



NYC Administration for Children's Services
Administrative Advisory for Month End Closing
Head Start Delegate Agencies

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PROCEDURES FOR MONTH END CLOSING

Introduction

The goal of any Agency should be the ability to produce timely and accurate financial statements within a reasonable period of time after the month has ended. The financial statements are critical to management in their ability to understand the financial health of the Agency and allow management the opportunity to make decisions in a timely manner. Specifically for Head Start, all sub-recipients are required to have financial management systems that provide timely, current and complete disclosure of financial information. Regulations related to Head Start financial management can be found in 45 CFR 75.302 (refer to Appendix 1).

Monthly closing entails the following major tasks: recording all financial transactions, reconciling balance sheet accounts, review of income and expense accounts, preparing financial statements and the final review by the Chief Financial Officer (CFO) or the Director of Finance. When all closing procedures are done, the accounting period is closed in the system preventing future transactions from inadvertently being recorded in a period that has been reported on. If further adjustments need to be recorded in a closed period, the Agency has to establish a policy on when to open a closed period and clearly identify who is authorized to do so. This control mitigates the risk of any unauthorized adjustments made to the books.

Written procedures that maximize the resources of the Agency will lead to more efficient processes and timely financial reporting. Analyzing current software systems, staff resources and internal controls are an important part of this process to ensure that systems are in place throughout the Agency. The result will be an Agency that consistently produces timely and accurate information that can be used to obtain a complete picture of its financial status.

Five Steps in the Accounting Cycle

Transaction

The transaction is the starting point of the accounting cycle. The transaction occurs when an Agency does activities that cause it to gain, lose or exchange assets. Examples of transactions include buying supplies, buying property or taking out loans.

Journal Entry

Journal entries are used to document business transactions. The journal entry records all of the essential information about the transaction. It records the date of the transaction, the accounts involved and an explanation of the transaction. For example, if you disposed of equipment for cash, the journal entry would indicate the date it occurred and would show the increase in the cash account and decrease in the equipment account. It also would contain a note such as "disposition of equipment" to indicate what happened.

General Ledger

The general ledger keeps a running tally of the Agency's accounts. There are five basic categories for all accounts in the general ledger for non-profit agencies: assets, liabilities, net assets, revenues and expenses. Each specific account is listed under one of these categories. After a transaction is posted, the resulting accounts are debited or credited on the general ledger

to reflect this change. The general ledger is supported by subsidiary ledgers that provide details for certain accounts. The general ledger is the foundation for the accumulation of data and production of reports.

Trial Balance

The general ledger must be added up at the end of the accounting period to show where each account stands and summarized in a trial balance report. Each account must be totaled to show its current value at the end of each month.

Financial Statements

After tallying the accounts in the general ledger, the information can be used to produce financial statements such as the balance sheet or income statement. These are used to assess an Agency's standing at the end of a period. The balance sheet, for example, lists the Agency's assets and liabilities while the income statement summarizes revenues and expenses for the period. The statements are used by management, governing board members and others to assess the financial well-being of the Agency.

Chart of Accounts Overview

The chart of accounts is the framework for the general ledger system and the basis for the accounting system. The chart of accounts consists of account titles and account numbers assigned to the titles. General ledger accounts are used to accumulate transactions and the impact of these transactions on each asset, liability, net asset, revenue, expense, and gain and loss account.

A chart of accounts is comprised of six types of accounts:

1. Assets
2. Liabilities
3. Net Assets
4. Revenues
5. Expenses
6. Gains and Losses

Each account number must be preceded by a two-digit department number and a three-digit project/function code.

Note: Alternatively, the chart of accounts may be numbered based on a structure to clearly identify accounts especially if the Agency has multiple sources of funding and needs to report a general ledger by funding source. The following may be used to create account numbers using numeric and alphanumeric characters:

- *Fund*
- *Program*
- *Account number*
- *Account description*

For example, an Agency who is receiving multiple funding from ACS for its EarlyLearn program can differentiate the salaries expense account from the different funding sources by assigning a different funding code to the various programs as follows:

Fund	Program	Account Number	Account Description	Final Account Name
001	Child Care	500001	Salaries	001-500001 Salaries
002	Child Care UPK	500001	Salaries	002-500001 Salaries
003	Head Start	500001	Salaries	003-500001 Salaries
004	Head Start UPK	500001	Salaries	004-500001 Salaries

If applied to other accounts, the Agency will be able to extract General ledger details specific to the program only.

Distribution of Chart of Accounts

All Agency employees involved with account coding or budgetary responsibilities will be issued a current chart of accounts or the section of the chart of accounts applicable to their program. As the chart of accounts is revised, an updated copy of the chart of accounts should be promptly distributed to these individuals.

Control of Chart of Accounts

The Director of Finance monitors and controls the chart of accounts, including all account maintenance, such as additions and deletions. Any additions or deletions of accounts must be approved by the Director of Finance who ensures that the chart of accounts is consistent with the organizational structure of the Agency and meets the needs of each division and department.

Journal Entries

- All general ledger entries that do not originate from a subsidiary ledger must be supported by journal vouchers or other documentation, including an explanation of each such entry. Examples of such journal entries are:
 - Recording of non-cash transactions
 - Corrections of posting errors
 - Nonrecurring accruals of income and expenses

- Some journal entries, called recurring journal entries, occur in every accounting period. These entries may include, but are not limited to:
 - Depreciation of fixed assets
 - Amortization of prepaid expenses
 - Accruals of recurring expenses
 - Amortization of deferred revenue

- Recurring journal entries must be supported by a schedule associated with the underlying asset or liability account or, in the case of short-term recurring journal entries or immaterial items, a journal voucher.

- All journal entries not originating from subsidiary ledgers must be authorized in writing by the Director of Finance by initialing or signing the entries.

Accounting Estimates

Agencies may utilize numerous estimates in the preparation of its interim and annual financial statements. Some of those estimates include:

1. Useful life of property and equipment
2. Fair market values of investments
3. Fair market values of donated assets
4. Values of contributed services
5. Cost allocation calculations

The Director of Finance will reassess, review, and approve all estimates. All conclusions, bases, and other elements associated with each accounting estimate must be documented in writing. All material estimates, and changes in estimates from one year to the next, must be disclosed to the Finance Committee, the Audit Committee, and the external audit firm.

Month-end Closing Procedures

Throughout the month, journal entry transactions are created by processing billings and cash receipts, etc. The following is a checklist of recommended steps and reports to complete a month end closing for the Agency's books as a whole:

Activity/Task		Staff Responsible
Asset Account Analysis and Revenue Recognition Activities		
<i>Cash Accounts</i>		
1.1	Print cash receipts summary reports after final day's receipts are recorded	Staff
1.2	Close cash receipts and post to General Ledger (GL)	Senior Staff
1.3	Complete bank reconciliations for each cash account	Staff
1.4	Review and approve bank reconciliations; ensure all reconciling items have been researched and properly resolved	Senior Staff
<i>Accounts Receivable</i>		
2.1	Prepare vouchers or invoices based on personnel and OTPS expenses allocated to government grants/contracts or restricted funds	Staff
2.2	Generate A/R Aging report	Staff
2.3	Review A/R Aging report and determine strategy for collection or write-off of aging A/R	Senior Staff

2.4	Post pledges receivable to GL and reconcile to balances per development department	Staff
2.5	Reconcile to revenue reports from the development department and update GL	Senior Staff
<i>Prepaid Expenses</i>		
3.1	Establish pre-paid expenses (e.g., insurance, interest expense, etc.) to recognize expense in proper month	Senior Staff
<i>Fixed Assets</i>		
4.1	Review new purchases made in the previous month to verify they have been recorded properly with the correct depreciation schedule	Senior Staff
4.2	Review disposals of fixed assets and remove from fixed asset records	Senior Staff
4.3	Record depreciation expense for the current month	Senior Staff
<i>Investments</i>		
5.1	Post interest and dividend income to GL	Senior Staff
5.2	Reconcile any investment activities for the period	Senior Staff
<i>Other Assets</i>		
6.1	Ensure any other asset accounts are current and reconcile as necessary	Senior Staff
Accounts Payable / Liability Account Analysis		
<i>Payroll</i>		
7.1	Post payroll to GL	Senior Staff
<i>Accounts Payable (OTPS other than personnel services)</i>		
8.1	Submit all employee expense reports (Including original backup documentation) and vendor invoices to finance	Program Staff
8.2	Review credit card statements and other reimbursement expense reports; match to supporting documentation for approved travel and other reimbursement expenses; verify coding	Staff
8.3	Close A/P and post to GL	Staff
8.4	Review A/P and other payables for possible accrual	Senior Staff
<i>Notes Payable</i>		
9.1	As applicable, analyze notes payable accounts (e.g., notes payable for mortgages or lines of credit) and post any unrecorded interest and	Senior Staff

	principal outstanding; reconcile to statements received from source(s) of financing	
<i>Other Liabilities</i>		
10.1	Ensure any other liability accounts are current and reconcile as necessary	Senior Staff
Reporting		
<i>Financial Reporting Activities</i>		
11.1	Run preliminary budget-to-actual expense reports by department, program, and contract	Staff
11.2	Review and analyze month-end financial data; record adjustments as necessary	Senior Staff
11.3	Generate full final financial package and complete month-end financial statements for executive team and board	Senior Staff
11.4	Distribute appropriate reports to executive team, board, and program and development managers	Senior Staff
11.5	Meet with appropriate management levels to discuss variances and projections	Senior Staff
QUARTERLY Close Activities		
<i>The following activities should be part of the closing process for the months ending a quarter, and should be completed prior to the issuance of that month/quarter's financial statements.</i>		
Q.1	Review open purchase orders and un-invoiced services rendered to establish accruals or encumbrances against budget	Staff
Q.2	Reconcile 941 quarterly tax filings to GL	Staff
Q.3	Review 941 quarterly tax filing reconciliations	Senior Staff
Q.4	Analyze net asset accounts to ensure net assets are properly classified as unrestricted, temporarily restricted or permanently restricted, including releasing any restrictions that have been satisfied	Senior Staff
Q.5	<i>(After issuance of financial statements)</i> Conduct quarterly financial review incorporating senior leadership from finance, administration and program	Senior Staff

After closing, the monthly reports must be shared with the Head Start governing board and policy council.

Appendix 1 - Standards for Financial Management Systems

In accordance with 45 CFR Part 75, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for HHS Awards*, Section 75.302, Head Start delegate agencies must maintain financial management systems that provide for the following:

1. Identification, in all its accounts, of all Federal awards received and expended and the Federal programs under which they were received.
2. Accurate, current, and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements of 45 CFR Parts 75.341, Financial Reporting, and 75.342, Monitoring and Reporting Program Performance, and/or the award.
3. Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income, and interest and be fully supported by source documentation.
4. Effective control over and accountability for all funds, property, and other assets. Agencies must adequately safeguard all such assets and ensure they are used solely for authorized purposes.
5. Comparison of outlays with budget amounts for each award.
6. Information that relates financial data to performance accomplishments and demonstrates cost effective practices as required by funding sources. (*45 CFR Part 75.301, Performance Measurement*)
7. Written procedures to minimize the time elapsing between the transfer of funds and disbursement by Agencies. Advance payments must be limited to the minimum amount needed and be timed to be in accordance with actual, immediate cash requirements. . *45 CFR Part 75.305, Payment*
8. Written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of 45 CFR Part 75 Subpart E, Cost Principles, and the terms and conditions of the award.