

CHAPTER 2-240 FINANCIAL MANAGEMENT SYSTEMS

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2-240-00 What does this chapter do?

This chapter establishes standards for the systems you, the recipient, use to manage and account for funds from an assistance agreement awarded by us, the Office of Surface Mining Reclamation and Enforcement (OSM).

2-240-10 Where do these rules come from?

Requirements for financial management systems for Federal assistance agreements come from the *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, known as the *Grants Common Rule*, at 43 CFR 12 Subpart C.

2-240-20 How must States account for funds?

- A. You, a State, must expend and account for assistance funds according to the State laws, and procedures you use to expend and account for your own funds.
- B. Your accounting and fiscal control procedures must meet the following standards.
 1. They must permit you to prepare the reports required by the assistance agreement.
 2. They must permit you to trace funds to a level of expenditures adequate to establish that the funds were used in compliance with the assistance agreement and the Surface Mining Control and Reclamation Act (SMCRA).
- C. You must ensure that your subgrantees and cost-type contractors meet these financial management standards.

2-240-30 What financial management standards apply to recipients other than States?

You, a recipient other than a State, must meet the following standards. You must also ensure that your subrecipients meet these standards.

- A. You must make accurate, current, and complete disclosure of the financial results of program activities in the financial reports required by the assistance agreement.

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- B. You must maintain records which adequately identify the source, and use of funds for the activities supported by assistance funds. These records must contain information about awards, authorizations, obligations, unobligated balances, assets, liabilities, outlays, or expenditures, income, and subgrants.
- C. You must maintain an effective system of controls and accountability for all cash, real and personal property, and other assets. You must adequately safeguard all assets and property. You must ensure that assets, and property are only used for authorized purposes.
- D. You must compare actual expenditures with budgeted amounts. You must relate financial information to performance or productivity data. You should develop unit cost data as appropriate; however, we do not normally require unit cost data in your reports.
- E. You must follow the applicable Office of Management and Budget (OMB) cost principles, our program regulations, and the terms of the assistance agreement when you determine whether costs are reasonable, allowable and allocable.
- F. You must support accounting records with source documentation such as paid checks, bank Statements, invoices, payrolls, time and attendance records, contract and subgrant award documents, etc.
- G. If you receive advance payments, you must follow procedures to minimize the time between when you receive funds from the U.S. Treasury, and when you pay them out.
- H. You must have written procedures for your accounting system and operations.

2-240-40 Can we review your financial management system?

Yes, we may review the adequacy of your financial management system as part of a pre-award review or at any time after the award.

2-240-50 What is internal control?

- A. Internal control is an integral component of an organization's management. It provides reasonable assurance that the following objectives are being achieved.
 - 1. Operations are effective and efficient. Programs meet their missions, goals and objectives.
 - 2. Financial reporting is reliable.
 - 3. The organization is in compliance with applicable laws and regulations.
- B. The Government Accountability Office (GAO) has established the following standards for internal control (GAO/AIMD-00-21.3.1 11/99). Although these standards were developed for the Federal

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government, they may also be helpful for your organization.

1. Management and employees should establish and maintain an environment throughout the organization that sets a positive, and supportive attitude toward internal control and conscientious management.
2. Internal control should provide for an assessment of the risks the organization faces from both external, and internal sources.
3. Internal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives. Common internal control activities include the following:
 - a. Top level reviews of actual performance.
 - b. Reviews by management at the functional or activity level.
 - c. Management of human capital.
 - d. Controls over information processing.
 - e. Physical control over vulnerable assets.
 - f. Establishment and review of performance measures and indicators.
 - g. Segregation of duties.
 - h. Proper execution of transactions and events.
 - i. Accurate and timely recording of transactions and events.
 - j. Access restrictions to and accountability for resources and records.
 - k. Appropriate documentation of transactions and internal control.
4. Information should be recorded and communicated to management and others within the organization who need it. It should be in a form, and within a time frame that enables people to carry out their internal control, and other responsibilities.
5. Internal control monitoring should assess the quality of performance over time. It should also ensure that the findings of audits, and other reviews are promptly resolved.