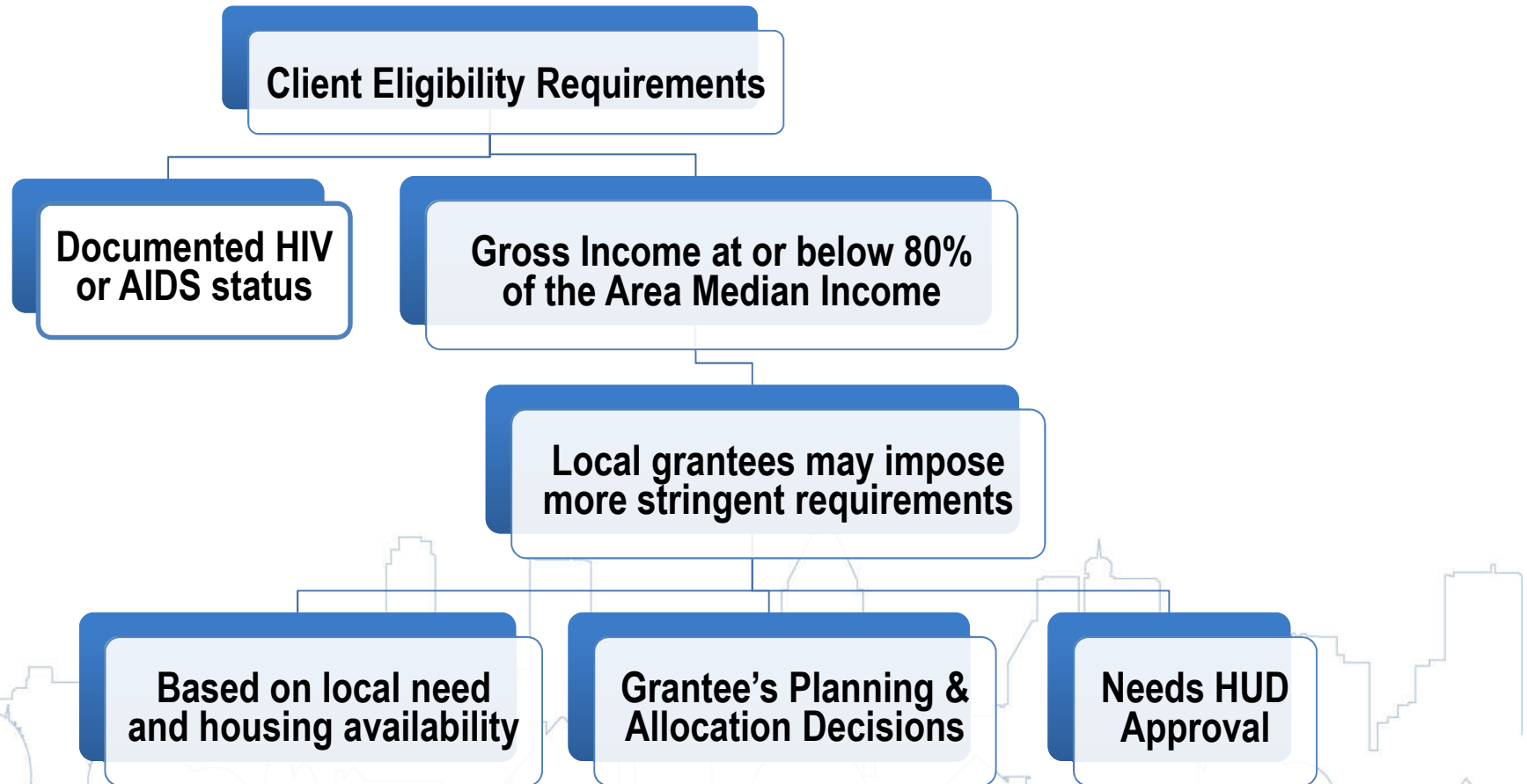- Section 856 of the AIDS Housing Opportunity Act

Confidentiality Protections Required

- Information on HIV/AIDS status is to be used only for the purpose of determining program eligibility.

- Confidential client information should be accessible only to the staff members who work directly with those clients.

- Client files must be maintained in locked cabinets (rooms) and/or protected with security software.

- Precautions should be taken to avoid inadvertent disclosures of protected client information due to overly casual handling of such data.

Determining Clients' HOPWA Eligibility

Client Eligibility Requirements

Documented HIV or AIDS status

Gross Income at or below 80% of the Area Median Income

Local grantees may impose more stringent requirements

Based on local need and housing availability

Grantee's Planning & Allocation Decisions

Needs HUD Approval

HOPWA Operating Environment

Financial management is central to all primary activities in the HOPWA operating environment:

- Budgeting cycle
- Contracting cycle
- Agency control systems
- Program activities
- Cash receipts, disbursements & management functions
- Tracking and reporting inputs, outputs and outcomes
- Program expenditure and outcome adjustments
- Financial audits
- HOPWA monitoring

Let's Look Again at HOPWA's Program Management Expectations

✓ Ensuring that people living with HIV/AIDS are served fairly, housed stably and have access to the services they need

✓ Ensuring that Project Sponsors carry out activities in compliance with federal and local requirements, and all conditions of the HOPWA grant agreement

✓ Ensuring that grants are administered in accordance with all applicable laws, regulations, guidance and notices

✓ Reporting to HUD via IDIS. CAPER and audits on the use of federal funds and programs accomplishments attained

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**

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