



# LEAD THE WAY: PHA GOVERNANCE AND FINANCIAL MANAGEMENT

*A Training for Staff*



**LEAD THE WAY**

PHA GOVERNANCE AND  
FINANCIAL MANAGEMENT  
A Training for Board Members and Staff



## TABLE OF CONTENTS

01 5-Day Training Schedule .....	3
02 Introduction to Financial Management .....	8
03 Module 1: Introduction to Financial Management .....	9
04 Module 2: The Planning Process .....	21
05 Module 3: Budgeting .....	30
06 Module 4: Accounting Principles and Standards .....	40
Appendix 1: Day 1 Class Activities .....	49
Appendix 2: Day 1 Checklist.....	50
Appendix 3: Day 1 Resources .....	53
Appendix 4: Pre-Test Answer Key .....	54

# 01 5-Day Training Schedule

## How to Structure this 5-Day Training

### Who should complete this training?

This training is for all staff members of a public housing agency (PHA)—particularly those with any financial management responsibility. Typically this includes the Executive Director or the CEO, the Chief Financial Officer, Chief Operations Officer or administrator, other executive staff, program heads, including Housing Choice Voucher administrators, and any other staff interested or involved in the finances and oversight of the PHA. You may complete this course with your colleagues from your PHA, or with other PHAs in your region.

### How long will it take to complete and how should we structure our time?

This training should be completed over the course of five days. We recommend that there be no more than one day between Days One through Three, and no more than one week between Days Three through Five. Sample agendas for each day are provided for your reference. These agendas are meant to provide a reference of how much time should be spent on each lesson. However, different groups will have different needs. If a group feels the need to spend more time on a particular topic, they should do so.

### Are there knowledge checks or quizzes?

Pre- and post-tests are provided, so that the group has a sense of where they could improve their knowledge, and to provide a measurement of the knowledge obtained in the training. These may be used to assess completion if certificates of completion are included.

### How is this training facilitated?

It is recommended that you have a leader and a coordinator to shepherd the group through the process of the training. The leader either takes on the role of lead instructor, or hires someone to do so. The coordinator helps to obtain space for the training, sets up registration, ensures that the facility is accessible to people with special needs, takes notes, and is available to answer questions throughout the day. Both the leader and participants will use the same Training Guide. Leaders should also look at the notes provided in the Day One slides.

### Are there PowerPoint slides?

Slides are provided for use in the training. We have noted the corresponding slide for each topic area in the text. Remember that these slides are samples, and can be adjusted according to your needs.

### How do I use this training guide?

Participants can use the training guides to review the material ahead of the training. Information provided in these guides provides helpful contextual information and background to what will be presented on the PowerPoint slides. Participants should also keep their guides with them during the training, and follow along with the slide numbers.

## Overview of Training

*Note: Slides 4-8 correspond with this section.*

### Day One

***An Introduction to Financial Management*** includes an overview of the process, key financial documents and systems, and assessing and mitigating risk and fraud.

### Day Two

***Internal Controls and Financial Management*** includes an understanding of how internal controls can protect resources and mitigate control risks, and the impact of internal controls on financial statement and reporting.

### Day Three

***Financial Performance Monitoring*** provides insight into accounting concepts and analyzing financial statements, data systems for monitoring financial performance, causes of financial performance problems, and the role of management in financial performance monitoring.

### Day Four

***Project-Based Budget Development and Analysis*** includes how to develop a project-level operating budget, using an operating budget to improve performance, developing methods to monitor actual budgeted expenses, and addressing budget shortfalls.

### Day Five

***Capital Fund Planning, Implementation, and Reporting*** will inform you about Capital Fund requirements, including how to prepare the PHA five-year plan and annual plan, allowable and unallowable Capital Fund expenses, and how to prepare, maintain, and report financial performance data in HUD's computer system.

## Pre-Test

**Note:** Slide 10 correspond with this section.

### Days 1 –3: Introduction to Financial Management and Governance

**Note to leader:** This pre-test is intended to gauge the existing knowledge of the students as they begin Days 1-3. You may wish to request that students take this quiz upon registration of the class (using an electronic survey method), or when the class begins. You may wish to review the answers ahead of time and tailor the instruction accordingly, or allow students to keep the quiz with them to use as a reference throughout the course.

**An answer key can be found at the end of this document in Appendix 4 ([page 54](#)).**

1. Financial management is important for the federal government and its grantees because (select all that apply):
  - a) The government needs more taxes from its citizens
  - b) It implements financial standards, controls, and policies
  - c) It provides the media with information to report
  - d) All of the above
2. Which component of financial management does not belong?
  - a) Cost effectiveness
  - b) Planning
  - c) Supervisory discretion
  - d) Communication
3. SWOT stands for (select all that apply):
  - a) Strengths
  - b) Weaknesses
  - c) Options
  - d) Threats
4. Strategic planning is not:
  - a) A process of defining strategy
  - b) Making decisions on allocating resources
  - c) Knowing what will happen in the future
  - d) Setting a course of direction
5. While conducting strategic planning, it is unnecessary to set short-term goals.
  - a) True
  - b) False

6. The Financial Accounting Standards Board (FASB) sets rules for the federal government and its grantees.
  - a) True
  - b) False
7. The OMB Circulars that regulate HUD and its grantees include all but:
  - a) OMB Circular A-87
  - b) OMB Circular A-133
  - c) OMB Circular A-122
  - d) OMB Circular A-10
8. Internal controls are the responsibility of everyone but:
  - a) Management
  - b) Staff
  - c) Contractors
  - d) Federal agencies with oversight of programs
9. When mitigating risk, one should start with the smallest risk and work up to facing the greatest risk.
  - a) True
  - b) False
10. Effective implementation of internal controls guarantees that all of the organization's business objectives will be achieved.
  - a) True
  - b) False
11. Internal control should be recognized as a separate system that management uses to regulate and guide its operations.
  - a) True
  - b) False
12. With the establishment of formal written internal control documents, management can do all of the below, except:
  - a) Create and expand guidance for implementation of the controls
  - b) Prove that their system is working
  - c) Reduce the risk of errors and fraud
  - d) Focus on high-risk areas in order to lessen the chances of errors and fraud
13. Management should assess internal controls in every single evaluation it conducts.
  - a) True
  - b) False

14. A Control Risk can be a “non-action.”
  - a) True
  - b) False
15. Risk identification methods may include (choose all that apply):
  - a) Forecasting and strategic planning
  - b) Qualitative and quantitative ranking activities
  - c) Manager meetings
  - d) All of the above
16. A financial loss may prompt all but:
  - a) The elimination of staff
  - b) Less services offered to clients
  - c) Relief of the organization’s performance expectations
  - d) Reducing the hours worked
17. This federal regulation mandates that the financial information required to be submitted to HUD on an annual basis, generally must be submitted electronically, and must be prepared in accordance with Generally Accepted Accounting Principles (GAAP):
  - a) Uniform Reporting Financial Statute
  - b) Uniform Financial Reporting Standards
  - c) Uniform Reporting Financial Standards
18. Audits are performed by bookkeepers.
  - a) True
  - b) False
19. In assessing internal controls, practical areas for consideration include (select all that apply):
  - a) Segregation of duties
  - b) Bank visits
  - c) Supporting documentation
  - d) Employees
  - e) Safeguarding assets
20. If you have a conflict of interest, you should immediately (select all that apply):
  - a) Resign from your job
  - b) Report it to management
  - c) Hide it from everyone
  - d) Exit the organization that is causing the conflict

## 02 Introduction to Financial Management

### Agenda: Day 1

8:30 a.m.	Welcome
8:45 a.m.	Pre-Test on <a href="#">page 5</a>
9:00 a.m.	Module 1: Introduction to Financial Management on <a href="#">page 9</a>
10:30 a.m.	Break
10:45 a.m.	Module 2: The Planning Process on <a href="#">page 21</a>
12:00 p.m.	Lunch
1:00 p.m.	Module 3: Budgeting on <a href="#">page 30</a>
3:00 p.m.	Break
3:15 p.m.	Module 4: Accounting Principles and Standards on <a href="#">page 40</a>
4:00 p.m.	Training Ends



# 03 Module 1: Introduction to Financial Management

*Note: Slides 11-35 correspond with this module.*

## Module 1 Objectives

**Day 1, Slide 12**

At the conclusion of this module, you will be able to:

- Express what overall financial management entails
- Understand the components of financial management
- Become more familiar with the HUD budgeting process

## Introduction to Financial Management

**Day 1, Slides 13-14**

Financial management is defined as the range of activities involving the use and safeguarding of an organization's financial resources, including the acquisition, authority to obligate and liquidate obligations, internal allocation (used to purchase goods and services), and the recording and reporting of these uses.

More simply, financial management is the planning, directing, monitoring, organizing, and controlling of the monetary resources of an organization.

## WHY IS FINANCIAL MANAGEMENT IMPORTANT?

**Day 1, Slides 15-16**

Private and public organizations have experienced significant changes in recent years in both size and complexity. As a consequence, the management process has become more difficult, requiring greater skills in planning, analysis, and control—skills aimed at guiding the future course of organizations faced with accelerating rates of evolution in technical, social, political, and economic forces.

Federal government agencies and their grantees need a strong system of standards, controls, and policies to ensure funds are used in an appropriate and efficient manner. In addition, financial management provides a method of tracking and reporting the use of taxpayer money to provide services for the public. Because taxpayer funds are being used, financial management make services more responsive to public needs and allows officials at all levels make better decisions to serve the greater good.

## Components of Financial Management

### *Day 1, Slides 17-18*

What does financial management include?

- Planning
- Budgeting and cost effectiveness
- Accounting
- Financial systems
- Internal controls
- Evaluation and communication
- Personnel requirements

### PLANNING

#### *Day 1, Slides 19-20*

Good financial management begins with good planning. An organization's strategic planning should be based on sound assumptions and accurate information, and should provide the foundation for the entire fiscal process. Resource requests must be consistent with program goals, guidance, and planning assumptions, and must consider current financial status.

The planning process:

- Identifies the goals or objectives to be achieved
- Formulates strategies to achieve them
- Arranges or creates the means required
- Implements, directs, and monitors all steps in their proper sequence

### BUDGETING

#### *Day 1, Slide 21*

Budgeting is an itemized summary of estimated or intended expenditures for a given period coupled with concrete proposals for financing them. The ability to budget effectively is a very important part of being a successful organization. A budget can be useful in setting standards of performance, motivating board and staff members, and providing a tool to measure results. Fulfilling the organization's mission is the main goal, and budgeting makes it possible.

## **COST EFFECTIVENESS**

### ***Day 1, Slide 21***

Cost effectiveness can be defined as anything effective and productive in relation to its cost. A budget is cost effective if it is economical in terms of tangible benefits for money spent. Good financial management balances expenditures and results. Managers at all levels must ensure that the organization gets what it pays for and that the results are what the organization needs to accomplish its mission. Ongoing projects should be evaluated to ensure results justify continued funding.

## **ACCOUNTING**

### ***Day 1, Slides 22-23***

Accounting is simply the system of recording and summarizing financial transactions and analyzing, verifying, and reporting the results. Accountants use financial systems to do several things, including, most basically, documenting gains and losses.

## **FINANCIAL SYSTEMS**

### ***Day 1, Slides 22***

Financial systems are the processes and procedures used by an organization's management to exercise financial control and accountability. These measures include recording, verification, and timely reporting of transactions that effect revenue, expenditures, assets, and liabilities.

## **INTERNAL CONTROLS**

### ***Day 1, Slide 23***

Internal controls are broadly defined as a process, affected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of the following objectives:

- a) Effectiveness and efficiency of operations
- b) Reliability of financial reporting
- c) Compliance with laws and regulations

Good financial management requires implementing solid internal controls. Appropriate, cost-effective controls throughout the financial management process ensure adequate accounting of funds expended, prevent over-obligation of funds and inappropriate expenditures, identify early instances where funds should be reallocated, and produce valuable information for the planning process.

## **EVALUATION AND COMMUNICATION**

### ***Day 1, Slide 24***

Financial document systems allow an organization to evaluate its progress. Maintaining and communicating oversight of these documents is of the utmost importance. Finally, the results, of the financial system in place, and reporting the same, are key to a program's success at HUD.

## The HUD Budgeting Process

### *Day 1, Slides 26-27*

HUD's annual budget is created comes directly from Congress and is signed into law by the president of the United States. Several key terms describe the federal process in more detail and provide a context for how HUD's budget is arrived at from the federal process.

#### **APPROPRIATED**

Funds voted on by Congress and signed by the president into law.

#### **APPORTIONED**

Funds divided by Treasury, but not yet divided among the federal agencies.

#### **ALLOTTED**

Funds apportioned by OMB and given to HUD agency heads.

#### **SUB-ALLOTMENTS**

Funds subdivided down through HUD.

#### **UNOBLIGATED ALLOTMENT**

Funds allotted by the agency head but not yet obligated.

#### **UNLIQUIDATED OBLIGATIONS**

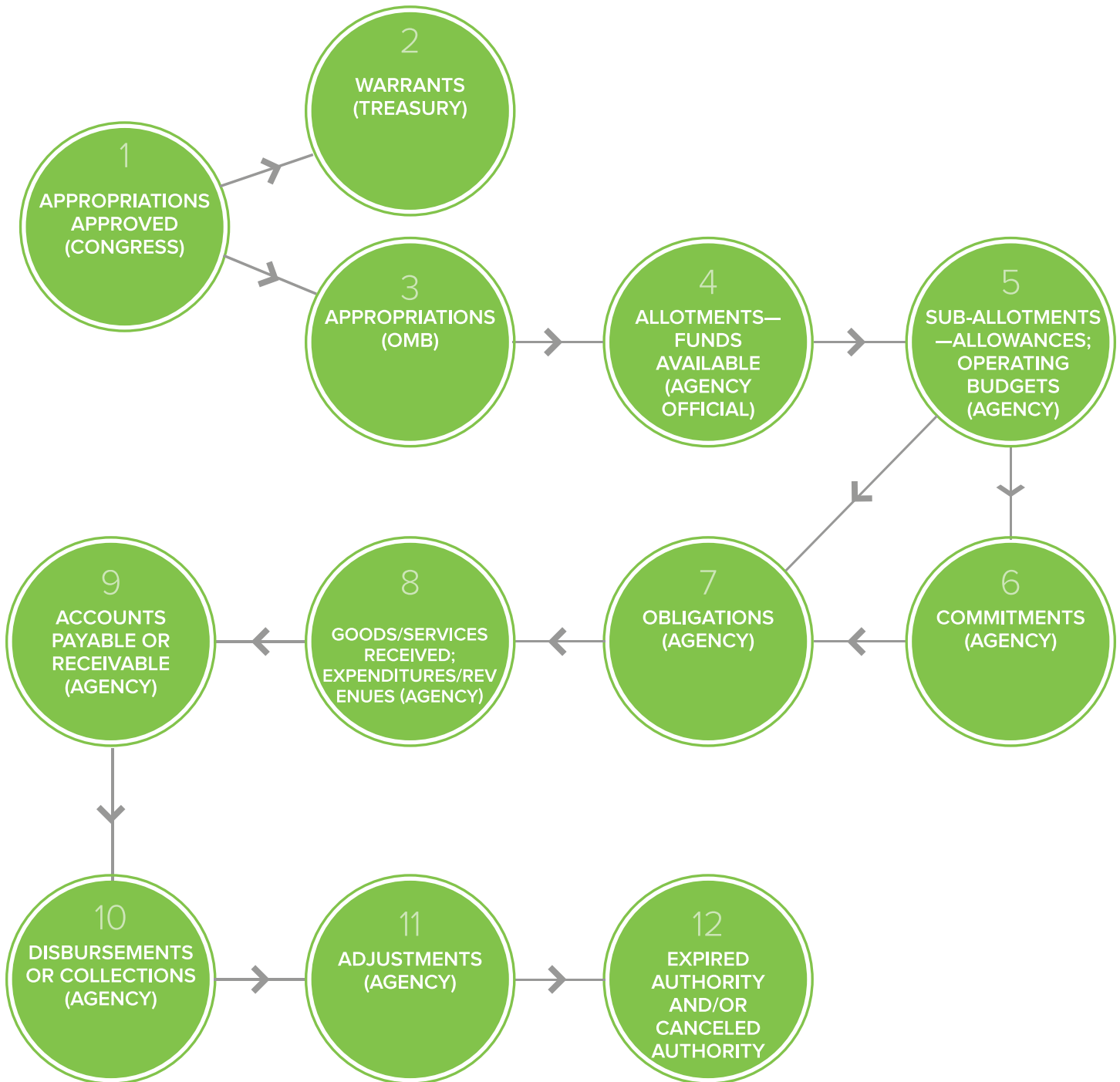
Funds obligated but not yet expended.

#### **LIQUIDATED OBLIGATIONS**

Funds obligated and expended.

## Federal Budget Flow Chart

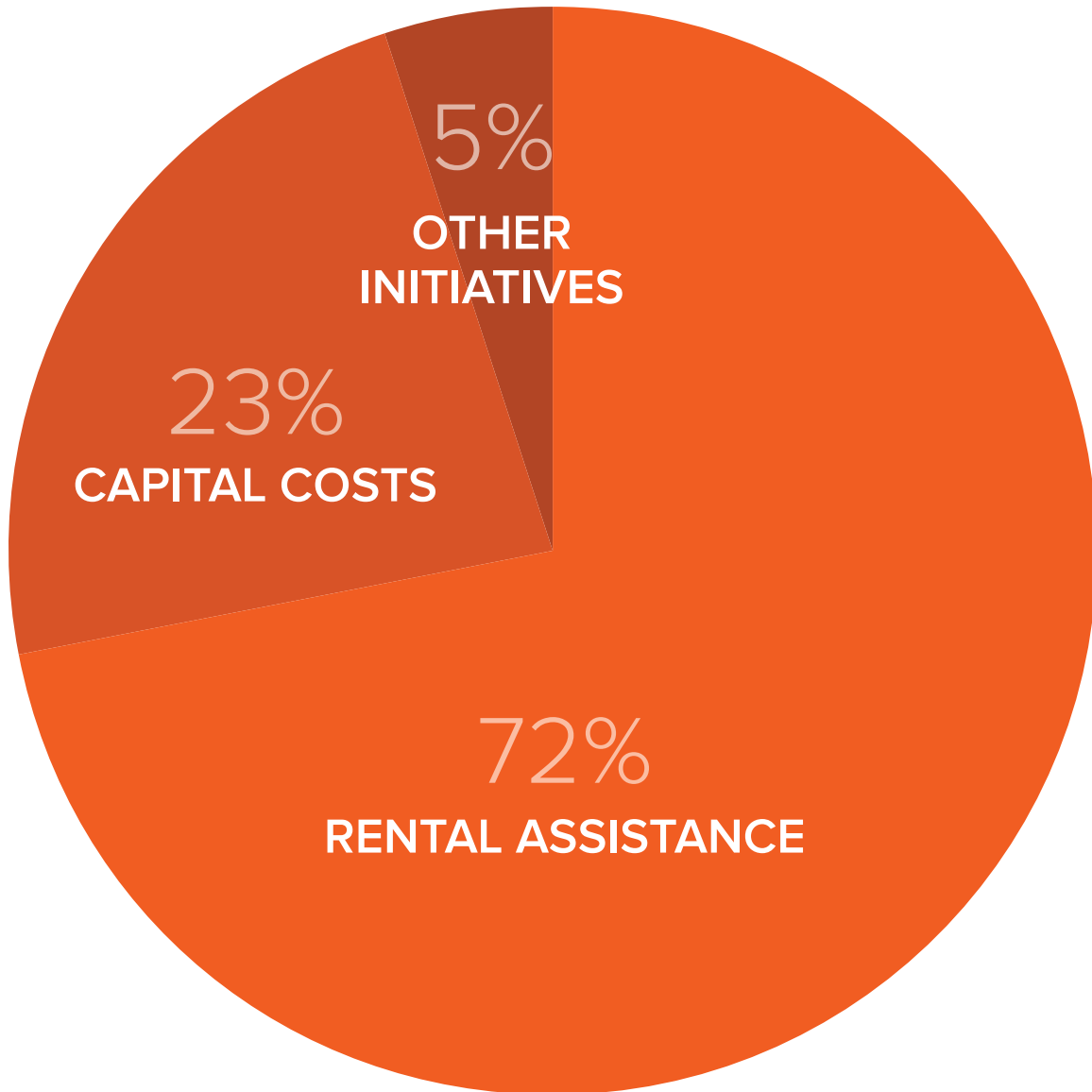
Day 1, Slide 28



## HUD's FY 2012 Budget

(\$47.9 Billion)

Day 1, Slides 29-31



**72% Rental Assistance** provides an ongoing stream of funding that makes up the gap between what low-income tenants can afford to pay in rent and the cost of operating housing.

**23% Capital Costs** allow HUD to partner with communities to develop and repair affordable housing or support economic development activities and infrastructure.

**5% Other Initiatives** include a diverse array of programs, including Fair Housing and Equal Opportunity, Healthy Homes and Lead Hazard Reduction, and service coordination programs, just to name a few.

## HUD Housing Programs

CPD	MULTIFAMILY	PIH
<ul style="list-style-type: none"> <li>• Community Development Block Grants (CDBG) (Entitlement)</li> <li>• Community Development Block Grants (Non Entitlement) for States and Small Cities</li> <li>• Community Development Block Grants (Section 108 Loan Guarantee)</li> <li>• Community Development Block Grants (Disaster Recovery Assistance)</li> <li>• Community Development Block Grants (Section 107)</li> <li>• Community Development Block Grants for Insular Areas</li> <li>• Community Development Block Grants (Rural Innovation Fund)</li> <li>• The HOME Program: HOME Investment Partnerships</li> <li>• Housing Trust Fund</li> <li>• Shelter Plus Care (S+C)</li> <li>• Emergency Shelter Grants (ESG) Program</li> <li>• Surplus Property for Use to Assist the Homeless (Title V)</li> <li>• Supportive Housing Program</li> <li>• Continuum of Care Program</li> <li>• Section 8 Moderate Rehabilitation</li> <li>• Single Room Occupancy (SRO) Program</li> <li>• Rural Housing Stability Assistance Program</li> <li>• Brownfield's Economic Development Initiative (BEDI)</li> <li>• Economic Development Initiative ("Competitive EDI") Grants</li> <li>• Empowerment Zones</li> <li>• Self-Help Homeownership Opportunity Program (SHOP)</li> <li>• Capacity Building for Community Development and Affordable Housing</li> <li>• Housing Opportunities for Persons With AIDS (HOPWA)</li> <li>• Loan Guarantee Recovery Fund for Church Arson and Other Acts of Terrorism (Section 4)</li> </ul>	<ul style="list-style-type: none"> <li>• Supportive Housing for the Elderly (Section 202)</li> <li>• Assisted-Living Conversion Program (ALCP)</li> <li>• Emergency Capital Repairs Program</li> <li>• Multifamily Housing Service Coordinators</li> <li>• Manufactured Home Parks (Section 207)</li> <li>• Cooperative Housing (Section 213)</li> <li>• Mortgage and Major Home Improvement Loan Insurance for Urban Renewal Areas (Section 220)</li> <li>• Multifamily Rental Housing for Moderate-Income Families (Section 221(d)(3) and (4))</li> <li>• Existing Multifamily Rental Housing (Section 207/223(f))</li> <li>• Mortgage Insurance for Housing for the Elderly (Section 231)</li> <li>• Supplemental Loans for Multifamily Projects (Section 241)</li> <li>• Supportive Housing for Persons with Disabilities (Section 811)</li> <li>• Multifamily Mortgage Risk-Sharing Programs (Sections 542(b) and 542(c))</li> <li>• Mark-to-Market Program</li> <li>• Self-Help Housing Property Disposition</li> <li>• Renewal of Section 8 Project-Based Rental Assistance</li> </ul>	<ul style="list-style-type: none"> <li>• Housing Choice Voucher Program</li> <li>• Homeownership Voucher Assistance Project-Based Voucher Program</li> <li>• Public Housing Operating Fund</li> <li>• Public Housing Capital Fund</li> <li>• Public Housing Neighborhood Networks (NN) Program</li> <li>• Revitalization of Severely Distressed Public Housing (HOPE VI)</li> <li>• Choice Neighborhoods</li> <li>• Public Housing Homeownership (Section 32)</li> <li>• Resident Opportunity and Self-Sufficiency (ROSS) Program</li> <li>• Family Self-Sufficiency Program</li> <li>• Indian Community Development Block Grant (ICDBG) Program</li> <li>• Indian Housing Block Grant (IHBG) Program</li> <li>• Federal Guarantees for Financing for Tribal Housing Activities (Title VI)</li> <li>• Loan Guarantees for Indian Housing (Section 184)</li> <li>• Native Hawaiian Housing Block Grant (NHHBG) Program</li> <li>• Loan Guarantees for Native Hawaiian Housing (Section 184A)</li> </ul>

## HOW PROGRAM BUDGET DETERMINATIONS ARE MADE

### *Day 1, Slide 32*

After Congress acts on HUD's budget proposal for a fiscal year, all HUD organizations, both in Headquarters and the field, establish annual management plans to ensure that day-to-day management processes and program operations support the achievement of measurable results. The program staff then creates its budget for staff, equipment, grantees, etc. and executes the budget.

## HOW HUD GRANTEE PERFORMANCE RELATES TO FEDERAL BUDGETING

### *Day 1, Slide 33*

When HUD staff and grantees do well, they add value to their individual programs. These programs, in turn, tend to be more successful and are likely to be funded at higher levels during the next Congressional budget cycle.



## Module 1 Knowledge Check

*This knowledge check should be completed at the end of Module 1. Participants should circle their chosen answer. Leaders should review the correct answer using the following answer key once participants complete the knowledge check.*

1. Financial management is only concerned with budgets and accounting.
  - a) True
  - b) False
2. Which component of financial management does not belong?
  - a) Cost effectiveness
  - b) Planning
  - c) Supervisory discretion
  - d) Communication
3. Financial management is important for the federal government and its grantees because (select all that apply):
  - a) The government needs more taxes from its citizens
  - b) It implements financial standards, controls, and policies
  - c) It provides the media with information to report
  - d) All of the above
4. The planning process does not:
  - a) Identify the goals or objectives to be achieved
  - b) Formulate strategies
  - c) Control external factors
  - d) Implement, direct, and monitor all steps in their proper sequence
5. Budgeting is just an itemized summary of estimated or intended expenditures for a given period.
  - a) True
  - b) False
6. Internal controls increase:
  - a) Effectiveness and efficiency of operations
  - b) Reliability of financial reporting
  - c) Compliance with laws and regulations
  - d) All of the above
7. A majority of the federal budget is financed from corporate income taxes.
  - a) True
  - b) False

8. HUD's budget is influenced by Congress, the president, OMB, and the media.
  - a) True
  - b) False
9. The two basic categories of federal spending are Discretionary and:
  - a) Social Security
  - b) Mandatory
  - c) Health
  - d) Defense
10. When HUD staff and grantees do well, it can serve to support HUD's budget.
  - a) True
  - b) False

***Stop: Do not proceed until the training Leader prompts you to turn the page.***

## Module 1 Knowledge Check

### Answer key

Correct answers are indicated in **bold**.

1. Financial management is only concerned with budgets and accounting.
  - a) True
  - b) **False**
2. Which component of financial management does not belong?
  - a) Cost effectiveness
  - b) Planning
  - c) **Supervisory discretion**
  - d) Communication
3. Financial management is important for the federal government and its grantees because (select all that apply):
  - a) The government needs more taxes from its citizens
  - b) **It implements financial standards, controls, and policies**
  - c) It provides the media with information to report
  - d) All of the above
4. The planning process does not:
  - a) Identify the goals or objectives to be achieved
  - b) Formulate strategies
  - c) **Control external factors**
  - d) Implement, direct, and monitor all steps in their proper sequence
5. Budgeting is just an itemized summary of estimated or intended expenditures for a given period.
  - a) True
  - b) **False**
6. Internal controls increase:
  - a) Effectiveness and efficiency of operations
  - b) Reliability of financial reporting
  - c) Compliance with laws and regulations
  - d) **All of the above**
7. A majority of the federal budget is financed from corporate income taxes.
  - a) True
  - b) **False**

8. HUD's budget is influenced by Congress, the president, OMB, and the media.
  - a) True
  - b) **False**
9. The two basic categories of federal spending are Discretionary and:
  - a) Social Security
  - b) **Mandatory**
  - c) Health
  - d) Defense
10. When HUD staff and grantees do well, it can serve to support HUD's budget.
  - a) **True**
  - b) False

# 04 Module 2: The Planning Process

*Note: Slides 36-75 correspond with this module.*

## Module 2 Objectives

*Day 1, Slide 37*

At the conclusion of this module, you will understand:

- Strategic planning
- Annual planning and how it differs from strategic planning
- Performance reporting

## Strategic Planning

*Day 1, Slides 38-60*

In certain and uncertain economic times, federal agencies and their grantees must have both a short-term and long-term plan for financial survival. Sound financial management, including calculated strategic and annual planning, allows managers to make better budgeting decisions.

### THE STRATEGIC PLAN

*Day 1, Slides 41-44*

The strategic plan is a specific course of action for revitalization. It is the means to analyze the full local context and the linkages to the larger region. It builds on local assets and coordinates a response to the needs of the community.

It integrates economic, physical, environmental, community, and human development in a comprehensive and coordinated fashion so that families and communities can work together and thrive.

A strategic plan also sets forth program goals, specific objectives, annual goals, and benchmarks for measuring progress. In so doing, it helps governments and citizens keep track of results and learn what works.

Strategic planning clearly defines the purpose of the organization and establishes realistic goals and objectives consistent with its mission in a defined time frame.

It also ensures the most effective use of the organization's resources by focusing these resources on key priorities and provides a base from which progress can be measured and establish a mechanism for informed change when needed.

## THE STRATEGIC PLANNING PROCESS

### *Day 1, Slides 45-50*

**Strategic planning** is the process used to develop and establish an organization's missions, visions, long- and short-term goals and objectives, and the methods by which those goals will be achieved. Strategic planning determines where an organization is going and how it's going to get there. Typically, the process is organization-wide, or focused on a major function, such as a division or department.

Before engaging upon strategic planning, all organizations should first update their:

**Mission statement**—Every nonprofit organization must have a mission statement. It describes the purpose for which your organization exists.

**Values statement**—Values include beliefs that are shared among the organization. Values drive an organization's culture and priorities and provide a framework in which decisions are made.

**Vision statement**—This statement outlines what the organization wants to be utilizing as a long-term view and concentration on the future.

## CONDUCTING A STRATEGIC ANALYSIS

### *Day 1, Slides 51-54*

A strategic analysis is a scan, or review, of the organization's environment. It examines the organization's various Strengths, Weaknesses, Opportunities, and Threats (SWOT). A SWOT analysis examines an organization's:

- **Strengths:** characteristics of the organization that give it an advantage over others.
- **Weaknesses:** characteristics that place an organization at a disadvantage when compared to other similarly situated entities.
- **Opportunities:** external chances to improve performance (e.g., make greater profits).
- **Threats:** external elements in the environment that could cause trouble for the organization.

## SETTING STRATEGIC DIRECTION

### *Day 1, Slides 55-56*

Strategic direction can be defined as a course of action that ultimately leads to the achievement of the stated goals of a business or organizational strategy. It includes conclusions about what the organization must do as a result of the major issues and opportunities facing the organization. These conclusions include what overall accomplishments (**or strategic goals**) the organization should achieve, and the overall methods (**or strategies**) to achieve these accomplishments.

Let's take a look at HUD's FY 2010-2015 Strategic Plan Goals:

1. Strengthen the nation's housing market to bolster the economy and protect consumers.
2. Meet the need for quality affordable rental homes.
3. Utilize housing as a platform for improving quality of life.
4. Build inclusive and sustainable communities free of discrimination.
5. Transform the way HUD does business.

## CALL TO ACTION

### *Day 1, Slides 57-58*

Action planning is carefully laying out how the strategic goals will be accomplished. Action planning often includes specifying **objectives**, or specific results, with each strategic goal. Each objective is then associated with a **tactic**, which is one of the methods needed to reach an objective. Therefore, implementing a strategy typically involves implementing a set of tactics along the way.

Action planning also includes specifying **responsibilities** and **timelines** with each objective. It should also include methods to **monitor** and **evaluate** the plan, which includes knowing how the organization will determine who has done what and by when.

## HUD CPD CONSOLIDATED PLAN

### *Day 1, Slide 59*

CPD's "Consolidated Plan" is an example of a strategic plan. This document is written by a state or local government describing the housing needs of the low- and moderate-income residents, outlining strategies to meet the needs, and listing all resources available to implement the strategies. This document is required to receive HUD Community Planning and Development funds.

## HUD PHA PLANS

### *Day 1, Slide 60*

With the creation of the PHA plan requirement, the law specified both the type of information that should be included in the plan—the content of the plan—and the steps a PHA must go through to obtain resident and public involvement in the plan—the process for its development. In addition, the law required that the plan be consistent with the housing and community development plans of the community (as described in the jurisdiction’s Consolidated Plan).

## ANNUAL PLAN

### *Day 1, Slides 61-63*

The purpose of the annual plan is to articulate and document the primary initiatives of the organization on an annual basis. In order to do so, the organization must facilitate the ongoing prioritization of resources to achieve those initiatives. The annual plan is intended to serve as a tool by which resources (personnel, funds, equipment, facilities, time, etc.) are prioritized and allocated throughout the organization for the year ahead.

Annual planning includes both fiscal planning and preparing a physical needs assessment. When performing your assessment, you should identify short-, moderate-, and long-term needs while planning and budgeting for your physical property.

## The Planning Cycle

### *Day 1, Slide 64*

## STRATEGIC PLANNING

### *Day 1, Slide 65*

Your strategic plan should always serve as a guidepost for your annual planning efforts. What did you set out to accomplish, both generally and within the year to come?

## BUDGETING

### *Day 1, Slide 66*

Looking at your strategic plan, how should you budget your resources for the year to come in order to achieve your objectives, both short- and long-term?

## FORECASTING

### *Day 1, Slide 67*

What challenges lay ahead that might prevent you from achieving your annual goals? What trends or external circumstances may impact your progress? How can you budget for these variances?



## HOW ANNUAL PLANNING IS CONDUCTED BY HUD

### *Day 1, Slides 68-69*

HUD is required to submit an Annual Performance Report (APR) yearly. In the

APR, HUD provides detailed performance information to the president, the Congress, and the American people. The report allows readers to assess HUD's performance relative to its mission, goals, objectives, and stewardship of public resources.

## Performance Reporting

### *Day 1, Slides 70-72*

Performance reports are produced by government bodies that are financed with public monies to show that the money was spent efficiently and effectively. Performance reports are required to show how an organization is performing with its current resources. This is especially important to build the public's trust and comfort that their tax dollars are achieving results.

In addition, once HUD and its programs show that they are performing at optimal levels, the chances are greatly increased that Congress will fund them at their requested levels which, in turn, frees up more money for their grantees.

Metrics are a set of measurements that quantify results.

## PERFORMANCE METRICS

### *Day 1, Slides 73-74*

Performance metrics quantify the unit's performance and determine whether the project is meeting its goals. A performance metric should:

- Be measurable
- Have a clear definition
- Indicate progress toward a performance goal

## HUD PERFORMANCE REPORTING SYSTEMS FOR PIH, CPD, AND MFH PROGRAMS

The Government Performance and Results Act requires agencies to submit a new Strategic Plan to Congress at least once every three years. Each year, HUD also develops and submits an Annual Performance Plan (APP) to Congress in conjunction with the President's Budget. The APP identifies the performance goals and results HUD intends to accomplish during the year with the resources in its budget request. The APP also establishes the specific performance measures that will help HUD gauge progress in achieving the strategic goals and objectives articulated in the strategic plan.

## Module 2 Knowledge Check

*This knowledge check should be completed at the end of Module 2. Participants should circle their chosen answer. Leaders should review the correct answer using the following answer key once participants complete the knowledge check.*

1. Strategic planning is not:
  - a) A process of defining strategy
  - b) Making decisions on allocating resources
  - c) Knowing what will happen in the future
  - d) Setting a course of direction
2. A strategic plan (choose all that apply):
  - a) Is a specific course of action
  - b) Tracks loss and profit for the year
  - c) Sets forth program goals
  - d) All of the above
3. When an organization begins strategic planning, it must define everything but its:
  - a) Values
  - b) Mission
  - c) Tactics
  - d) Vision
4. SWOT stands for (choose all that apply):
  - a) Strengths
  - b) Weaknesses
  - c) Options
  - d) Threats
5. HUD's FY 2012 Strategic Plan goals do not include:
  - a) Strengthen the nation's housing market to bolster the economy and protect consumers
  - b) Utilize housing as a platform for improving quality of life
  - c) Revitalize brownfields
  - d) Meet the need for quality affordable rental homes
6. While conducting strategic planning, it is unnecessary to set short-term goals.
  - a) True
  - b) False

7. Action planning includes:
  - a) Setting responsibilities
  - b) Setting timelines
  - c) Monitoring and evaluating
  - d) All of the above
8. Annual plans articulate and document the primary initiatives of the organization on a biannual basis.
  - a) True
  - b) False
9. HUD performs annual planning through the Annual Performance Report and Annual Planning Report.
  - a) True
  - b) False

***Stop: Do not proceed until the training Leader prompts you to turn the page.***

## Module 2 Knowledge Check

### Answer Key

Correct answers are indicated in **bold**.

1. Strategic planning is not:
  - a) A process of defining strategy
  - b) Making decisions on allocating resources
  - c) **Knowing what will happen in the future**
  - d) Setting a course of direction
2. A strategic plan (choose all that apply):
  - a) Is a specific course of action
  - b) Tracks loss and profit for the year
  - c) Sets forth program goals
  - d) **All of the above**
3. When an organization begins strategic planning, it must define everything but its:
  - a) Values
  - b) Mission
  - c) **Tactics**
  - d) Vision
4. SWOT stands for (choose all that apply):
  - a) **Strengths**
  - b) **Weaknesses**
  - c) Options
  - d) **Threats**
5. HUD's FY 2012 Strategic Plan goals do not include:
  - a) Strengthen the nation's housing market to bolster the economy and protect consumers
  - b) Utilize housing as a platform for improving quality of life
  - c) **Revitalize brownfields**
  - d) Meet the need for quality affordable rental homes
6. While conducting strategic planning, it is unnecessary to set short-term goals.
  - a) True
  - b) **False**

7. Action planning includes:
  - a) Setting responsibilities
  - b) Setting timelines
  - c) Monitoring and evaluating
  - d) **All of the above**
8. Annual plans articulate and document the primary initiatives of the organization on a biannual basis.
  - a) True
  - b) **False**
9. HUD performs annual planning through the Annual Performance Report and Annual Planning Report.
  - a) **True**
  - b) False

# 05 Module 3: Budgeting

*Note: Slides 76-120 correspond with this module.*

## Module 3 Objectives

*Day 1, Slide 77*

At the conclusion of this module, you will understand:

- Budgeting concepts, methods, and controls
- Fund controls and accounting structures
- Cost principles and audit requirements for HUD programs
- Accounting recordkeeping systems

## What is a Budget?

*Day 1, Slides 78-82*

A **budget** is a written financial plan of an organization for a specific period. Each area of an organization's operations typically has a separate budget.

For example, a business might have an advertising budget, a purchasing budget, a sales budget, a manufacturing budget, a research and development budget, and a cash budget.

Budgets are:

- A method of planning for the future use of resources (funds, personnel, equipment, etc.)
- A vehicle for forecasting
- A means of controlling the activities of various groups within the organization
- A means of motivating individuals to achieve performance levels previously agreed upon
- A means of communicating the wishes and aspirations of senior management

An example of HUD PHA's preparation of a program budget is found in the Project Budget Tool. This tool has been developed to aid public housing agencies (PHAs) in developing individual project-based budgets. The provided format is not mandatory, but is offered as general guidance. The spreadsheet uses a series of macros and hyperlinks to allow the PHA to budget each Asset Management Program individually.

## Types of Budgets

### *Day 1, Slide 83*

There are three general types of budgets:

- Annual budget
- Multi-year budget
- Formula-based budgets

### ANNUAL BUDGET

#### *Day 1, Slide 84*

Annual budgets span either a fiscal or calendar year. These budgets help public agencies and their grantees to plan for the upcoming year and make the necessary adjustments in cash flow to cover expenses.

Annual budgets help organizations accurately project their future cash flows and effectively manage their money.

### MULTI-YEAR BUDGETS

#### *Day 1, Slide 85*

A multi-year budget is similar to an annual budget, but it spans over two or more years. For PIH, the Capital Fund Program Performance Report and Plan provides a sound example.

### FORMULA-BASED BUDGETS

#### *Day 1, Slides 86-88*

Formula-based budgets allocate funds using a formula for distribution. As you can imagine, HUD has several formula-based programs that vary from instance to instance.

### PHYSICAL NEEDS BUDGET

Today, capital planning requirements are aimed at only short- or moderate-term needs of PHAs. The current requirements do not provide PHAs with a means to budget for long-term capital planning.

However, PIH is developing a Physical Needs Assessment (PNA) system.

Two goals of the PNA include:

1. Enabling HUD to measure the impact of annual Capital Fund appropriations on the physical needs of the public housing inventory;
2. Enabling PHAs to better assess the position of their portfolios to take advantage of potential opportunities.

## Budgeting Methods

### *Day 1, Slides 89-94*

Two budgeting methods are:

- Top-down
- Bottom-up

**Top-down budgets** are prepared by top management and imposed on the lower layers of the organization. Top-down budgets clearly express the performance goals and expectations of top management, but can be unrealistic because they do not incorporate the input of the very people who implement them.

**Bottom-up budgets** are prepared by supervisors and middle managers and then forwarded by them up the chain of command for review and approval. These budgets tend to be more accurate and can have a positive impact on employee morale because employees assume an active role in providing financial input to the budgeting process.

Two of the most common budget types are:

- **Operating budget:** Includes forecasted revenues along with forecasted expenses, usually for a period of one year or less.
- **Cash budget:** An estimate of the cash position for a particular period of time.

Line items in your operating budget may include examples such as:

- **Expense budget:** An estimate prepared for travel, utilities, office supplies, telephone, and many other common business expenses for a given period.
- **Labor budget:** The total labor cost to be expended for a set period of time calculated by taking every person in an organization, department, or project and multiplying the number of hours they are expected to work by their wage rates.
- **Capital budget:** An estimate of the planned capital projects for an entity. Capital projects are those projects that have a useful life greater than one year and/or extend the useful life of an asset. They are typically not financed with operating revenues and can span more than one fiscal year.
- **Production budget:** An estimate of the planned production level for a fiscal year and the required resources needed to achieve the desired production level. These resources could include the cost of labor, benefits, materials, and other expenses required to achieve the desired production level. An example: A forecast that starts with an entity's budget estimates of the total number of units projected to be rehabilitated, then translates this information into estimates of the cost of labor, material, and other expenses required to achieve the number of units to be rehabilitated.



## How to Determine Budgetary Needs

### *Day 1, Slide 95*

In order to determine budgetary needs, an organization must first perform:

1. Forecasting
2. Former trends analysis
3. Zero-based budgeting

### FORECASTING

#### *Day 1, Slides 96-97*

Forecasting is a process of projecting future financial results. Organizations project their future financial performance based on their current and previous financial results.

### FORMER TRENDS

#### *Day 1, Slide 98*

Examining former trends assists in the forecasting phase of the budget process. For example, an organization can look to how it has performed in the past to project how it will perform in the future. In addition, an organization should examine internal and external factors such as past appropriation levels and proposed budgets of the larger agency or program sponsor.

### ZERO-BASED BUDGETING

#### *Day 1, Slides 99-102*

Each manager prepares estimates of his or her proposed expenses for a specific period of time as though they were being performed for the first time. In other words, each activity starts from a budget base of zero. By starting from scratch at each budget cycle, managers are required to take a close look at all of their expenses and justify them to top management, thereby minimizing waste.

## Cost Types

### *Day 1, Slides 103-108*

Costs can be primarily classified as either direct or indirect.

**Direct costs** are attributed to activities or services that benefit specific projects (such as salaries for project staff and the materials required to complete a particular project). Because these activities are easily traced to projects, their costs are usually charged to projects on a line-item basis

**Indirect costs** are:

- Costs that have been incurred for common or joint purposes.
- Costs that benefit more than one cost objective and cannot be readily identified with a particular final cost objective.

Indirect costs are normally charged to federal awards by the use of an indirect cost rate or by using a fee-for-service.<sup>1</sup> A separate indirect cost rate is usually necessary for each department or agency of the governmental unit claiming indirect costs under federal awards.

The indirect cost rate is a device for determining in a reasonable manner the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base.

Fee-for-service is an alternative method of indirect cost recovery. Under this method, the federal awarding agency typically establishes the allowable fee rates.

## Budget Controls

*Day 1, Slides 109-110*

**Budget controls** are a control technique whereby actual results are compared with budgets. Any differences (variances) are made the responsibility of key individuals who can either exercise control action or revise the original budgets.

### GENERAL BUDGET CONTROLS

*Day 1, Slide 111*

An example of budget controls includes “**Summary Management Reports.**” These reports should be prepared for top-level administrators to evaluate the current financial status of the organization.

### USE OF LINE-ITEM BUDGETS

*Day 1, Slide 112*

Line-item budgeting offers decision-makers an incremental, or step-by-step, approach to budgeting. Budgeters can use a line-item budget to make specific decisions, such as changing funding levels of programs or making cuts to budgeted expenses because of changes in organizational policies.

### COMPARING ACTUAL AGAINST BUDGETED EXPENDITURES

*Day 1, Slide 113*

It is always wise for an organization to create benchmarks to measure their actual expenses versus those that were budgeted. Managers can do this for both the overall budget, but must have input from program manager’s budgets to get a complete picture of where the organization stands.

### TIMELY OBLIGATION OF GRANT OR OPERATING FUNDS

*Day 1, Slide 114*

It is important for grantees to spend their allocated funds by the deadline imposed by HUD. Similarly, HUD must spend its operating funds by the deadline imposed by Congress. Not doing so can lead to reprimand, at the least, and forfeiture of funds in the worst-case scenario.

---

<sup>1</sup> OMB Cir. A-87 provides for two methods for the recovery of indirect costs, the traditional indirect cost rate or fee-for-service.

## COST EFFECTIVENESS

*Day 1, Slide 115*

## PRODUCTIVITY ANALYSIS

*Day 1, Slides 116-119*

Productivity is the output per unit of input employed. The basic formula for a productivity analysis is:

$$\text{PRODUCTIVITY} = \frac{\text{TOTAL OUTPUT}}{\text{TOTAL INPUT}}$$

EXAMPLE:

$$\text{PRODUCTIVITY} = \frac{\text{\#UNITS REHABILITATED}}{\text{\# OF DAYS TO COMPLETE PROJECT}}$$

On Day 4, we will drill down to develop a project-level operating budget, using an operating budget to improve performance, developing methods to monitor actual budgeted expenses, and addressing budget shortfalls.

## Module 3 Knowledge Check

*This knowledge check should be completed at the end of Module 3. Participants should circle their chosen answer. Leaders should review the correct answer using the following answer key once participants complete the knowledge check.*

1. Many organizations have a separate budget for each area within their operations.
  - a) True
  - b) False
2. Which is not a purpose of a budget?
  - a) A method of planning for the future
  - b) A vehicle for forecasting
  - c) A means of communicating the wishes and aspirations of senior management
  - d) To set a rigid course of action with no deviations allowed
3. The following are all typical budget types except:
  - a) Annual budgets
  - b) Project-based budgets
  - c) Personal budgets
  - d) Multi-year budgets
4. A top-down budget is the best method because managers know how much everything costs.
  - a) True
  - b) False
5. An organization should wait until the end of the annual operating cycle to evaluate its performance.
  - a) True
  - b) False
6. Timely and effective obligation by local governmental entities of federally provided grant or operating funds is an important measurement of an entity's ability to implement a program's budget.
  - a) True
  - b) False
7. Capital expenditures are typically included in the entity's operating budget.
  - a) True
  - b) False
8. A cash budget is an important tool to plan for the actual timing of when cash will be needed to meet an entity's operating expenditures.
  - a) True
  - b) False

9. Forecasting is a budgeting tool used to project future financial needs based on current and previous financial results.
- a) True
  - b) False
10. A cost that has been incurred for a common or joint purpose is called a:
- a) Direct cost
  - b) Indirect cost

***Stop: Do not proceed until the training Leader prompts you to turn the page.***

## Module 3 Knowledge Check

### Answer Key

Correct answers are indicated in **bold**.

1. Many organizations have a separate budget for each area within their operations.
  - a) **True**
  - b) False
2. Which is not a purpose of a budget?
  - a) A method of planning for the future
  - b) A vehicle for forecasting
  - c) A means of communicating the wishes and aspirations of senior management
  - d) **To set a rigid course of action with no deviations allowed**
3. The following are all typical budget types except:
  - a) Annual budgets
  - b) Project-based budgets
  - c) **Personal budgets**
  - d) Multi-year budgets
4. A top-down budget is the best method because managers know how much everything costs.
  - a) True
  - b) **False**
5. An organization should wait until the end of the annual operating cycle to evaluate its performance.
  - a) True
  - b) **False**
6. Timely and effective obligation by local governmental entities of federally provided grant or operating funds is an important measurement of an entity's ability to implement a program's budget.
  - a) **True**
  - b) False
7. Capital expenditures are typically included in the entity's operating budget.
  - a) **True**
  - b) False
8. A cash budget is an important tool to plan for the actual timing of when cash will be needed to meet an entity's operating expenditures.
  - a) **True**
  - b) False

9. Forecasting is a budgeting tool used to project future financial needs based on current and previous financial results.
- a) **True**
  - b) False
10. A cost that has been incurred for a common or joint purpose is called a:
- a) Direct cost
  - b) **Indirect cost**

# 06 Module 4: Accounting Principles and Standards

*Note: Slides 121-157 correspond with this module.*

## Module 4 Objectives

*Day 1, Slide 122*

At the conclusion of this module, you will understand:

- Fund controls and accounting structures
- Cost principles and audit requirements for HUD programs
- Accounting recordkeeping systems

## Accounting Principles and Standards

*Day 1, Slides 123-124*

Accounting principles refer to the standard framework of guidelines for financial accounting.

**Generally Accepted Accounting Principles (GAAP)** include:

- Basic accounting principles and guidelines
- Detailed rules and standards
- Generally accepted industry practices

## GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

*Day 1, Slides 125-126*

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes and improves standards of accounting and financial reporting for **U.S. state and local governments**.

The GASB seeks to create financial standards that result in useful information for users of financial reports while guiding and educating the public.

## FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)

*Day 1, Slides 127-128*

The Financial Accounting Standards Board (FASB) is the chosen organization in the **private sector** for establishing standards of financial accounting governing the preparation of financial reports by nongovernmental entities.

Consistent with its mission, the FASB maintains the **FASB Accounting Standards Codification** (Accounting Standards Codification), which represents the source of authoritative standards of accounting and reporting for nongovernmental entities.



## Cost Principles and Audit Requirements for HUD Programs

### *Day 1, Slide 129*

HUD programs are governed by several cost principles and audit requirements as follows:

#### **24 CFR PART 85**

### *Day 1, Slides 130-133*

24 CFR Part 85 establishes uniform administrative rules for federal grants and cooperative agreements and sub-awards to state, local, and Indian tribal governments.

24 CFR Part 85 requires that fiscal control and accounting procedures of local recipients must be sufficient to:

- Permit preparation of reports required by statute and regulation; and
- Permit tracing of funds to establish that they have not been used in violation of any statutory or regulatory restrictions.

In addition, it requires financial management systems to meet the following standards:

- Accurate, current, and complete financial reporting
- Accounting records that identify the source and application of funds
- Effective internal controls and accountability for all assets
- Budget controls with actual expenditures compared with budgeted amounts

#### **OMB CIRCULARS**

### *Day 1, Slides 134-135*

OMB Circulars are issued by the Office of Management & Budget (OMB).

The Circulars are supplemented by HUD regulations, notices, and handbooks.

The applicable Circulars for HUD and its grantees include:

#### **OMB CIRCULAR A-87, COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS**

### *Day 1, Slides 136-143*

This Circular establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement, and other agreements with state and local governments, as well as federally recognized Indian tribal governments.

The Circular establishes a uniform approach for determining costs and to promote effective program delivery, efficiency, and better relationships between government units and the federal government.

OMB Circular A-87 states that for a cost to be allowable, it must:

- Be in accordance with Generally Accepted Government Auditing Standards (GAGAS)
- Be adequately documented
- Be treated consistently

Grant recipients must ensure that costs charged to the grant are allowable. Recipients should use OMB Circular A-87 to guide their determination of allowable costs. Standards for determining what is allowed apply equally to all cost items and apply whether a cost is direct or indirect.

In order to be allowable, costs must be necessary and reasonable to carry out the objectives of the grant.

Reasonable costs must be:

- Generally recognized as ordinary and necessary
- Related to requirements imposed by sound business practices
- Related to federal and state laws and regulations
- Related to the terms and conditions of the award

The individuals involved in implementing an activity must have carried out their responsibilities appropriately.

The local recipient must be able to document that they have paid market prices for goods and services.

OMB Circular A-87 includes a Listing of Selected Items of Cost (Attachment B).

The specific cost items are described as “allowable,” “generally allowable,” or “unallowable.” Grantees of federal awards should become familiar with Attachment B.

## **OMB CIRCULAR A-133, AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS**

### ***Day 1, Slides 144-147***

This Circular sets forth standards for obtaining consistency and uniformity among federal organizations expending federal awards. The standards in this Circular must be applied by all federal agencies. Federal agencies must apply the provisions of this Circular to non-federal entities whether they are recipients expending federal awards received directly from federal awarding agencies, or are sub-recipients expending federal awards received from a pass-through entity.

## **OMB CIRCULAR A-122, COST PRINCIPLES FOR NON-PROFIT ORGANIZATIONS**

### ***Day 1, Slide 148***

This Circular establishes principles for determining costs of grants, contracts, and other agreements with non-profit organizations. The principles are designed to ensure that the federal government bears its fair share of costs except where restricted or prohibited by law.

These principles shall be used by all federal agencies in determining the costs of work performed by non-profit organizations under grants, cooperative agreements, cost reimbursement contracts, and other contracts in which costs are used in pricing, administration, or settlement.

## **Accounting Recordkeeping Systems**

### ***Day 1, Slide 149***

Any good financial system has to ensure that it maintains accurate records. These records help management, accountants, auditors, and the federal government synthesize financial information in a user-friendly manner.

## **ELECTRONIC RECORDKEEPING VS. MANUAL RECORDKEEPING**

### ***Day 1, Slides 150-151***

The responsibility for the decision to move towards electronic recordkeeping (ERK) rests with the agency head. Typically, the decision is based on an analysis of internal factors such as the business case need for ERK, alignment of ERK with agency mission and strategic initiatives, and other factors. There are also several external factors, in particular legal, statutory, and regulatory requirements that may influence the timing of this inevitable decision.

This product highlights a number of external and internal factors that support an agency's move towards ERK now. Some of these are statutory, judicial, and regulatory provisions that promote both ERK and, in a larger context, electronic records management (ERM).

Manual recordkeeping is becoming an outdated concept. As we live in the information technology age, almost any financial system can be automated.

## **CHART ACCOUNTS FOR CPD, MFH, AND PIH PROGRAMS**

### ***Day 1, Slides 152-153***

HUD's Chart Accounts lists and defines the prescribed uniform system of accounts used by owners of all HUD-insured, HUD-held, cooperative, and Section 202 direct loan projects. To ensure that project accounting transactions are properly recorded and classified, project bookkeepers must become familiarized with the account definitions contained in HUD Chart Account numerical system. PIH also has a specific chart of accounts that must be utilized for its programs.

## REQUIRED ACCOUNTING JOURNALS

### *Day 1, Slide 154*

HUD uses a uniform approach to defining financial accounting systems to track, monitor, and report on HUD-funded projects. Whether the system is manual or automated, the system must provide the information necessary to accomplish all of the HUD accounting objectives, including:

- Define functional requirements and document the required forms and report formats
- Define HUD accounting requirements
- Determine whether a manual or automated system will be implemented
- Identify conversion requirements
- Identify system implementation plan
- Define internal controls

## THE GENERAL LEDGER

### *Day 1, Slide 155*

The General Ledger is a numerical listing of an organization's chart of accounts listed by assets, liabilities, equity, income, and expense.

- This formal ledger contains all of the organization's financial transactions listed in numerical order of the chart of accounts.
- The ledger uses two columns: one to record **debit transaction**, the second to record offsetting **credit transactions**.

As an example, FHA implemented its Commercial Off-the-Shelf (COTS) general ledger system. This system improved business processes, including automation of manual accounting transactions, production of FHA financial reports from the FHA general ledger, and full implementation of FHA federal accounting requirements that include Credit Reform and Standard General Ledger (SGL) fund accounting.

## THE IMPORTANCE OF ACCURATE ACCOUNTING RECORDS

### *Day 1, Slide 156*

Keeping accurate and up-to-date records is vital to the success of any business. The organization must realize that accurate accounting records will be one of the most important management tools it possesses.

Many organizations invest a lot of time and effort into running their business and yet fail to realize the importance of maintaining good documentation.

## Module 4 Knowledge Check

*This knowledge check should be completed at the end of Module 4. Participants should circle their chosen answer. Leaders should review the correct answer using the following answer key once participants complete the knowledge check.*

1. Accounting principles refer to the numerous guidelines for financial accounting.
  - a) True
  - b) False
2. GAAP refers to (check all that apply):
  - a) Basic accounting principles and guidelines
  - b) Detailed rules and standards
  - c) Generally accepted industry practices.
  - d) All of the above
3. The Financial Accounting Standards Board (FASB) sets rules for the federal government and its grantees.
  - a) True
  - b) False
4. The OMB Circulars that regulate HUD and its grantees include all but:
  - a) OMB Circular A-87
  - b) OMB Circular A-133
  - c) OMB Circular A-122
  - d) OMB Circular A-10
5. Manual recordkeeping is superior to electronic recordkeeping.
  - a) True
  - b) False
6. Which OMB Circular establishes cost principles for states, local, and Indian tribal governments for the use of federal funds?
  - a) OMB Circular A-133
  - b) OMB Circular A-87
  - c) OMB Circular A-122
  - d) None of the above
7. Which OMB Circular establishes cost principles for non-profits who receive federal awards?
  - a) OMB Circular A-133
  - b) OMB Circular A-87
  - c) OMB Circular A-122
  - d) None of the above

8. Which OMB Circular establishes the audit requirements for grantees receiving federal awards?
  - a) OMB Circular A-133
  - b) OMB Circular A-87
  - c) OMB Circular A-122
  - d) None of the above
9. The general ledger contains the detailed accounts the organization uses to record financial transactions.
  - a) True
  - b) False
10. A grantee of federal awards must use the HUD chart of accounts in its general ledger.
  - a) True
  - b) False

***Stop: Do not proceed until the training Leader prompts you to turn the page.***

## Module 4 Knowledge Check

### Answer key

Correct answers are indicated in **bold**.

1. Accounting principles refer to the numerous guidelines for financial accounting.
  - a) **True**
  - b) False
2. GAAP refers to (check all that apply):
  - a) Basic accounting principles and guidelines
  - b) Detailed rules and standards
  - c) Generally accepted industry practices.
  - d) **All of the above**
3. The Financial Accounting Standards Board (FASB) sets rules for the federal government and its grantees.
  - a) True
  - b) **False**
4. The OMB Circulars that regulate HUD and its grantees include all but:
  - a) OMB Circular A-87
  - b) OMB Circular A-133
  - c) OMB Circular A-122
  - d) **OMB Circular A-10**
5. Manual recordkeeping is superior to electronic recordkeeping.
  - a) True
  - b) **False**
6. Which OMB Circular establishes cost principles for states, local, and Indian tribal governments for the use of federal funds?
  - a) OMB Circular A-133
  - b) **OMB Circular A-87**
  - c) OMB Circular A-122
  - d) None of the above
7. Which OMB Circular establishes cost principles for non-profits who receive federal awards?
  - a) OMB Circular A-133
  - b) OMB Circular A-87
  - c) **OMB Circular A-122**
  - d) None of the above

8. Which OMB Circular establishes the audit requirements for grantees receiving federal awards?
  - a) **OMB Circular A-133**
  - b) OMB Circular A-87
  - c) OMB Circular A-122
  - d) None of the above
9. The general ledger contains the detailed accounts the organization uses to record financial transactions.
  - a) **True**
  - b) False
10. A grantee of federal awards must use the HUD chart of accounts in its general ledger.
  - a) **True**
  - b) False



## Appendix 1: Day 1 Class Activities

### PLANNING EXERCISE

City, USA (“City”) wants to open a homeless shelter for former veterans and their families. The City has a number of abandoned buildings that can accommodate the families. The City has also developed a relationship with the Department of Veterans Affairs. Currently, there are no staff members designated for this plan.

Using these broad facts, devise a plan according to the four steps below:

- Identify goals or objectives to be achieved.
- Formulate a strategy to achieve the goals or objectives.
- How will you create the resources required?
- How will you ensure that you implement, direct, and monitor all steps in their proper sequence?

## Appendix 2: Day 1 Checklist

### AN INTRODUCTION TO FINANCIAL MANAGEMENT

1. Financial management entails:
  - ✓ Planning
  - ✓ Directing
  - ✓ Monitoring
  - ✓ Organizing
  - ✓ Controlling monetary resources of an organization
2. What are the **components of financial management**?
  - ✓ Strategic planning
  - ✓ Budgeting and cost effectiveness
  - ✓ Accounting
  - ✓ Financial systems
  - ✓ Internal controls
  - ✓ Evaluation and communication
  - ✓ Personnel requirements
3. **Strategic planning** is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy.
4. The strategic plan:
  - ✓ Is the process used to develop and establish an organization's missions, visions, long- and short-term goals and objectives
  - ✓ The methods by which those goals will be achieved.
5. The **benefits of strategic planning include**: Clearly defining the purpose of the organization and establishes realistic goals and objectives consistent with its mission in a defined time frame
  - ✓ Ensuring the most effective use of the organization's resources by focusing these resources on key priorities
  - ✓ Providing a base from which progress can be measured and establishes a mechanism for informed change when needed
  - ✓ Communicating those goals and objectives to the organization's constituents
  - ✓ Building consensus about where the organization is going
6. **Before engaging upon strategic planning**, all organizations should first update their:
  - ✓ Mission statement
  - ✓ Values statement
  - ✓ Vision statement

7. When conducting a **strategic analysis**:

- ✓ An organization must scan, or review, of the organization's environment (for example, of the political, social, economic and technical environment).
- ✓ An organization should also examine its various Strengths, Weaknesses, Opportunities, and Threats (**SWOT**). **SWOT analysis** stands for:
- ✓ **S**trengths: characteristics of the organization that give it an advantage over others
- ✓ **W**eaknesses: characteristics that place an organization at a disadvantage when compared to other similarly situated entities
- ✓ **O**pportunities: **external** chances to improve performance (e.g., make greater profits)
- ✓ **T**hreats: **external** elements in the environment that could cause trouble for the organization

8. In setting **strategic direction**, an organization must:

- ✓ Make conclusions about what the organization must do as a result of the major issues and opportunities facing the organization.
- ✓ Include what overall accomplishments (or **strategic goals**) the organization should achieve, and the overall methods (or **strategies**) to achieve the accomplishments.

9. **Action planning** is:

- ✓ Carefully laying out how the strategic goals will be accomplished
- ✓ Specifying **objectives**, or specific results, with each strategic goal
- ✓ Associating each objective with a **tactic**, which is one of the methods needed to reach an objective
- ✓ Implementing a set of tactics along the way

10. Action planning also includes:

- ✓ Specifying **responsibilities** and **timelines** with each objective, or who needs to do what and by when
- ✓ Implementing methods to **monitor** and **evaluate** the plan, which includes knowing how the organization will determine who has done what and by when

11. Annual planning:

- ✓ Includes articulating and documenting the primary initiatives of the organization **on an annual basis**
- ✓ Involves facilitating the ongoing prioritization of resources to achieve specified initiatives
- ✓ Is intended to serve as a tool by which resources (personnel, funds, equipment, facilities, time, etc.) are prioritized and allocated throughout the organization for the year ahead

12. **The annual planning cycle:** Should always serve as a guidepost for your annual planning efforts. What did you set out to accomplish, both generally and within the year to come?
- ✓ Includes budgeting, or how should you budget your resources for the year to come in order to achieve your objectives, both short- and long-term?
  - ✓ Includes forecasting, or what challenges lay ahead that might prevent you from achieving your annual goals? What trends or external circumstances may impact your progress? How can you budget for these variances?
13. A **budget:** A budget is a written financial plan of an organization for a specific period.
- ✓ Each area of an organization's operations typically has a separate budget. For example, a business might have an advertising budget, a purchasing budget, a sales budget, a manufacturing budget, a research and development budget, and a cash budget.
  - ✓ Each budget would then be compiled into a master budget for the operations of the entire organization.
14. The **purpose of budgets** is:
- ✓ A method of planning for the future use of resources (funds, personnel, equipment, etc.)
  - ✓ A vehicle for forecasting
  - ✓ A means of controlling the activities of various groups within the organization
  - ✓ A means of motivating individuals to achieve performance levels previously agreed upon
  - ✓ A means of communicating the wishes and aspirations of senior management
15. There are three **types of budgets:**
- ✓ Annual budget
  - ✓ Multi-year budget
  - ✓ Project-based budgets
16. General laws and bodies that set **accounting principles** include:
- ✓ Generally Accepted Accounting Principles (GAAP)
  - ✓ Governmental Accounting Standards Board (GASB)
  - ✓ Financial Accounting Standards Board (FASB)
17. **Cost Principles and Audit Requirements** for HUD programs include:
- ✓ 24 CFR Part 85
  - ✓ OMB Circular A-87, ***Cost Principles for State, Local, and Indian Tribal Governments***
  - ✓ OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***
  - ✓ OMB Circular A-122, ***Cost Principles for Non-Profit Organizations***

## Appendix 3: Day 1 Resources

1. HUD Office of Inspector General Consolidated Audit Guides  
<http://www.hudoig.gov/reports-publications/audit-guides/consolidated-audit-guides>
2. Playing by the Rules: A Handbook for CDBG Sub-recipients on Administrative Systems  
[http://portal.hud.gov/hudportal/documents/huddoc?id=DOC\\_17108.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_17108.pdf)
3. U.S. Government Standard General Ledger Chart of Accounts  
[http://www.fms.treas.gov/ussgl/tfm\\_archive/effective2012\\_jun11/11-01/2012/sec1\\_chrtacct\\_2012.pdf](http://www.fms.treas.gov/ussgl/tfm_archive/effective2012_jun11/11-01/2012/sec1_chrtacct_2012.pdf)
4. Implementation of New Cash Management Requirements for the Housing Choice Voucher Program  
<http://portal.hud.gov/huddoc/pih2011-67.pdf>
5. HUD Cost Summary Form  
<http://www.hud.gov/offices/pih/programs/ph/phecc/eperformance/docs/costsummary.xls>
6. Inventory Management System/PIH Information Center FAQs  
[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/public\\_indian\\_housing/systems/pic/faq](http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/systems/pic/faq)

## Appendix 4: Pre-Test Answer Key

*Correct answers are indicated in bold.*

1. Financial management is important for the federal government and its grantees because (select all that apply):
  - a) The government needs more taxes from its citizens
  - b) **It implements financial standards, controls, and policies**
  - c) It provides the media with information to report
  - d) All of the above
2. Which component of financial management does not belong?
  - a) Cost effectiveness
  - b) Planning
  - c) **Supervisory discretion**
  - d) Communication
3. SWOT stands for (select all that apply):
  - a) **Strengths**
  - b) **Weaknesses**
  - c) Options
  - d) **Threats**
4. Strategic planning is not:
  - a) A process of defining strategy
  - b) Making decisions on allocating resources
  - c) **Knowing what will happen in the future**
  - d) Setting a course of direction
5. While conducting strategic planning, it is unnecessary to set short-term goals.
  - a) True
  - b) **False**
6. The Financial Accounting Standards Board (FASB) sets rules for the federal government and its grantees.
  - a) True
  - b) **False**
7. The OMB Circulars that regulate HUD and its grantees include all but:
  - a) OMB Circular A-87
  - b) OMB Circular A-133
  - c) OMB Circular A-122
  - d) **OMB Circular A-10**

8. Internal controls are the responsibility of everyone but:
  - a) Management
  - b) Staff
  - c) **Contractors**
  - d) Federal agencies with oversight of programs
9. When mitigating risk, one should start with the smallest risk and work up to facing the greatest risk.
  - a) True
  - b) **False**
10. Effective implementation of internal controls guarantees that all of the organization's business objectives will be achieved.
  - a) True
  - b) **False**
11. Internal control should be recognized as a separate system that management uses to regulate and guide its operations.
  - a) True
  - b) **False**
12. With the establishment of formal written internal control documents, management can do all of the below, except:
  - a) Create and expand guidance for implementation of the controls
  - b) **Prove that their system is working**
  - c) Reduce the risk of errors and fraud
  - d) Focus on high-risk areas in order to lessen the chances of errors and fraud
13. Management should assess internal controls in every single evaluation it conducts.
  - a) True
  - b) **False**
14. A Control Risk can be a "non-action."
  - a) True
  - b) **False**
15. Risk identification methods may include (choose all that apply):
  - a) Forecasting and strategic planning
  - b) Qualitative and quantitative ranking activities
  - c) Manager meetings
  - d) **All of the above**

16. A financial loss may prompt all but:
- a) The elimination of staff
  - b) Less services offered to clients
  - c) **Relief of the organization's performance expectations**
  - d) Reducing the hours worked
17. This federal regulation mandates that the financial information required to be submitted to HUD on an annual basis, generally must be submitted electronically, and must be prepared in accordance with Generally Accepted Accounting Principles (GAAP):
- a) Uniform Reporting Financial Statute
  - b) **Uniform Financial Reporting Standards**
  - c) Uniform Reporting Financial Standards
18. Audits are performed by bookkeepers.
- a) True
  - b) **False**
19. In assessing internal controls, practical areas for consideration include (select all that apply):
- a) **Segregation of duties**
  - b) **Bank visits**
  - c) **Supporting documentation**
  - d) **Employees**
  - e) **Safeguarding assets**
20. If you have a conflict of interest, you should immediately (select all that apply):
- a) Resign from your job
  - b) **Report it to management**
  - c) Hide it from everyone
  - d) Exit the organization that is causing the conflict