

Financial Management Intermediate Level. Early Head Start Directors' Institute. Washington, DC.

Colleen Mendel: ...Kentucky University in Bowling Green, Kentucky, however, I live in Park City, Utah. It was just, yeah, the home team is here in the front.

The, you know, with this electronic age, you can do your work pretty much from lots of different places so we have a staff of people who are literally strung out all over and have the opportunity to not only work with Head Start programs across the country, but also to operate a Head Start and Early Head Start program, plus child care programs on the campus of Western Kentucky University and in some of our housing authority partners as well as having two delegate agencies - one school system and one community action agency. And I tell you all that to simply reassure you that I feel your pain.

Okay, someone asked me one time whether I thought we were better T and TA providers since we actually ran programs and my response, which I still think is true, is that "I'm not sure that we're any better, but we're sure as heck more sympathetic."

And what we'll be talking about today are issues that I have had the opportunity to work on and sort of research as well as try to implement and understand the the issues I think that face all of us as we are trying to take this complex program that is Head Start and use all of the tools that we are given, both regulatory and best practice, and focus them, target them to serve kids and families, to motivate and honor staff and to be good stewards of federal funds.

So we are here this morning to really focus on that last piece, the stewardship of federal dollars, looking at the issues of internal control and risk management within a framework of systems and services and the way that our Head Start systems really interrelate and interconnect with those Head Start services.

I've been asked to talk about not OMB circulars or 45CFR72 or 90, 7492, but rather about our stewardship responsibility, our responsibility as fiscal managers to safeguard federal funds and provide some information, some basis about the way that we can do that within the federal government's defined system of internal control - those words that we see in our audit that really, which have much broader implications, and then to focus us a bit more more specifically on the area of risk management.

Many of you, as hands showed yesterday morning when one of our speakers asked, had read the report on risk management that the GAO put out. If you haven't, it is a very useful document simply to give us some really good advice. It focuses on the role of the federal government for the most part, but there are so many things in it that we can just take and apply in our own programs. The GAO has also shared with us a couple of very good pieces on internal control.

One called Standards for Internal Control in the Federal Government that defines the specific standards that we will be talking about this morning and another that I think you might want to consider as you address issues of on-going monitoring and self assessment, which is an internal control management and evaluation tool, is just replete with questions and sort of guidance on how to look at many of our areas.

Obviously, because of the size of these, they are they are not pieces that are part of your of your handouts for the day but they are readily available on the web and if any of you are interested, you certainly, I always find that the easiest way to get anything is just to Google it rather than to do those long da-da-da-da.gov./, okay. Yes? Guest from audience: Who was the author of those reports?

Colleen: They are both GAO, they are all three GAO reports, so you can go to the GAO website, you can go to [internalcontrol/gao](#), you can go to [riskmanagement gao](#) and all of those things will just pop up magically on Google. But if you would like website addresses, please see me afterwards because I do have those right here and you can just zero right in on exactly the website. So those are the things that we're going to deal with, systems, services, internal control, and risk management, assessment and identification.

The learning outcomes are listed in your handouts and we hope that in addition to fulfilling our objectives, you will take away some new knowledge and skills and that that will provide you with additional information - that gentleman, okay, and two back there, thank you - to help us really improve our programs and engage in best practice activities. Where we would like to start then this morning is with the notion that fiscal management is first, inextricably interconnected and interrelated with every single thing that happens in a Head Start program.

Those of you who have been engaging with PRISM in the last couple of years will know that part of the focus through that PRISM framework, which you will find, I believe, on the third page of your handout, talks about the way that our systems interconnect with our services. And it's gonna be important to take a look at just why something is happening, not just that it is happening.

For example, if we see that vacancies are not filled in a timely manner and supplies are in short supply, and we have not purchased the internet service to help us with our analysis of our child assessment, we take, excuse me, those three things together and we can see that they all have fiscal implications. Okay, so perhaps it isn't an issue in so much each of those service areas, supplies, human resources, curriculum and assessment, but rather an issue of inappropriate financial priorities, poor fiscal management or what have you.

So that's one of the ways that we see those interactions and interrelationships occur. Take just a minute and look at that framework and there should be two of them in there. The first one is a systems to services and that's the one that is in the PRISM. Let's take just a minute and sort of go down to the fiscal system there at the bottom and let's go across and just throw out very quickly some ways that the fiscal system impacts service areas. Let's take prevention and intervention, that's the first column, right? How do you see fiscal and prevention and intervention interrelating, how are they connected? Pardon me?

Guest from audience: Competent, well-paid teachers. Colleen: Competent well-paid folks, teachers, family service folks, health service folks, all dealing with the health, education, with the issues of screening and so on, bringing those people together and making sure that we are compensating them appropriately. Wonderful. Okay. What about parent involvement? How, where do parent involvement and fiscal come together, what sorts of things?

Guest from audience: Budget understanding. Colleen: Budget understanding, you know both at the center at the parent committee level and at the policy council level, and, I'm sorry? Guest from audience: Any funding for any type of training for the parents, GED classes.

Colleen: Absolutely, we we set aside, we hope, resources to support parent activity funds, to support parent training, wonderful. Let's take curriculum assessment, how does fiscal interact with curriculum assessment? It's a little harder isn't it? Yeah? Guest from audience: You have to have materials, you know, to use in the classroom. Sometimes the system is measured by outcomes so that might be the basis of what they are paying for.

Colleen: Absolutely. Guest from audience: (inaudible) Colleen: Yeah but clearly you gotta buy the stuff, okay. Guest from audience: You have to train people.

Colleen: And you have to train people. Guest from audience: And and you need to monitor your staff, need to go out and mentor and monitor those folks.

Colleen: And all, and time is money and materials are money and internet time and internet access is money. Fiscal though isn't just there to pay for things, it is there to support our programming. I think Sharon's point about the the importance of, in parent involvement, of budget understanding among our parents, our decision-makers, is of crucial importance. We had a vice president of fiscal affairs at the university for a number of years who is an economist and just a fabulous guy and a really good thinker.

He worked so closely with us, also did a lot of work with other Head Start programs bringing to us the fiscal philosophy which oftentimes is not part of the fiscal mentality. And his philosophy was "Just say yes." And people would go whoa, that's fiscally irresponsible. And he said "No, it is the responsibility of our fiscal managers and our financial systems to enable the program to do what needs to be done."

So part of our role on the program side as directors, is to understand the nuances of that financial system so that we can be respectful of the constraints, of the protections, of the safeguards, that make sure that that financial system provides us with the wherewithal to do the best that we can with the resources that are granted to us. So I think that that's, you know, just in a nutshell, a very quick way of seeing how financial management really interconnects across the service areas of Head Start.

Now let's take a look at the next page which is the systems to systems interaction, and this is a form that I developed, not something that's part of the PRISM, but certainly a piece that we might want to look at and think about because financial management doesn't just impact the broader services that we offer, but certainly impacts other systems. So let's take a couple. Planning, how does financial management interconnect or interrelate with planning?

Guest from audience: (Inaudible) Colleen: Go ahead and then we'll get to you. Guest from audience: You've got a budget and in order to plan (inaudible)

Colleen: Yeah, this is not a program where we just keep going to the well for money as we need it. We have a set amount that we have to work within and we need to plan and prioritize based on those resources. Jose? Jose: Yeah, you plan based on your assessment then you identify areas of need and then you plan appropriately to finance those.

Colleen: Wonderful, based on our our assessments, provide us with direction and our direction lets us know what resources we need. Do we need to purchase or build a facility in a given area? Do we need to set aside more for transportation because we have a pocket of families in a remote location in our counties? Whatever the issue might be that the the connection between planning and financial management, it's really really tight, or at least should be. Okay?

What about the connection, lets see, Virginia mentioned as we were talking about prevention earlier, mentioned some of the other areas what would also slide over into an interrelationship between human resources and fiscal management. Clearly having the resources to attract and retain qualified staff, and that certainly is an issue for us as as we are looking at potential reauthorization which will ratchet up staff qualifications, and the necessity of our program's compensating those people adequately so that we can retain their services.

Lets see, let's take another one, record keeping and reporting. How does financial connect there? It's not a trick question, OK? Guest from audience: Pay for Internet or web based services. Colleen: Yes, I mean one of the the the most efficient ways to be connected these days is electronically, but it is not cheap or free. Okay? So, what else, what other connections between recording keeping reporting and...

Guest from audience: Budget management, I mean... Colleen: Yeah, this is, you need to have budget reports, you need to keep source documentation and records so that you are really knowing what's going on. Part of the reporting piece is not just knowing what we spent but being able to forecast what we need. So, to my mind, there are just so many very very strong connections between the financial management system and our broader set of systems as well as the services that we provide.

So, with that as a framework for our discussions for the rest of the morning, what I'd like you to think about is how these these systems and services, within the framework of financial management, can be improved, can be strengthened and so that we really can be the most effective stewards of the dollars that we are given.

So as we look at these broad range of systems and the the services that we provide, we have the opportunity to take a look from a financial management standpoint, at best practice, at information that that the federal government I think has very smartly given us around internal control and risk management, and then use it in our financial piece. But also think more broadly about how that then blossoms to connect with all of the aspects of our program.

You might want to as as we go through some of the pieces, take a look at several elements of your planner, and the first is on page nine. On page nine of your planner there is a section of questions on financial management and these questions focus us on focus us on some of these issues that we have have just mentioned. And remember that part of our time together is to do some personal self-assessment, to make some determinations about what our strengths are

and those areas where we want to grow and develop, gather more information, work on and apply in our program.

So those particular questions might help us as we define those areas. Then I would turn your attention to page nineteen which talks about where we stand in our improvement areas, again, taking that information and translating it into personal goals and personal accolades. You know, we need to pat ourselves on the back from time to time. I have a good friend who is a Mississippi guy and he describes himself as a good old country boy and he said, he says it's a poor frog that doesn't praise his own pond.

And we need to celebrate our strengths, we need to say I am good at this, our agency is good at this and then build on those things. So take the time not just to look at the improvement areas, but really to affirm, honor and celebrate those strengths that you and your organization bring to our work. And then, finally, if you will look on pages 22 and 23, you will see a check list that also will give you some insights as to some of the directions that you might take and some of the areas that you might want to explore in greater depth.

And, again, I think all of those relate to this interconnectedness that we see in Head Start with the financial management system and the broader services and other systems that characterize our operations. So that just kind of gives you the framework of information that ties in with the whole piece of what we're doing during our two days together at the Institute. Okay, now given that, any questions or insights around systems to services linkages and particularly the financial arena there? Okay, yes?

Guest from audience: With the (inaudible) initiative that seems to be pushing the grantees toward, I'm kind of a little leery about (inaudible) the school board on grantee school districts so the school district child care will be (inaudible) I'm concerned about fiscally how that's going to leave me (inaudible) I really need some assistance in cost allocation plans, how do we get started on something like that if that's not already in place?

Colleen: You know, the issue of cost allocation is one that is facing many of us as we move to be more entrepreneurial because there are not enough resources in Head Start to fill the needs. There never have been, that's why we have a nonfederal share, that's why we have MATCH. There's a recognition that we have to reach out and bring in additional resources when we are dealing with money. When money is changing hands, those costs need to be allocated in responsible ways.

Now this is certainly something that you might bring up in the synthesis groups and really get some dialogue going among the smaller group of people and I would also encourage you to let the planners of this group know because there is going to be follow-up. We are gonna have just a variety of things, mostly electronic, some telephone pieces, some almost tutorials, excuse me, and cost allocation may well be a really really good topic for that.

I, I think the basic piece of information, thank you, that we all need as we think about cost allocation, is that what's good for Head Start in terms of the processes that we go through and so on, are those same processes that we need to carry over into the other funding sources so that we have consistency of cost categories, of accounting for funds, and then making those difficult but necessary determinations about people's time and supplies and so on.

And that that is the slogging part, you know, there's issues of creating systems and procedures and so on, that undergird the work that we do and then there is taking purchase order information and salary information line by line, number by number, person by person and making a determination. How much time is Sharon spending with this project as opposed to that project? How much time is Judy spending in the record keeping and data entry for X as opposed to Y?

Are we using different levels of supplies and so on? It's a complicated system, but are others of you engaged in cost allocation issues, successfully you think? Oh, oops, oops, yeah? Guest from audience: It's hard.

Colleen: It is hard, but once you get the system in place, it's sort of a matter of plugging things in. So, perhaps within your synthesis groups or certainly if you want to stay afterwards we can talk a little bit more about it as well, and chat with some of your colleagues. Because once you do get that system in place, it flows much more easily.

And the other thing that's happening is that I think the federal government understands much better than they did many years ago, what the intricacies are and are more understanding about the way that we blend children and have staff involved in in several different projects and so on, so that makes our lives easier. Okay, any any other pieces of the interrelationship? Well, let's then talk a bit about internal control. Now, internal control is a term that I certainly associated pretty much narrowly with financial management.

You know, it's it's a word, couple of words that we see in our audit report and I go okay, yeah, it must just be some of those things that help us safeguard our funds. Well, it is considerably more than that. Internal control is synonymous with management control. It is a major tool for us. The concepts which make up internal control are a tool for us in managing our program and it talks about the whole the whole sense of internal control includes the plan of organization, your methods and procedures.

It includes those policies, the human resources that make up what you do and how you do it - the job descriptions which guide their work. So, it really is an all-encompassing set of standards divided into five key areas, which are designed, first and foremost, to ensure that we are as effective and efficient as we can possibly be in our work. And then the second objective has to do with being fiscally responsible with maintaining the kind of reliable reports that each of us needs in order to move forward and make those good decisions, prioritize and so on.

And then finally, to ensure that we are complying with the laws and regulations that govern our work. And in doing that, the set of internal control standards includes five key areas: the control environment; risk assessment; control activities; information communication; and monitoring. And I'd like to take each of these - but let me first ask, are is is this conceptually and and sort of in-depth something that you already know about? Are you are you familiar, could you tell me what is part of control environment? I see a couple of no's, any any yes's?

Yeah, I I'm right there with you because before I really started focusing on this, they were just words that were kind of out there. And I I had to think about and wrack my brain about what fits here and what fits there. But, as I did that, it was one of these "aha" experiences that says "Wow, this is a framework that I can use, that I can use as part of my self-assessment, that I can use as part of my on-going monitoring, that I can use particularly in training for my managers, as well as fiscal folks."

About how to see an organization and our responsibilities to be accountable and to be good stewards in that organization within this framework. So I hope that at least a few of you might have that "aha" experience as well as as we talk through this, I think, very smart framework that we've been provided with. So the first piece of internal control is the control environment, and the control environment is made up of just that, the environment of our organization; its climate, its culture, its structure, its values.

What are our line of authority, what sort of delegation do we do? Are we an organization committed to competence, or are we an organization mired in mediocrity? You know, letting people slide, letting things slide. Those are pieces of organizational culture. There was a wonderful article that came out in May of this year from Ruth Ellen Hamilton and the Aspen Institute and it talks about the value of corporate values. I think that I think that's the name of it, if not, it's close.

And essentially what they said is that this study looked at successful and less successful corporations, organizations for the most part, that were profit-making and so on. But but this is equally and perhaps more relevant in the work that we do, and here's what they found. The most successful corporations had a couple of very key things in common. One was that they had a clearly articulated set of values and secondly, those values were modeled by their leaders. And that sort of in a nutshell talks about this issue of a control environment.

It's it is the way that people feel and the the sort of milieu in which they work with us, for us, and for children and families. So if we have, as one of our core values, something around ethics, integrity, that sort of thing, and we, as leaders, model that, are very careful with our expenditures of funds, don't, you know, we go down the straight and narrow. As opposed to "Well, you know we can't do this with Head Start money but if we would just do a little bit over here or a little bit over there, we could free some up, kind of in the back door."

That's, those are both control environments, one, I would say, is considerably healthier than the other. But we saw a lot of control environments in the news in 2002 when Enron and Worldcom were in the papers. Clearly, their organizational culture, climate and values were questionable. But people somehow felt free to do some of the kinds of things that they were doing. Jose?

Jose: Do the the financial management plan that integrates all of the components in that system, that's supposed to facilitate the expenditures of your funds, not to be a obstruction to it. Colleen: Absolutely, just say yes, yeah. Figure out a way to do it but do it responsibly, do it with appropriate documentation, absolutely.

Jose: Yeah and and if you have that plan already approved by your board and your policy council, if they okay your method or mode of operation so that by the time you, as a director, do something it's already going through the system in the due process that is required by the plan.

Colleen: You know, and and this whole issue of the board being engaged with financial management, having an audit committee, having the auditor connect directly with the board, as opposed to through a CEO, all of those things bring additional safeguards to our work and our part of our control environment. Make sense? Okay. So that's something real important to think about, what what is the climate, what is the environment of our organization.

The second piece of internal control has to do with risk assessment and risk assessment is looking at specifically those thing which might stand in the way of our ability to achieve our objectives. And, while I see that you're turning pages, I want to just highlight what is in your handout. This particular part on internal control was excerpted and adapted from an something that the feds had put together for federal agency managers.

And as I was hunting and reading and researching I came upon this - it's not designed for us outside of the federal government - but gosh, it gives a lot of good advice so I figured, you know, we may as well appropriate it and really really use some of the techniques that the federal government believes is the best practice for their own managers.

And what they have done is provide us with some examples, some information about each of these areas of internal control, and I think that it it certainly served me well in terms of me having a better understanding of the application of these standards and techniques. So, in any case, the issue of risk assessment has to do with identifying, assessing or analyzing and then managing any issues which might get in the way of our ability to fulfill our mission, to complete our objectives. And we need to look both internally and externally.

Certainly an internal piece is having enough money; an internal piece is might be allocating costs responsibly and maintaining documentation about how you did that. Externally, on the other hand, there's a lot of stuff going on particularly today in our world. We have a Head Start reauthorization bill that we are waiting breathlessly for. You know, what's it gonna say, what's it gonna mean? What kind of constraints is it going to place on our resources? What kind of opportunities is it going to open to us? What sort of a political environment do we operate in today?

Is it one of of generous embracing of the low-income community or is it one that that stands off and says that this is a local issue and people and churches and community organizations should handle those things at a local level rather than a government level? Those are all issues that become a part of the area of risk assessment - the economic situation, the political climate, the social climate, the technological climate of of the country, of our areas, even of our neighborhoods. So, what are we seeing out there? Many of us are finding influxes of language minorities into our programs.

That's part of the external climate, but it says a lot about how we need to operate from a financial management standpoint. We've got to hire people with particular skills, sometimes those skills require premium pay. We have to translate materials; that adds extra cost, both for the translation and for the extra printing and on and on. So, many of these issues certainly become part of the area of financial management, and then we have to develop processes, once we've identified what the issues are, for deciding how important they are to our daily work.

You know, risk is something that is simply a part of daily life. It is a risk to get out of bed in the morning, right? It's also a risk not to get out of bed. Okay? So we weigh that every day and in everything that we do. When we cross a

street we are doing risk identification, risk assessment, and risk management. You know, we identify, is something coming? We assess whether we're fast enough to get across before it does, and we manage it by deciding how quickly we will move or how long we will wait.

Very very simple way of looking at it but that's the process that we go through as we look at issues of risk. There are two words that I'd like you to take away as tools in risk management, risk assessment and those are impact and likelihood. What is the likelihood that something is going to happen? And, if it does, what would its impact be on our performance and/or on our reputation, because both of those are important elements? And here's a an example, let's let's think about fidelity bonding. We all have fidelity bonds in our organizations, right? Somebody or some bodies are bonded.

Is fidelity bonding expensive or cheap, relatively speaking? It's cheap. Why? Guest from audience: Because the likelihood of needing it is low. Colleen: Exactly. Most fiscal people do not embezzle, do not engage in fraud and do not abscond with our money. Okay, but when they do, we've got to be protected, so because that risk is spread out broadly and that insurance is infrequently used, the insurance industry is able to provide it less expensively.

Let's take another piece, what about health insurance, is it expensive or cheap? It's expensive. Why? Guest from audience: (inaudible)

Colleen: Cause it, people get sick, people have accidents and medical and the other piece of that - yes, people get sick, people have accidents, but the impact when you do is what? It's very, medical, good quality medical care, probably even mediocre medical care is expensive. So to insure that is at a much higher price because of the likelihood that something will happen and the impact if it does. Okay, does that sort of process make sense? Alright, so that's risk assessment and we'll talk a little more about that in a bit.

Control activities are at the core, to my mind, of internal control and those control activities are the specific things that we do to make sure that our climate and culture and values are operationalized, are institutionalized, that we have procedures in place to handle the activities that need to be handled, that we separate duties appropriately so that nobody is tempted to play fast and loose with with our resources and so on. So these are the oversight processes, the policies and procedures, our techniques and our metrics or performance measures.

Part and parcel of just our general set of personnel and operating polices and procedures, of financial policies and procedures, of our on-going monitoring systems, of our reporting systems. You know, this is kind of where all those nitty gritty hard copy pieces live and exist. And here's some examples - separation of duties. Why do we separate duties in our fiscal office? Guest from audience: (inaudible)

Colleen: I'm sorry? Guest from audience: Risk management. Colleen: Right, risk management, yeah, so so as not to to allow temptation as as broadly in the door and so there was another one over here that was real... Guest from audience: Checks and balances.

Colleen: Yeah, yeah, we we want to be sure that w40 are providing the appropriate level of checks without overdoing it. Okay, now think about separation of duties. I'm at a university, we have our accounting office and our payroll office are in one building, our purchasing people are in another building at the far end of the campus. Separation of duties is pretty easy for us. Okay, but what if I am a small rural community action agency or a single purpose agency and I have a total of two fiscal staff. My fiscal department consists of a fiscal officer and a clerk.

Where is the risk greater? At that small agency because I don't have the luxury of parceling things out and passing them around, so my control activities need to be more creative. I need to think about well, should there be some authorizations outside of the fiscal office that would normally occur within the fiscal office? How can we take that riskier situation and make it work in a responsible and accountable fashion? And so each of us needs to think about the level of risk. When I think about separation of duties, it's not an issue.

But maybe when Jose does, it's something that he has to give a lot more thought to because it's more difficult. Okay? So control over information processing, another real important control activity that has to do with access that has to do

with hacking. Are things password protected? Can anybody get into anything at any time? I sure hope not. How are we how are we managing our inventory, physical control over assets? Are things that can develop legs safeguarded, are they locked up or are they left out? Do we have inventory inventory control tags?

Do we do inventory on a regular basis? Do we have a policy and procedure for that? All of these things are part of our control activities. Okay? And then the next piece of information of internal controls is information and communication and this very simply is making sure that the right people have the right information at the right time. Okay? Now what would some examples of that be in your program within the fiscal arena? Yes?

Guest from audience: I guess one thing would be if in the budget office if you're an organization that includes other people in in building your budget, that there needs to be a timeline to get information that's shared from center managers or private (inaudible) Colleen: Excellent. Guest from audience: So that you can then build your budget in a timely fashion.

Colleen: Yeah, it sure makes more sense to get information from the people in the field who are seeing that they have plenty of supplies or not enough supplies or plenty of help or not enough help, as opposed to sitting in your office with the door closed and a calculator. And saying, oh, you know, I think maybe.... So using that information, gathering that information and giving yourself enough time to do it in a so that you get good information, real important. Leslie?

Leslie: Monthly expense report. Colleen: Amen, a monthly expense report, you know, are we getting it, are we getting the June report in November? Or are we getting the June report in July - oh, February did you say? Jose: So it's gotta be timely, otherwise you can't manage. Colleen: Yeah, yeah.

Jose: In our in our system all the directors get a monthly report on monthly expenditures by line item that goes to the board that goes to the policy council, that's how they oversee that we're in compliance with our expenditures. Colleen: Yeah, absolutely critical. Jose: If I'm a director, if my budget is not there than I gotta go find out what's going on.

Colleen: Yep, having that information, you know, guessing is not a good way to manage your budget and, you know, we can do some estimates and so on, but if we don't have real numbers, then we cannot make good decisions. So that is probably one of the most critical financial tools that we have. Yeah?

Guest from audience: Also, something that has just come to light in our program recently, is we need to not only have the budget reports but we actually maybe need to set budget guidelines in advance so for example, travel. Because, I mean, that's more of an issue. In the past, we pretty much oh well, you have to go on these certain trips and that's okay, but now our travel budget is finite. I have \$3200 for teacher travel and so what we're going to need to do much more than ever before is go to that team and say, "This is how much money you have and so tell us how you want to spend it."

So that advance planning, you know, and I'm not an accountant, I'm a social worker. (Laughter) So I I think, you know, more and more, this this information we're getting today is so critical and the advance planning is is needs to be a piece of that.

Colleen: You know, and what that says to me is we also need to have some little red flags or something that pop up, you know, in this Thanksgiving time of the year you think about those little things in the turkey, you know, we need something that gives us some information. You know, if we get to a certain point, there needs to be something that pops up and says "Whoa," or "You are, you should be 75 percent of the way and you're 90 percent of the way." So we we have to not only look at what's there and what's left, but what we expect to happen in between - what's now and what's then.

Yeah, and then and I think your point about engaging your staff in the problem-solving around the use of scarce resources. It's what you mentioned as well, gathering information because this these times are gonna be tough folks, you know, just in case you left yesterday morning session feeling Pollyannaish, (Laughter) let me bring you back to reality. We are going to be doing some serious belt-tightening. Um, last year, what, we got a 1 percent increase, was it a 1 percent increase? Inflation was what, 3.3 percent?

You know, it does not take a statistician to see that we are falling behind, and so in order to maintain and maintain not only services but morale and commitment, we've got to reach out. We've got to reach across the fiscal bounds to the program bounds, from the central office to the centers, and engage everyone in this commitment that we make together to use our resources as wisely and responsibly and stretch them as far as possible.

So this issue of not just sitting in your office and decrying the fact that that budgets are tight is important to to share with staff, not just fiscal staff, but with program staff. So, my husband always says, don't get her started, but so I'm that's my my soapbox for this morning, but a real important point in the work that we do and certainly an integral part of our information and communication standard.

Then finally, the issue of monitoring, and this really is absolutely and utterly consistent with Head Start's system of on-going monitoring - looking at performance over time, identifying what we do when issues arise, ensuring that the findings or our audits, our self assessments, our on-going monitoring findings are addressed - not just that they are documented but that we actually engage in improvement activities.

And, making sure that this is an on-going process, not something like an audit that happens once a year, a self assessment that happens once a year, but certainly is part of on-going monitoring both by those of us in management positions and by the people in our fiscal offices who also should be helping us with those checks and balances and keeping things on an even keel because that's going to keep us out of trouble. Okay.

I'd ask now if you'd turn to the page in your handout that says Internal Control Worksheet and spend some time, um, this is a time when you can either introspect or if you would prefer, you know, some of us are introspectors and some of us like to think out loud and dialogue in order to get the juices flowing. So think about either independently or with with someone or ones at your table about some of these specific areas of internal control and how they relate to your program.

What I would encourage you to do is use this time to begin to think about what's gonna go on page 19, some of those areas that you would like to improve, particularly in the internal control arena of fiscal management. Do you need to take a look at the separation of duties in your fiscal office? Do you need to or want to work with your staff and your board to clearly articulate a set of organizational values and do training on those values so that you can create the most powerful environment for services? So, does the assignment make sense?

So let's take maybe five minutes and just kind of walk through those at your tables. I know that you have not had enough time to to really be introspective or to get any real good discussions going, but hopefully, if this has given you just a little time to think about the processes and perhaps apply them in your own local organizations. Guest from audience: (inaudible)

Colleen: Hm hmm, it would. Yes, um Lisa mentions that this might be a good synthesis activity, something to really talk about in your synthesis groups. Okay, small, in your small groups, absolutely. Um, the next piece that we would like to pursue has to do with with a bit more depth in the area of risk management and our friends at the Head Start Bureau have provided us with a really exceptional risk management tool in the area of finance and that is the Financial Checklist which, if you have not looked at it in depth this year, has been reorganized and to my mind in a very thoughtful way.

There are five key sections, one of them is entitled Internal Control and focuses on some of these specific areas that we have just talked about, but more importantly, what the fiscal checklist does is identify for us a series of red flags. Things that if we see them happening, not are necessarily problematic, but would lead us to take a more in-depth look. As an example, have you borrowed money this year?

Now, if you borrowed money as part of an on-going mortgage because you have purchased a facility or constructed a facility and everything is just going along swimmingly, then it is no longer a red flag because we said yep, we borrowed money, this is what it is for, this is our repayment plan, it's part of our budget. Cool, zip, swish, we are on our way. However, if we say have you borrowed money and you say yes and we say and what did you do with the

money, well, we had to make up the fact that we were running out.

We ran out of money before we ran out of year, then we have a different issue and we need to look at the internal controls, at our budget, at our at our financial reports. Were they giving us information and on and on? So if we think of those red flags much like we think of the dashboard on our car, and that's what the whole risk management arena is about. Think about your dashboard. Automobile manufacturers have provided us with a bunch of pieces of information; they have identified risks that we face as we drive. We might run out of gas. Our engine might overheat. We might go too fast.

So what they have said to us is we're gonna give you some indicators that will allow you to do on-going monitoring of these activities. We have a speedometer that we can monitor to see how fast we're going. You know, some of these new cars you just don't know because they just glide down the road. You could be going fifty, you could be going eighty and it feels the same, so we've got to have something there that enables us to monitor our speed.

Then there's a gas gauge that says this is how how far we are down in our tank of gas and depending on our risk orientation, some of us, when it gets to a quarter tank, might go "Oop time to pull over." Others of us, you know, get a certain perverse thrill out of having the gas light go on (Laughter) and figuring out how much farther we can go. Okay, but that's that's an issue of risk orientation, some of us are more comfortable with risk than others and that's something that we have to assess in our organizations. Are we comfortable taking a little more risk or are we going to be much more cautious?

We have an oil light that goes on, hopefully not, but you know you got a gas light that comes on, you got an oil light that comes on. I don't know much about the workings of cars, but my husband tells me that when that gas light comes on, I mean not that he had to tell me this, but that I should start to think about getting gas, okay. But he tells me that when the oil light comes on, I should immediately pull over, stop the car and call somebody, okay. If, however, my sense was that whenever a light comes on I have to pull over, then I would not be operating the car most effectively and efficiently.

So we have to know, first of all, we've gotta have gauges, and then we have to know what to do when those gauges send us a message and that is what risk assessment, risk management is about. It is figuring out what lights and gauges we need in our Head Start programs so that we can respond to them effectively, efficiently, in compliance, timely and so on and so forth. Okay and much of what we do in our on-going monitoring system should be to have those gauges and lights established. You know, what are we looking at, what checklists do we have?

Part of our self assessment is taking a look at what those lights and gauges tell us sort of like when we take our car in for the annual inspection and somebody checks it out and says that at this point in time your car is operating this way and so on and so forth. That's what our self assessment does. So between the two of those we are looking at the the risks that face our program as well as issues of strategic planning, on-going planning, forecasting and so on.

But one of the things that we just need to keep in the back of our mind is that a risk is anything which threatens our ability to fulfill our mission, to achieve our objectives. They are, risks are obstacles, but they are the obstacles not simply which we need to step over and then move on, but they are obstacles which we have to pay close attention to because they could keep us from doing what we need to do. And there's there's a balance, everything is not a risk, okay? So we've got to look at those things which are particularly crucial for us.

One of the issues working with the program in a large city and one of the things that they are facing is gentrification. It's an inner city program, what used to be broken down cruddy old tenement buildings are now shi shi brownstones, okay? And the people who used to live there can't afford to live there anymore, okay? So, we've got a risk to enrollment. The children are not in the neighborhoods that they used to be in, also the neighborhoods where our centers are.

And furthermore, our service area is the inner city and low income people are less and less frequently living in the inner city, a huge issue, a huge risk to be identified, assessed. What are gonna do about it, what choices do we have? And then, moving to managing that risk and those choices. So, the difference between simply an obstacle and

something that really gets in the way of our ability to fulfill our mission is what we are talking about when we are dealing with risk.

And risk has three areas, three steps in the process that we need to be cognizant of. The first is identifying those risks. What are the risks in our business? Just throw some out, what are some what are some risks that you have identified? No risks are.... Guest from audience: Um high rates of vandalism if you're in a housing complex and you're particularly plague ravaged (inaudible)

Colleen: Yup and that might be a major risk, you know, center security, playground maintenance and being able to secure it in one area where in another center that's out in the country in western South Dakota, you know, where six people drive by every two weeks (Laughter), you know, it's that that problem doesn't even have to think of that as a risk. So that's a wonderful example of something that we each need to take a look at and say it's a huge risk here and nope, it's just not something that we need to pay much attention to there. Good, thank you. Let's have another one, yeah?

Guest from audience: Yeah, our um, our school board supports us very nicely, but we've had similar issues with our school and no child left behind and they (inaudible) Colleen: You know, and that's one of those external risks that we talked about, nothing it's nothing that we did and it's nothing that we can control, so how do we handle that? You know, we have contingency plans, we work together to see if we can leverage resources and so on so forth. Wonderful.

Guest from audience: (inaudible) school board picked up most of the (inaudible) Colleen: Yeah. So we have issues of risk management and mental health. Okay, Karen? Karen: Well I think that more of us have facilities under our ownership that just the maintenance and wear and tear and an appreciation of not knowing, you know, when the electrical system or the plumbing system (inaudible)

Colleen: Absolutely, and then the risk of whether the people whom we serve will be in the area where the facility that we own is gonna be ten years from now, or five or two. So, excellent, okay so, yeah? Guest from audience: I wonder if you'd consider it a risk as, you know, we said earlier, how communities are changing we have to move the people pushing us out of the way (inaudible)

Colleen: Absolutely. Guest from audience: You have a lot of working (inaudible) families who are moving away that maybe when the agency may have to (inaudible) Colleen: Absolutely, you know, your community.... Guest from audience: (inaudible)

Colleen: Yes, your community assessment is one of the best tools to help you assess risk and if your community assessment talks about changing demographics, people are moving out of your area, people in your area are speaking different languages, you know, all of those areas are risks to our ability to fulfill our mission. That doesn't mean necessarily that we may not continue to have enrollment and serve kids, but if it's a language minority for example, do we have staff who can communicate and who can effectively serve that population?

So, there's a there's a whole host of risks associated with that. Guest from audience: So do you do you consider that if in a (inaudible) diverse area like San Francisco where we have probably twenty, thirty languages or more, that's a risk?

Colleen: Yep, that's a risk, it is a risk, now, unless you got it nailed, if you have a a situation where you have say, twenty different languages and you've been able to recruit and maintain and retain staff from each of the communities and it's just part and parcel of what you do and how you work, then it's not a risk, it's a strength. But, for most of us, we are not we are not quite as lucky to to to have, to be able to respond that quickly and that effectively to those kinds of demographics, very challenging.

Guest from audience: (inaudible) Colleen: Certainly the employee unions can introduce a a level of risk into our ability to control our staffing, our performance appraisal, our incentives our salary increases, maintain our the equilibrium of our budget, absolutely.

Yeah, they're they're it it's I'll have to say, generally it's not hard to identify them, the difficulty is prioritizing them, making a determination about specifically those areas where we we need to focus our attention and that's where assessment comes in. Taking a look at the this list of risks that we've identified and saying okay, how important are they, how like how likely is it that they will occur, what is there significance and so on? So, remember those two words from before? Here they are again, impact and likelihood. What is the impact of having twenty languages, thirty languages?

You know, it may mean, at the very least, you have to have a a line item for translation that some of the rest of us don't have. So, it's it's an expense and so on, okay? And then finally, what do we do about it? We have figured out that that this risk is out there, that it's something important that we need to address, so, what do we do? And here are five tools for you as you begin to think about managing risk. First of all, can you prevent it? Can you keep that risk from happening? And being in the training business, you know, I think that that training is a prevention strategy.

It is a way that we can keep bad things from happening and ensure that good things do happen. So let's take, well what's a fisc, you tell me, what's a fiscal area that you can do some prevention around? Virginia? Virginia: Purchasing policies.

Colleen: Bingo, having purchasing policies. If you have a policy and you can prevent people from just going out and buying. If you want to buy it you have to have a purchase order, a small purchase order, or if you have an agency credit card there are limitations on the credit card. You know, our our credit cards for example, if anybody tries to make a purchase of more than \$500, they they call the department of purchasing for authorization. So that's a prevention strategy, okay? Elimination, elimination is finding out something that you are doing wrong, and stopping doing it, okay?

Worked with a program not long ago, we were sort of going through some of their, the areas in preparation for a PRISM visit and just happened to talk, start to talk about vehicles. Turned out that both the executive director and the Head Start director were given a vehicle by the organization to use, not only in their work, but in their profession in their personal lives. They could take their kids to soccer, they could go pick up groceries, da da da. Now, you can cut that six ways to Sunday, and never be able to do that within the regulations.

The regulations say that even if you count a vehicle provided to you as taxable income, it is not an allowable cost with Head Start dollars. End of discussion. There is no wiggle room there. So, what was their risk management strategy? Stop it, okay, they can't go back and undo what they'd done, they can't prevent it because it was already being done, but park that little cookie at the end of the day and drive your own car home and put your kids in your own van to take them to soccer and so on and so forth, okay? The next, yes?

Guest from audience: Just on the other side of that, is it an allowable cost to for the agency to give you like a some sort of a stipend for gas instead of a car? Colleen: It is an allowable cost for the agency to reimburse um, what's the word, reasonable and necessary expenses for you to do your job. So, if you go from center A to center B, you should be able to claim that mileage. Now, to give you \$100 and say here's \$100 to spend on gas - Bill, you wouldn't do that would you?

Bill: No, I wouldn't do that. Colleen: Okay, just this is my guru here, so, yeah. Bill: I would also think about just when you need to get to point A or point B I might not put somebody in the car, how does that change (inaudible) Colleen: Oh, yeah.

Guest from audience: (inaudible) Colleen: And then it's you don't put somebody in your car if you don't have liability insurance and you should show the agency proof of liability if if individuals are gonna transfer and all of that kind.... Guest from audience: (inaudible)

Colleen: Right, right, and that but that would be an allowable cost, yeah. But I would say a stipend which is not tied to a specific per mile cost would not be an appropriate expenditure. And remember the four key words about expenditures: they need to be allowable, which means that they are necessary to our work, that they are reasonable; and that they are allocable, that means that they can be appropriately allocated to the Head Start or Early Head Start

program.

So, allowability of costs and as we analyze those costs, they must be necessary, that's something that is important to be able to do business. They must be reasonable and they must be allocable to the Head Start or the Early Head Start program, okay? Those are the those are the key financial management words in terms of cost analysis. Avoid is the next tool or strategy and that means I I like to call that the "thanks, but no thanks" strategy or tool.

And that is if somebody wants to give you something or if you are tempted to do something but it's is not a good idea, it involves you in more risk, just don't do it. Here's an example, a partner comes to you and says "We would be delighted to give you \$100,000 to serve two classrooms of children, twenty kids." Yes or no? Divide.... Guest from audience: (inaudible) high cost per child.

Colleen: Forty kids at \$100,000? Divide. \$2500 a kid. Guest from audience: Did you say twenty or forty? Colleen: I changed. Guest from audience: Oh. (Laughter)

Colleen: I started with twenty and I wanted it to be that kind of example so I changed it to forty, yeah. Yeah, for forty kids, \$2500 a child, full Head Start services, I don't think so. So, I mean we might be tempted, lured, \$100,000 but it's pretty simple math that says thanks, but no thanks. It will it's a risk that will diminish our quality, it will suck resources from other parts of the program to make up for what we're not getting. So, do some analysis and sometimes risks can simply be avoided. Yes?

Guest from audience: We could also be as simple as when we had to learn the hard way about fifteen years ago, well, if you pay if you order these (inaudible) if you pay in advance, you'll save three percent. In the mean time the company went out of business. We were not the only Head Start program that got stuck with that. But it was not good financial planning on our part to pay for them before we got, we never got em.

Colleen: Uh huh, uh huh, yeah. Guest from audience: \$3000. Colleen: Yeah, and that, you know, that says to us, it is a risk not to do, er it is a risk to do business with companies that may be cheaper but may not be as reputable. You know, this issue of the lowest price may be an avoidance. It may be the lowest price, but you may, you as we as they say in the south, you they might should avoid it at all costs.

Jose: It may turn out to be the highest. Colleen: That's absolutely right, that is absolutely right, so that's the avoidance strategy, yeah. Minimization is probably the one that we use most because if we could prevent it, we would. If we could eliminate it, we would. If we could avoid it, we would, but most of the times we have to live with it. So, how do we live with it?

We minimize, we do everything in our power to make sure that it doesn't happen. We cannot, there is no way to ensure that our fiscal officer will not embezzle money. So what do we do to minimize the possibility that he or she will do that? What, pardon me. Guest from audience: You get a bond for them.

Colleen: Okay, you get you get em bonded, what else do you do? Guest from audience: Checks and balances. Colleen: Checks and balances, what else do you do? Guest from audience: (inaudible)

Colleen: Separation of duties, procedures, okay, all of that stuff, oversight, monitoring, audits, okay? So that's what we mean when we talk about minimizing, figuring out ways. In a classroom, minimizing, kids are gonna fall, kids are gonna get hurt, right? So, when we have the opportunity to to replace those old cubbies with the square corners with the new ones, the cubbies and shelves that have the rounded corners, do we do that? Yeah, in the meantime do we do training on safe supervision for teachers? Do we have classroom rules for children? Those are all minimization strategies.

And then the final strategy is one that our friends in the insurance industry are happy that we engage in from time to time and that is simply to buy insurance. We have child accident insurance, we have liability insurance, we are bonded and so on and so on. So, we need to look at what insurance is out there to protect our programs, and our organizations, our clients and our staff. And then, we need to be sure that we are engaging in intelligent spending when it comes to

insuring our property, our persons and so on.

If we had another hour, we would get into the last pages of your handout in a much more meaningful way, but what I would like to do is just take a very short period of time and say to you that we've got an organization here that I'd encourage you to look at just to kind of sharpen your skills and begin to think about applying some of these issues of internal control and risk assessment.

If you were the Head Start director for this program that we've called Blue Moon Head Start, in an agency called Once In A Lifetime Opportunity Council, you would find on your desk when you came in in the morning and in your e-mail bin or or inbox, this series of things. You've got a budget report and you've got some e-mails. Let's just take a couple of very quick minutes and look at some of these pieces. Let me let me tell you something real quick. They are ten months into their program, if you spend equally; you spend about 8.3 percent of your budget a month.

That means with 10 months left, if we have equal expenditures, you should have 16.3 percent of the budget left. Take a quick look at the budget, then take a look at the e-mails, there are five e-mails, and then I'd like you to tell me what issues we have around risk management and internal controls, just to sort of wrap up our thinking on these issues. As soon as I finish handing out the evaluation forms, we will talk very quickly about this and then say goodbye.

Okay, some of some of you have seen the light here. What are some of the issues that we face? Guest from audience: Very poor planning very poor monitoring... (inaudible) Colleen: Yeah, but other than that? Yeah, yeah, that we certainly have an issue of on-going monitoring, don't we? What's happened?

Guest from audience: Year left and not money to pay salaries. Colleen: Yeah, it's one of those cases of running out of money before running out of year, okay? You've got what, 5.2 percent of your budget left? You've got a new position on the books, somebody's ready to come on board and you've got less than a third of the salary dollars that you need and what else is happening in the personnel area?

Guest from audience: Benefits are going up. Colleen: Benefits are going up, okay? But golly we've got plenty of inkind. Guest from audience: Maybe. Unallowable inkind. Colleen: Unallowable in,... but what's the problem here? Guest from audience: Meals on weekends.

Colleen: Meals on the weekend, but you know the rule of thumb is that if you can spend Head Start dollars for it you can charge it as inkind, what's the problem here? Guest from audience: It's not necessary or reasonable.

Colleen: Yeah, you don't spend Head Start, you wouldn't spend Head Start dollars for home food, right? So here we've got what looks to be plenty of inkind and gosh, what else? What other difficulties do we have? So we've got a monitoring problem, we've got an information and communication problem.... Guest from audience: And unfilled vacancy for five months.

Colleen: We've got an unfilled vacancy for what six months, five months? Yeah, yeah, huge problem.

So so this is something that we obviously could do in-depth and really spend some time on, but I think some of the problems are clear enough for you to be able to see that we have issues of internal control, we have some risk assessment that should have happened quite some time ago through our planning, through our monitoring, through our communication processes and in this season as we have just passed the Thanksgiving holiday, it seems to me as though the most important thing that each of us can take away from this is truly giving thanks that we are not the director of Blue Moon Head Start (Laughter).

So as we address these issues of internal control, risk management, understanding that every agency has one financial management system and that that system interacts so fully with each of the service areas and the other systems. Hopefully, these few minutes that we've had together will have given you some tools to take away and perhaps apply in your local programs.

To bring our time together to a close, I'm wondering if just maybe three of you could share with with all of us an a

high experience, something that was reinforced, a particular learning that came out of our time together and our discussion of systems and services, internal controls and risk management. Just any quick things that either reinforced your thinking that was something new to you or went "ah, cool." Okay? Virginia?

Virginia: Well, one thing, I just had always attached internal controls with the budget, directly, and it appears there are a lot of indirect things that we need to be assessing as well in terms of internal controls, so I think I'm going to go home and take a real look at it.

Colleen: Excellent, excellent, you know, that was that was one of my key learnings as I learned more about this as well, you know, the fact that this is an overarching concept. Thank you, okay, that's one. Two quick more, I just I hate it when only one person learns something, there you go. Guest from audience: I see that the accounting people are too separate from the program.

Colleen: The accounting people are too separate from program often and you know that is so often the case. Their offices might not be in the same, not only in the same building, but the same town or county sometimes. And so, you know, because fiscal is so, must be so integrated with program to to engage in best practice, having a connection, whether it's electronic or down the hall or to set meetings and so on, it is is really really important. Okay, so so proximity doesn't necessarily lead to good good and and appropriate communication.

Okay, one more learning thought or insight. Sharon. Sharon: I think (inaudible) tool but the strategies, I I'm familiar with the strategies but really not applying them in this way all of the time and I think (inaudible) tools. Colleen: The risk management? Yeah. Sharon: Yeah, that's the one (inaudible) yes.

Colleen: Yeah, and that, to my mind, is one of the keys in terms of of assessing and managing risk, is saying okay, this is the problem, what do we do about it, can we prevent it, can we do this? So it's a it is using a particular mindset to address those issues and problems. Thank you so much for your time, have a wonderful year, a wonderful holiday season and I hope that your time here in Washington is valuable and rewarding. Thank you.

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