

**FINANCIAL QUESTIONNAIRE:
EVALUATION OF FINANCIAL MANAGEMENT SYSTEMS**

Financial management system requirements for grantee organizations of the National Institutes of Health (NIH) are addressed in the NIH Grants Policy Statement (NIHGPS) and **Title 45 Code of Federal Regulations (CFR) Part 74.21**. Grantee organizations are expected to have certain systems, policies, and procedures in place for managing their own funds, equipment, and personnel. A system of clear roles and responsibilities should be delineated in each grantee organization, and should include the financial management systems. These systems include, but are not limited to, accounting, internal controls, and budgetary controls. Demonstration of a grantee's management capabilities is one of the evaluative criteria used in the administrative review process prior to issuance of an award. To encourage uniformity in the review of a grantee's financial management system, the NIH has developed a questionnaire entitled "Evaluation of Financial Management Systems." The questionnaire is a tool designed to assist both grantee and NIH staff in assessing the grantee's management capabilities. Concerns related to a grantee organization's management capabilities may result in the determination to withhold an award, or issuance of an award with special terms and conditions in accordance with **45 CFR 74.14**.

The questionnaire and related information follow.

EVALUATION OF FINANCIAL MANAGEMENT SYSTEMS
(Abbreviated Questionnaire)*

A. ACCOUNTING SYSTEM:	Comments
1. Is there a chart of accounts?	YES <input type="checkbox"/> NO <input type="checkbox"/>
2. Does the accounting system include a project cost ledger providing for the recording of expenditures for each program by required budget cost categories?	YES <input type="checkbox"/> NO <input type="checkbox"/>
3. How do employees account for their time and effort? Please explain.	
B. FINANCIAL CAPABILITY:	Comments
1. Does the organization prepare financial statements at least annually? (Provide a copy of latest Balance Sheet and Income Statement.)	YES <input type="checkbox"/> NO <input type="checkbox"/>
2. Has the organization established line(s) of credit? If so, identify source and amount.	YES <input type="checkbox"/> NO <input type="checkbox"/>
C. BUDGETARY CONTROLS:	Comments
1. Are there budgetary controls in effect (e.g. comparison of budget with actual expenditures on a monthly basis) to preclude drawing down federal funds in excess of: a. Total funds authorized on the Notice of Grant Award b. Total funds available for any cost category if restricted on the Notice of Grant Award.	YES <input type="checkbox"/> NO <input type="checkbox"/>
D. INTERNAL CONTROLS	Comments
What safeguards has the grantee instituted to ensure adequate internal controls in the company? Please describe. Some examples might be: <ul style="list-style-type: none"> • Accounting entries are supported by appropriate documentation; e.g. purchase orders and vouchers • Separation of responsibility in the receipt, payment, and recording of cash. 	

*For use primarily with new for-profit grantees (including SBIR/STTR organizations) to determine potential weaknesses in financial management systems. Responses may require that an in-depth review be performed.

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(Abbreviated Questionnaire)
FOR AWARDING COMPONENT INFORMATION ONLY

Provided below are some suggestions for the resolution of issues that may result from a negative answer to any of the questions on this Questionnaire. Definitions for items in bold print are attached.

Section A. Accounting System:

If the organization does not have a **chart of accounts**, then most likely the answers to the other questions in this section will also be "no". The organization needs to incorporate an accounting system that will track costs between direct and indirect costs (**general ledger**) as well as direct costs by project (**project ledger**). The organization will also need to establish a time and effort reporting system to track personnel costs by project. It is industry practice to require daily reporting of effort expended on individual projects or activities. This should be reported on an hourly basis, or in increments of an hour.

Section B. Financial Capability:

If the organization does not prepare financial statements at least annually, then request that they provide, at a minimum, a current internal **balance sheet** and **income statement**. The balance sheet items are used to compute the **current ratio**.

An organization does not necessarily need to have an established line of credit in order to be considered financially stable. However, any further action by grants management would be contingent upon the review of the information contained in the balance sheet and income statement.

Section C. Budgetary Controls:

The organization should establish a system to track expenditures against budget and/or funded amount.

Section D. Internal Controls:

The organization should describe how they plan to safeguard cash receipts and disbursements. One person should not have control over all aspects of the accounting system; for example, signing checks and making deposits. Exceptions should be documented in the grant file only after consultation with DFAS.

GRANTS MANAGEMENT INFORMATION: If the specialist reviewing the information provided in response to these questions requires any further assistance, the Division of Financial Advisory Services (DFAS) may be contacted on 496-2444. The address for DFAS is 6100/6B05, MSC 7540.

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DESCRIPTION OF MAJOR HEADINGS

Section A. Accounting System:

The grantee organization needs to incorporate an accounting system that will track costs between direct and indirect costs (**general ledger**) as well as direct costs by project (**project ledger**). The grantee will also need to establish a **time and effort reporting system** to track personnel costs by project. It is industry practice to require daily reporting of effort expended on individual projects or activities. This should be reported on an hourly basis, or in increments of an hour.

Section B. Financial Capability:

The grantee should prepare financial statements at least annually. At a minimum, current internal **balance sheet** and **income statements** are required. The balance sheet items are used to compute the **current ratio**.

Section C. Budgetary Controls:

The grantee should establish a system to track expenditures against budget and/or funded amounts.

Section D. Internal Controls:

The grantee should describe a plan to safeguard cash receipts and disbursements. One person should not have control over all aspects of the accounting system; for example, signing checks and making deposits as well.

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DEFINITIONS

1. Chart of Accounts – This is a list of a grantee organization's accounts identified by a specific number.
2. Balance Sheet – This is a statement of financial position of a grantee disclosing the assets, liabilities, and ownership at a given point in time.
3. Income Statement – This is a summary of the revenue and expenses of a grantee for a specified period of time, usually for an accounting year.
4. General Ledger – This summarizes all transactions affecting assets, liabilities, equity and operating revenue and expenses of a grantee.
5. Project Ledger – This is a subsidiary ledger containing data by cost element (for example, labor, materials, equipment, travel) for each project.
6. Current Ratio – This is a ratio computed by dividing current assets by current liabilities as reported on the balance sheet.

ACCOUNT CODE	TITLE
<u>Current Assets</u>	
1000	Cash
1020	Accounts Receivable
1040	Inventory - Work in Progress
1060	Prepayments
<u>Property, Plant, & Equipment</u>	
1100	Equipment - Lab
1101	Accumulated Depreciation-Lab Equip
1110	Equipment - Office
1111	Accumulated Depreciation-Office Equip
1200	Leasehold Improvements
1201	Accumulated Amortization-Leasehold Improvement
<u>Other Assets</u>	
1800	Deposits
<u>Current Liabilities</u>	
2000	Current Note Payable
2010	Accounts Payable
2030	Accrued Wages and Payroll Taxes Withheld
<u>Long Term Liabilities</u>	
2100	Note Payable
<u>Equity</u>	
3000	Common Stock
3001	Retained Earnings
<u>Revenue</u>	
4000	Commercial Sales
4010	Grant Revenue
4020	Interest Income
<u>Direct Program Costs</u>	
5000	Direct Labor
5100	Consultants
5200	Equipment
5300	Materials and Supplies
5400	Travel
5500	Other/Misc
5600	Consortium/Contractual
<u>Fringe Benefits</u>	
6010	Vacation
6015	Holidays
6020	Sick Leave
6025	Payroll Taxes
6030	401(k) Plan
6035	Group Insurance
<u>Overhead</u>	
7000	Overhead Labor
7110	Amortization-Leasehold Improvements
7120	Depreciation-Lab Equipment
7130	Depreciation-Office Equipment
7140	Rent
7150	Utilities
7160	Telephone
7170	Equipment Rental
7180	Expendable Equipment
7190	Repairs & Maintenance
7200	General Lab Supplies
7210	Travel
7220	Consultants

7230 Waste Diposal
7240 Training

G&A

8000 G&A Labor
8010 Amortization-Leasehold Improvements
8015 Depreciation-Office Equipment
8020 Rent
8030 Utilities
8040 Telephone
8050 Equipment Rental
8060 Expendable Equipment
8070 Repairs & Maintenance
8080 Office Supplies
8090 Travel
8100 Consultants
8110 Legal & Accounting
8120 Liability Insurance
8130 Licenses
8140 Dues & Subscriptions
8150 Postage
8160 Recruitment/Relocation

8800 IR&D Labor

Unallowables

9000 Interest Expense
9010 Contributions
9015 Exhibits