FINANCIAL MANAGEMENT

A SOUND INVESTMENT IN SUCCESSFUL VR OUTCOMES

Financial Resources Management

MANAGEMENT OF FUNDING STREAMS

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Management of Funding Streams

- What do we mean by management of funding streams?
- Why should agencies manage their funding?
- How should agencies manage funding streams?
- What happens at the State and local level?

What does “management of funding streams” mean?

Managing funding streams has traditionally meant managing the inflow and outflow of cash or, as in the corporate world, “managing cash flow.” The definition needs to be expanded to reflect that funds management includes ensuring that funds are spend appropriately for authorized purposes.

Why manage funding streams?

We manage funding streams so that we can ensure that:

- We spend VR monies effectively and efficiently;
- We acquire the highest level of services for our clients; and
- Agencies operate within the parameter of law and regulations.

Agencies are feeling the fiscal pinch of shrinking state appropriations and the temptation might be to use federal funds because they are available; however, federal funds come with strings attached and federal funds may indeed “shrink” if other (matching) funds are not available.

What is the Statutory Authority?

EDGAR 74.21 and 80.20 establish rules for disbursing Federal funds, for preparing cash transaction reports, and recipients' responsibilities for monitoring cash drawdown requests by subrecipients.

EDGAR 80.21(b): *Basic standard.* Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205.

What is the Statutory Authority? (con't)

What requirements apply to funding techniques?

- (a) A State and a Federal Program Agency must minimize the time elapsing between the transfer of funds from the United States Treasury and the State's payout of funds for Federal assistance program purposes, whether the transfer occurs before or after the payout of funds.
- (b) A State and a Federal Program Agency must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs.

31 CFR 205.11

What is the Statutory Authority? (con't)

Improper Payments Elimination and Recovery Act of 2010 (IPERA)

- In brief, the IPERA requires agency heads to review the agency's programs and identify those that may be susceptible to significant improper payments. Reviews are to be conducted in FY2011, and at least every 3 years after that.
- IPERA ensures that the right recipient is receiving the right payments for the right reason at the right time.

31 CFR 205.11

Additional Policy Guidance is available from RSA through:

- Sub Regulatory Guidance
  - PD – Policy Directives
  - TAC-Technical Assistance Circulars
  - IM – Instructional Memoranda

- RSA Contact
  - Your RSA Program or Fiscal Contact

What is the overall impact when funding streams are not properly managed?

EXAMPLE 1: GAO Report on Treasury's cash management challenges and timing of payments… ***GAO-09-118 JANUARY 30, 2009***

A timing difference between cash in- and outflows poses challenges for the Department of the Treasury. Increased volatility of monthly cash flows may lead to unexpected short-term debt issuance and hence increased borrowing.

What is the overall impact when funding streams are not properly managed? (Con't)

EXAMPLE 2: GAO report on Department of Defense "Cash Management Policy and Procedures Need Improvement…*FGMSD-78-20 MARCH 17, 1978*

A review showed that the Department of Defense's (DOD) cash-on-hand balances exceeded requirements by about $50 million. If this money had been returned to the treasury, government interest costs could have been reduced by about $3.2 million annually.

Planning/Projecting

- “Managing” begins with planning and projecting.
- One of management’s most important functions is to lead the agency by designing, implementing, and supporting an effective plan.
- A primary component of planning involves projecting and managing the inflows and outflows of funds.

Effectively managing funding streams means management should:

1. Know the sources of funds for the agency (cash receipts)
2. Understand the potential for adjusting funding levels
3. Know the uses of funds for the agency (cash disbursements)
4. Understand and optimize timing of cash receipts and cash disbursements, and
5. Implement sound fiscal practices to ensure continued compliance with regulations (to avoid disallowance or refund of scarce resources)

What are an agency's sources of funds/cash receipts?

- Basic support, VR monies
- State appropriations
- Other matching funds (Third-party, Randolph-Sheppard, non-federal grants, establishment, other)
- Program income

What is the potential for adjusting funding levels?

- Agencies often refer to their federal award under CFDA #84.126A, vocational rehabilitation as their “basic support” or “basic 110” award.

- Annual award is determined by formula, as described in section 110(a)(1) of the rehabilitation act of 1973.

(Note, the formula is based on population, amount previously received, and other)

Adjusting Funding Levels for Vocational Rehabilitation Award

Reallotment: 34 CFR 361.65(b) allows the Secretary to make a determination, 45 days before the end of the award period, as to whether agency will use their full allotment. If not, monies can be re-allotted. Using SF-692, VR agencies can elect to return funds to the "general pot" or may request additional funds for the Basic 110 program.

Requirements: Any additional monies requested are considered an increase in the state's allotment and must be matched in that same fiscal year.

34 CFR 361.65 (b)(2)

Adjusting Funding Levels for State Appropriations

Typically, appropriations are a function of state needs and state legislature. VR management has the ability to appeal to state legislators that, because of the matching requirement, approximately $1 of state funds yields an additional $4 for the agency to spend on VR services (Actual match requires a state to expend AT LEAST $21.30 for every $78.70 in Federal Funds

34 CFR 361.60 (a)(1))

Adjusting Funding Levels for Program Income

Program income is usually received from Social Security. Social Security must be actively “worked” in order to ensure that all reimbursements are filed, paperwork is in place, follow-up work is completed, and receipts are reconciled.

Other Sources of Funds

Non-Federal Awards

- Grants from the state agencies such as Education, Health and Human Services, Labor

Federal Awards

- Monies may also be allowable for match under 34 CFR 80.24(b)(1))

Uses of Funds

Expenses related to operating the program, such as

- Salaries and Personnel Costs
- Contracted Services
- Equipment (for agency use and for VR clients)
- Occupancy Expenses
- Other Operating Expenses

Understanding and Optimizing the Timing of Cash Receipts and Disbursements

- When possible, match source with a similarly timed expenditure, such as a monthly State apportionment, with a monthly or bi-weekly expenditure, such as payroll.

- Negotiate the timing for payment on contracts. If possible, and allowable under state's payment rules, include payment times in the contract (For example: invoices submitted after the 20th of the month will be paid in the next payment cycle…)

- Budget and plan for capital expenditures well ahead of their purchase. Most agencies plan based on the cost of the item, but often do not plan for the timing of the purchase.

Drawing Down Federal Funds

EDGAR requires state agencies to minimize the time elapsing between the transfer of (Federal) funds and the disbursement.

34 CFR 80.21(b)

It is understood, albeit difficult to implement, that Federal Funds drawdowns should be based on appropriate expenditures under the award. How do you ensure that costs meet the key cost principle of being allowable, allocable, and reasonable?

Implementing Sound Financial Practices

Managing Cash Management Improvement Act (CMIA) Requirements

CMIA indicates that a State and Federal Program Agency must minimize the time elapsing between the transfer of funds from the United States Treasury and the State's payout of funds for Federal assistance program purposes, whether the transfer occurs before or after the payout of funds.

(31 CFR 205.11(a))

Implementing Sound Financial Practices

"Prompt Payment" Rules

The "Prompt Payment" rules apply to federal agencies, and require them to pay commercial vendors within certain time periods and to pay interest when late. Your state may have adopted this rule, or may have similar prompt payment rules.

Implementing Sound Financial Practices

Maintaining Accurate and Reliable Data

- Critical to an agency's ability to plan is its ability to access accurate and reliable data.
- Consistency in data reporting enables better cash flow monitoring.
- Internal communication between and among agency departments allows information to flow; for example, from the Budget Department to the Accounting.

Implementing Sound Financial Practices

Properly Allocating Funds

- Sometimes ensuring that funds are expended for ALLOCABLE expenses can create a cash flow issue; for example, allocating personnel costs.
- 2 CFR 225, Attachment B, Item 8.h.4. (Formerly OMB Circular A-87) Personnel costs, for staff working on more than one cost objective (award) requires monthly after-the-fact documentation of staff time.
- Agencies may use estimates or budgets but must reconcile budget to actual at least quarterly. These reconcilements, if significantly different from budgeted amounts, can cause cash flow shortages or draws from the federal award in excess of expenses

Audit Resolution of Cash Management Findings

Audit findings regarding RSA programs track the issues we have discussed; including:

- Excess draws – depending on the terms of the CMIA agreement, money drawn before it's been disbursed to subrecipients
- Documentation is missing to support draws
- Using incorrect federal funds participation rate to calculate amount requested
- Drawing funds from wrong fiscal years

Audit Resolution of Cash Management Findings (con't)

- Other cash management findings involve:
- Not monitoring cash balances at subrecipients
- Failing to monitor that interest earned is remitted

Failure to comply with cash management rules may result on special conditions, including additional reporting and placing grantees on reimbursement.

Lessons Learned from Texas and Practices Implemented to Manage Funding Streams

Meet with program staff on a recurring basis

- Mandatory monthly meeting, budget and accounting meet with Chief Financial Officer to review:
  - Monthly pro forma reports (we prepare 269's every month and review);
  - Match schedule;
  - Comparison reporting, comparison of award balances remaining to prior month and prior year;
  - Program income;
  - Current GR match rate (looking to be between 19-24 percent);
  - Other financial reports.

Lessons Learned from Texas (con't)

Calculate CMIA period 1 calculations for VR grants on a monthly basis and review to see how agency is meeting the three day rule.

Review Section 107 monitoring report findings and observations along with state audit reports.

Section 107 Monitoring Report Findings Discussion Topics

- General Revenue (State) Match and Federal Draws
- Program Income
- Carryover Excessive Balances
- Re-allotment
- Unallowable Costs

SURVIVAL KIT

Education Department General Administrative Regulations (EDGAR) - Subpart C - Post Award Requirements http://www.ed.gov/policy/fund/reg/edgarReg/edgar.html

2 CFR 225, Attachment B, Item 8.h.4
http://cfr.vlex.com/vid/appendix-part-225-selected-items-cost-19597271

Treasury Regulations at 31 CFR part 205
http://www.fms.treas.gov/fedreg/31cfr205final.pdf

Cash Management Improvement Act (CMIA)
http://www.fms.treas.gov/fedreg/31cfr205final.pdf

Improper Payments Elimination and Recovery Act of 2010 (IPERA)
http://www.whitehouse.gov/the-press-office/president-obama-sign-improper-payments-elimination-and-recovery-act

Thanks for your attention!

QUESTIONS