Characteristics of an Effective Financial Management System

1. Regulatory Requirements
2. Written Policies and Procedures
3. Documentation of Expenses
4. Managing Cash
5. Efficient Accounting System
6. Budget Controls
7. Time & Activity Documentation
8. Matching Requirements and In-Kind Contributions
9. Reporting
10. Internal Controls
Regulatory Requirements

- OMB Circular Requirements
- State Requirements
- Federal Grant Provisions
- Award Letter
- Program
# OMB Circulars

<table>
<thead>
<tr>
<th>Type of Institution</th>
<th>Cost Principles</th>
<th>Administrative Requirements</th>
<th>Audit Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>State and Local Governments</td>
<td>OMB Circular A-87</td>
<td>“Common Rule” A-102</td>
<td>A-133</td>
</tr>
<tr>
<td>Non Profit Organizations</td>
<td>OMB Circular A-122</td>
<td>OMB Circular A-110</td>
<td>A-133</td>
</tr>
<tr>
<td>Colleges and Universities</td>
<td>OMB Circular A-21</td>
<td>OMB Circular A-110</td>
<td>A-133</td>
</tr>
</tbody>
</table>

**Cost Circulars can be found at:**
[http://www.whitehouse.gov/omb/circulars/](http://www.whitehouse.gov/omb/circulars/)
Written Policies and Procedures

- Organization operates within a written set of policies and procedures.
- All staff are familiar with policies and procedures.
- Organizational policies and procedures are up-to-date.
- Policies and procedures incorporate grant provisions.
Documentation of Expenses

• All staff are familiar with documentation requirements for grants.
• All expenses have supporting documentation that directly relates to expense funded under the grant.
• Organization has proper record retention policy.
• Documentation supports expenditure requirements: reasonableness, necessity, allocability, allowability, and adherence to grant guidelines.
Managing Cash

- Organization has adequate cash to meet obligations.
- Organization is requesting funds on a regular basis.
- Advance requests (if used) are timed so funds are spent within three days for grantees or thirty days for subgrantees.
- Organization performs monthly bank reconciliations with financial records.
Efficient Accounting System –
The Accounting System must be capable of:

- Distinguishing grant verses non-grant related expenditures.
- Identifying costs by program year.
- Identifying costs by budget category.
- Differentiating between direct and indirect costs (administrative costs).
- Accounting for each award/grant separately.
- Maintaining Federal/non-Federal matching funds separately from grant funds.
- Recording in-kind contributions as both revenues and expenses.
- Allowing management to easily obtain financial reports at both the summary or detailed levels.
- Correlating accounting information and documents to financial reports submitted to the granting agency.
Budget Controls

- A properly approved budget is a financial blueprint to help an organization meet its goals and objectives.
- A properly approved budget is a tool to help ensure an organization is meeting matching requirements.
- An organization should periodically review budget to actual expenses.
- An organization should assure budget changes are properly approved.
- An organization should review movements between line items and verify if they are within provisions and/or guidelines.
- Budget changes should be approved by the awarding agencies if they are: changes in scope, objectives or goals of the program; additional sub-grants or contracts; or line item changes greater than the established percentage of the grant award.
Time and Activity Documentation

• All salaries and wages charged to grants must be supported by signed Time and Attendance records per the applicable Circular.

• Time must be based on after-the-fact activity and not be based on a predetermined basis.

• OMB Circular A-87 requires that Time and Attendance records reflect an after-the-fact distribution of each employee’s actual activity, account for the total activity of each employee, be prepared at least monthly and coincide with one or more pay periods and be signed by the employee.
Matching Requirements and In-Kind Contributions

- Must be verifiable from recipient records.
- Must not be included as contribution for other federally-assisted programs.
- Must be necessary for accomplishing program objectives.
- Must be allowable according to cost principles (OMB Circulars) and grant provisions.
Reporting

• All financial reports must be supported by the accounting system and should match information in the general ledger.

• Final financial status reports are due within 90 days after the end of the grant and must be cumulative over the life of the grant.

• Financial records must be retained for at least three years from the date of the submission of the final federal Financial Status Report (SF 269).
Internal Controls

- Organization has developed and communicated rules of operations to employees and members.
- Follow-up is done to ensure expectations are met.
- Financial duties are properly segregated.
- Accounting system tracks grant and matching funds separately.
- Accounting system is used to create financial reports.
- Proper safeguards over assets exist.