



**pennsylvania**  
DEPARTMENT OF EDUCATION

# **Financial Management**

# Introduction to Financial Management

## 1. What is Financial Management?

Financial Management is the practice of planning, organizing, controlling, and monitoring the financial resources of an entity. Mainly, it involves the application of general management principles to use funds efficiently and effectively to meet business goals.

## 2. Why is it important?

Financial Management is an essential function of businesses and enables them to remain solvent.

# Applicable Federal Financial Management Guidance

2 Code of Federal Regulations (CFR) 200 outlines the regulatory guidance surrounding financial management of grants.

Reference	Title	What You Need to Know
§ 200.302(a)	Financial Management	Financial management systems must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.
§ 200.302(b)	Financial Management	There are seven items that are required to be implemented into financial management systems of non-Federal entities, which we will cover shortly.
§ 200.334	Retention Requirements for Records.	Financial records, supporting documents, statistical records, and other non-Federal entity records pertinent to a Federal award <b>must be retained for a period of three years from the date of submission of the final expenditure report</b> or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a Subrecipient.
§ 200.403	Factors Affecting Allowability of Costs.	Costs must be <b>necessary and reasonable</b> , conform to limitations or exclusions, be consistent with policies and procedures, be accorded consistent treatment, be determined in accordance with Generally Accepted Accounting Principles (GAAP), not be included as a cost share portion of any other federal program, be adequately documented, and incurred during the budget period.

# Key Components of Financial Management

<b>Budgeting</b>	<b>PA Chart of Accounts</b>	<b>Financial Management System Requirements</b>	<b>Financial Record Keeping</b>	<b>Financial Reporting</b>	<b>Common Observations and Leading Practices</b>
How to manage grant budget	How to code grant transactions	As per 2 CFR 200.302 (b)	Leading practices	Required reporting procedures	Common observations made through monitoring

# Budgeting

2 CFR 200.302 outlines the regulatory guidance surrounding financial management of grants. Some key points are outlined below:

## FIVE PILLARS OF BUDGET MANAGEMENT

### **REVIEW APPROVED BUDGET**

Review your initial budget on how you plan on spending your funds in the Subgrant Agreement.

### **MONITOR SPEND**

Begin spending your grant funds towards budgeted areas of your Subgrant agreement.

As you spend funds, track expenditures by object code to assess which are trending over, under, and on budget. Also carefully note any budgetary adjustments to accommodate for newly realized needs.

### **SUBMIT BUDGETARY REVISIONS**

At any point before you submit your final expenditure report, submit a budget revision detailing the accurate areas of spending for the grant.

These budget revisions are required by time of grant closeout when you went over the originally approved budget by 20% or more.

### **REPORT ON PROGRESS**

During the course of the grant program, keep track of expenditures at the detailed level so that you can easily report back actuals to PDE on a quarterly basis.

### **FINAL EXPENDITURE REPORT**

Submit a Final Expenditure Report within 30 days of expending all grant funding. Actual spend must be supported by the General Ledger.

# Financial Reporting for Pennsylvania Local Education Agencies (LEAs)

PA School Code requires LEAs to maintain financial records in accordance with the **PA Chart of Accounts**, consistent with financial reporting guidance provided in the **Manual of Accounting and Financial Reporting for PA LEAs** in order to produce clear, accurate, uniform and consistent financial reporting. Financial Information is used to calculate tuition rates, actual instructional expense, and produce reports requested by the federal government. In addition, 2 CFR 200.302(b)(3) requires non-Federal entities maintain records that identify adequately the source and application of funds for federally-funded activities.

- **Object Code 100:** Personnel Services – Salaries
- **Object Code 200:** Personnel Services – Employee Benefits
- **Object Code 300:** Purchased Professional and Technical Services
- **Object Code 400:** Purchased Property Services
- **Object Code 500:** Other Purchased Services
- **Object Code 600/800:** Supplies (Dues & Fees)
- **Object Code 700:** Property

## Grant Funding Code Identifiers:

**986** – ESSER I, **989** – ESSER II,  
**990** – ARP ESSER 90% **994** – Learning Loss Set Aside,  
**995** - Summer School Set Aside, **996** – After School Set Aside  
**998** – ARP ESSER 2.5%

## What is the PA Chart of Accounts?

The PA Chart of Accounts is a manual of financial reporting codes and structures that LEAs must use to record financial activities

## When should an LEA use the PA Chart of Accounts?

Throughout the accounting cycle in order to record Revenues, Expenditures and Balance Sheet transactions according to the Manual of Accounting

## Where can an LEA find reporting and recording guidance?

The Manual of Accounting and Chart of Accounts are available on [PDE's website](#)

## Why does an LEA have to use the Manual of Accounting?

The Manual of Accounting captures and illustrates imperative accounting and financial reporting requirements of Pennsylvania public elementary and secondary school systems in accordance with recognized generally accepted accounting principles (GAAP) for governmental entities and state laws and regulations

# Required Coding Structures

What do I need to know about the Chart of Account classification and coding structure?

- PDE requires that Subrecipients of Federal awards utilize the coding structure outlined in Section A of the Pennsylvania Chart of Accounts.
- Utilizing a clear and concise coding structure helps create an accurate and consistent financial report.
- **Figure A** to the right outlines the elements that are required in the LEAs General Ledger.
- **Note:** an LEA can arrange the structure in any order they wish, so long as the elements exist.

**Expenditure dimensions required for reporting to the Commonwealth of PA are:**

Fund	Function	Object	Funding Source	Instructional Organization
XX	XXXX	XXX	XXX	XX

The full system of expenditure dimensions is as follows:

Fund	Function	Object	Funding Source	Instructional Organization	Operational Unit	Subject Matter	Job Classification	Special Cost Center
XX	XXXX	XXX	XXX	XX	XXX	XXX	XXX	Number of Digits Varies

**Figure A:** Expenditure dimensions as required by PA Chart of Accounts Section A

Expenditure Dimension Code Example: General Fund purchase of mathematics textbooks, for regular instruction, at the secondary education level, at ABC Senior High School.

Fund	Function	Object	Funding Source	Instructional Organization	Operational Unit	Subject Matter
10	1110	640	000	30	810	110

- 10 General Fund
- 1110 Instruction – Regular Programs
- 640 Supplies – Books & Periodicals
- 000 Non-categorical
- 30 Secondary Level
- 810 ABC Senior High School (3 Digit Code)
- 110 Mathematics (3 Digit Code)

**Figure B:** A sample of an expenditure dimensions coding structure as required by PA Chart of Accounts Section A

# Financial Management System Requirements

**With this new information, our financial system will be better than ever!**

As per **2 CFR 200.302 (b)**, here are the **seven required items** to be implemented as part of the financial management system of each non-Federal entity receiving a Federal award:

- 01 **Identification**, in its accounts, **Federal awards received and expended** and the Federal programs under which they were received.
- 02 **Accurate, current, and complete** disclosure of the **financial results** of each Federal award.
- 03 **Well-documented records** that adequately **identify the source of funds** for federally-funded activities.
- 04 **Effective control** over **funds, property, and other assets**.
- 05 **Comparison of expenditures** with budget amounts for each Federal award.
- 06 **Documented procedures** to implement **requirements** set forth in **2 CFR 200.305**.
- 07 **Documented procedures** for determining **allowability of costs** in accordance with the **terms and conditions** of the Federal award.



# Recordkeeping: Keep It Where You Can Retrieve It....Quickly

An industry leading practice for sound recordkeeping is by implementing an **Electronic Record System**. This will help minimize risk of disorganization, file loss, file damage, etc.

## How

### Documentation and Recordkeeping Leading Practices

- **Complete**
- **Organized**
- **Accurate**
- **Readily Available**

## What

### Procurement

- Plan large procurements in advance
- Execute competitive procurement, when needed
- Retain complete procurement documentation, including rationale for noncompetitive procurement.

### Purchasing

- Bundle the purchase order, invoice, and proof of payment for each purchase. Record retention requirements are 3 years per 2 CFR and 7 years per [PA Bulletin](#), unless otherwise stated.

### Equipment Management

- Tag federally-funded assets and include funding source
- Maintain 2 CFR 200 compliant inventory records
- Conduct physical inventory reconciliation at least every 2 years

### Cost Tracking Requirements

- Maintain records that adhere to cost tracking requirements according the chart of accounts

# Financial Records

2 CFR 200.403(g) states that costs must be adequately documented. In the context of Federal awards made to LEAs, this translates to making sure that you maintain **three** important financial records for every purchase from a third-party vendor.

**Quick Tip:**  
All purchases should be completed consistently according to established policies and procedures and must be documented.

1

## Purchase Order

- PDE advises LEAs to adopt formal purchasing procedures for all purchase types (Micro, Small, Sealed Bids, Competitive and Non-Competitive).
- Purchase orders or equivalent approvals demonstrate prescribed processes unique to the needs of each LEA and **should always be completed prior** to the purchase of goods and services.
- Purchase orders/approvals are internal documents that should be signed by the proper authorized individuals.

2

## Invoice

- An invoice is a third-party document provided by the vendor/contractor that the Local Education Entity (LEA) is conducting business with.
- An invoice can be:
  - A receipt from an in-store purchase
  - An itemized breakout of items/services purchased
  - A certificate of payment w/ a continuation sheet (seen in construction projects)

3

## Proof of Payment

### For Services and/or Goods:

Third party verification of payment

- Cleared Check
- Automated Clearing House (ACH) Transfer
- Bank Statements

### For Payroll:

- Paystubs
- Payroll Register

# Financial Reporting

## Actions to be taken for reporting Federal grant financials to PDE

COMMONWEALTH OF PENNSYLVANIA - Labor Education and Community Services Comptroller's Office

REVISED REPORT  
(Check if Applicable)

### Quarterly Cash On Hand Reconciliations

### RECONCILIATION OF CASH ON HAND QUARTERLY REPORT

All reports, including delinquent reports, must be received in the Federal Subsidies Section no later than the 10th working day of the month of submission in order to be processed for payment in the next cycle. Failure to submit this report in a timely fashion may result in the suspension of this project's payments. Reports that are submitted that DO NOT apply to the reconciliation period are not kept on file. (Refer to the applicable fiscal guidelines for additional information.)

READ THE INSTRUCTIONS ON THE REVERSE SIDE BEFORE COMPLETING THIS FORM.

DO NOT SEND this report to the Labor, Education and Community Services Comptroller's Office.

- PDE requires that LEAs complete Reconciliation of Cash on Hand Quarterly Reports by the 10<sup>th</sup> working day after each quarter. This requirement is applicable to Federal programs.

- Grant recipients are required to submit these reports electronically using the FAI system.
- Failure to submit quarterly reports on time or electronically will result in suspension of payments until report has been received by PDE.

Submit this form on a quarterly basis

<b>PART I</b>			
GRANTEE			
ADDRESS ( STREET, CITY, STATE, ZIP CODE)			
QUARTER ENDED	PROGRAM - PROJECT NUMBER	APPROVED PROJECT AMOUNT	MONTHLY PAYMENT AMOUNT
	200 - 210335	\$XXX	\$XXX
<b>PART II</b>			
1. Total Cash Received			\$XXX
2. Total Cash Disbursed			\$XXX
3. Cash on Hand (Line 1 Less Line 2)			\$XXX
4. Schedule Monthly Payment			\$XXX
5. Cash Available (Line 3 Plus Line 4)			\$XXX
6. Estimated Cash Requirement for the Month of: July			\$XXX
7. Status of Cash (Line 5 Less Line 6)			\$XXX
<b>PART III</b>			
COMMENTS (JUSTIFICATION FOR EXCESS CASH ON HAND/EXTRAORDINARY CASH NEEDS):			
Question: Do you have extraordinary cash needs? Answer: XXX			
<b>PART IV</b>			
CERTIFICATION: I CERTIFY THAT THIS REPORT IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE:			
TYPE / PRINT (AUTHORISED REPRESENTATIVE)	SIGNATURE (AUTHORISED REPRESENTATIVE)	DATE:	
		MM/DD/YYYY	
NAME OF PROGRAM CONTACT PERSON:		AREA CODE & PHONE NUMBER:	
DEPARTMENT OF EDUCATION USE ONLY:	STATE AGENCY APPROVAL OF SPECIAL REQUESTS:	DATE:	

PDE-2030 (07/97)

Figure A: Quarterly Reconciliation of Cash on Hand form from PDE

\* Final Expenditure Report (FER) is another required financial report. More guidance to come on the FER in the closeout section.

# Calculating Interest Earned from Federal Grants

How can I stay compliant with interest earned?

## Consider regulations, guidance, and your own policy:

Federal Guidance (2 CFR 200.305b(9)) does not define the period for calculating interest earned as annual.

However, a recommended leading practice is to **calculate interest based on your Fiscal Year.**

Remember that LEAs are responsible for sound management practices based on their unique combination of resources as per Federal Guidance (2 CFR 200.400(c)).

LEAs should document their policy for calculating interest earned on Federal funds.

Those that adopt PSBA policies should review the 626 Cash Management Policy, which states: “interest accruing on total federal grant cash balances shall be calculated on cash balances per grant and applying the actual or average interest rate earned.

# Interest Earned from Federal Grants – To Retain or Return?

2 CFR 200.305 requires grantees and sub-grantees to remit interest earned on federal advance payments to the federal agency.

LEA's must maintain advance payments of Federal awards in interest-bearing accounts unless LEA receives less than \$250,000 in federal awards per year, does not expect to earn \$500 in interest or bank deposit minimums are unreasonable.

Grantees or sub-grantees may retain interest amounts up to **\$500 per year** for related administrative expenses. Interest earned greater than \$500 on federal advance payments deposited in interest-bearing accounts must be remitted annually to the U.S. Department of Health and Human Services Payment Management System (PMS) through an electronic medium using either Automated Clearing House (ACH) network or a Fedwire Funds Service payment.

**(i) To return interest on federal awards paid through PMS, the refund should:**

- (A) Provide an explanation stating that the refund is for interest.
- (B) List the PMS Payee Account Number(s) (PANs).
- (C) List the federal award number(s) for which the interest was earned.
- (D) Make returns payable to: U.S Department of Health and Human Services.

**(ii) To return interest on federal awards not paid through PMS, the refund should:**

- (A) Provide an explanation stating that the refund is for interest.
- (B) Include the name of the awarding agency.
- (C) List the federal award number(s) for which the interest was earned.
- (D) Make returns payable to: Department of Health and Human Services.

# Common Observations and How to Address Them

<b>OBSERVATION</b>	<b>No Purchase Orders and/or Invoices</b>	<b>Misclassified Object and/or Funding Code</b>
<b>REGULATORY GUIDANCE</b>	<b>2 CFR 200.403(g)</b>	<b>2 CFR 200.403(g)</b>
<b>RISK</b>	Failure to follow required internal purchasing procedures could result in deobligation or loss of the Subrecipient's funding.	Failure to keep adequate documentation of costs could result in errors in reporting including loss of funding.
<b>RECOMMENDED ACTION</b>	<p>Locate the missing PO/Invoice in question.</p> <p>OR</p> <p>Consider removing the expenditure in question from the grant if unable to locate the missing documentation.</p>	Create a journal entry to move the expenditures to the appropriate coding category in your financial system.
<b>NEXT STEPS</b>	Train staff to periodically test the purchasing process for consistency and adequacy.	<p>Implement safeguards to check expenditures being reported and recorded to make sure they align with the proper object/funding code as per the PA Chart of Accounts.</p> <p>Train staff on the importance of accurately classifying expenditures and maintaining accurate records.</p>

# Common Observations and How to Address Them (Cont.)

OBSERVATION	No Reconciliation to General Ledger	OBSERVATION	Missing or Bad Proof of Payment
REGULATORY GUIDANCE	2 CFR 200.403(g)	REGULATORY GUIDANCE	2 CFR 200.403(g)
RISK	Failure to adequately record and reconcile expenses could lead to reporting errors and/or loss of funding.	RISK	Failure to adequately reconcile payments and maintain proper documentation could result in over/underpayments and exposes LEA to loss of funding.
RECOMMENDED ACTION	Proactively and accurately record grant transactions according to the PA chart of accounts and make sure that expense and other information can be traced.	RECOMMENDED ACTION	Retroactively reconcile payments and document proof of payment. OR Consider removing the expenditure in question from the grant if unable to locate the missing documentation.
NEXT STEPS	Perform book to bank reconciliations at least monthly and confirm that expenses are properly recorded.	NEXT STEPS	Maintain a system for ensuring payments are adequately documented and reconciled.  Adopt a formal book to bank reconciliation process with reviewer and approver signatures.

# Common Observations and How to Address Them (Cont.)

<b>REGULATORY OBSERVATION</b> No Interest Tracking Procedures	<b>REGULATORY OBSERVATION</b> Invoice Amount Greater Than PO Amount	<b>REGULATORY OBSERVATION</b> No Use of Chart of Accounts Structure
<b>REGULATORY GUIDANCE</b> 2 CFR 200.305 (b)(8)	<b>REGULATORY GUIDANCE</b> 2 CFR 200.403(g)	<b>REGULATORY GUIDANCE</b> PA Chart of Accounts for LEAs Section A: Account Classification and Coding Structure
<b>RISK</b> Failure to track and monitor interest earned with ESSER grants could result in deobligation or loss of the Subrecipient's funding.	<b>RISK</b> Failure to follow required internal purchasing procedures could result in deobligation or loss of the Subrecipient's funding.	<b>RISK</b> Failure to use the required classification structure when recording Federal grant expenditures could result in inaccurate reporting of grant funds, as well as loss of Subrecipient funding.
<b>RECOMMENDED ACTION</b> Establish an internal system for tracking and recording interest earned to make sure that interest amounts in exceed \$500 are returned to the designated agency. AND Adopt a formal Cash Management Policy or similar that outlines the steps for interest tracking and remittance.	<b>RECOMMENDED ACTION</b> Consider reducing the amount put towards the grant to align with the PO amount.	<b>RECOMMENDED ACTION</b> Formally adopt the PA Chart of Accounts into the LEA's accounting system.
<b>NEXT STEPS</b> Conduct periodic reviews of interest tracking procedures to make sure compliance with grant requirements and remit excess interest income to PDE as needed. 3/14/2024	<b>NEXT STEPS</b> Strengthen and/or establish formal purchasing and payment procedures that have adequate controls in place prior to payment Periodically test the internal controls over requisitions, approvals and payment. Cross-check purchase orders and invoices to confirm their amounts match prior to making payment.	<b>NEXT STEPS</b> After adoption, the LEA should receive the appropriate training as needed into the proper recording structure and expand the scope of audits to include selective testing of new system.



## Question 1

Which section of Uniform Grant Guidance contains the requirements for a Financial Management System?

- a) 34 CFR 76.665 (a)
- b) Appendix B
- c) 2 CFR 200.302 (b) \*
- d) 2 CFR 200.320 (b)

## Question 2

How often should PDE cash-on-hand reconciliations be performed?

- a) Quarterly \*
- b) Semi-Annually
- c) Annually
- d) Monthly

# Contact/Mission

For more information on the (the topic of the presentation) please visit PDE's website at [www.education.pa.gov](http://www.education.pa.gov)

*The mission of the Department of Education is to ensure that every learner has access to a world-class education system that academically prepares children and adults to succeed as productive citizens. Further, the Department seeks to establish a culture that is committed to improving opportunities throughout the commonwealth by ensuring that technical support, resources, and optimal learning environments are available for all students, whether children or adults.*