

Chapter 1

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INTRODUCTION

Authority

This *Budget and Accounting Manual* (BAM), which has the authority of regulation in accordance with title 5 Section 59011 of the *California Code of Regulations* (CCR), is distributed as part of the Board of Governors' responsibility to define, establish, and maintain the budgeting and accounting structure and procedures for the California Community Colleges. This responsibility is defined in *California Education Code* (EC) Section 70901. Each community college district is required to follow this manual in accordance with *Education Code* Section 84030, which states: “The accounting system, including the uniform fund structure used to record the financial affairs of any community college district, shall be in accordance with the definitions, instructions, and procedures published in the California Community Colleges Budget and Accounting Manual...”

Authoritative Requirements

In addition to the legal requirements of the *Education Code*, *California Code of Regulations*, BAM, federal guidelines, and other applicable statutes and regulations, California Community Colleges are required to present their financial statements in accordance with generally accepted accounting principles (GAAP) for state and local governments. GAAP set the minimum requirements for a fair presentation of financial data in external reports. Since 1984, determination of GAAP for state and local governments has been the responsibility of the Governmental Accounting Standards Board (GASB). For private enterprises and non-profits, including private colleges and universities, GAAP is established by the Financial Accounting Standards Board (FASB) and older pronouncements issued by the American Institute of Certified Public Accountants (AICPA). GAAP provides uniform minimum standard of and guidelines to financial accounting and reporting. They are the framework within which financial transactions are recorded and reported resulting in financial statements that provide comparability between governmental entities, consistency between accounting periods and reliability for internal and external users of financial statements.

The GAAP hierarchy for financial reporting by state and local governments is defined in GASB Statement on Auditing Standard (SAS) No. 69, “The meaning of ‘Present Fairly in Conformity with Generally Accepted Accounting Principles’ in the Independent Auditors’ Report”, issued by the AICPA as follows:

Level 1 - GASB Statements and Interpretations, and AICPA and FASB pronouncements made applicable by GASB Statements or Interpretations. GASB Statements and Interpretations are periodically incorporated in the Codification of Governmental Accounting and Financial Reporting Standards.

Level 2 - GASB Technical Bulletins, AICPA Industry Audit and Accounting Guides and Statements of Position specific to Governmental entities made applicable by the AICPA and cleared by the GASB.

Level 3 - GASB Emerging Issue Task Force consensus positions, and AICPA Accounting Standards Executive Committee (AcSEC) Practice Bulletins made applicable by the AICPA and cleared by the GASB. There may be other widely recognized and prevalent practices also incorporated.

Level 4 - GASB Implementation Guides (Q & A's), AICPA Audit and Accounting Guides/Statements of Position (COP's) that are specific to Governmental entities and NOT Cleared by GASB.

Other Sources - GASB Concepts Statements. The Governmental Accounting and Financial Reporting (GAAFR) textbook published by GFOA.

Many groups and individuals need reliable information on a district's finances. An accounting system must meet the basic informational needs of these interested parties. As a result, the accounting system must make it possible to: *(a) present fairly and with full disclosure the financial position and results of financial operations of the governmental unit in conformity with GAAP; and (b) determine and demonstrate compliance with finance-related legal and contractual provisions.* [GASB Codifications Section 1200, NCGA-1]

Neither GAAP nor legal compliance takes 'precedence' in governmental financial statements. Both are essential. When legal provisions conflict with GAAP, governments should prepare basic financial statements in conformity with GAAP and also present such supporting schedules, in addition to the GAAP-based basic financial statements, as may be necessary to clearly report upon their legal compliance responsibilities and accountabilities.

While BAM tries to summarize GAAP for application in California Community Colleges, it may not be a complete and exhaustive text for defining, clarifying, and interpreting all potential situations that may be encountered by every community college or district. It is also limited by the fact that it represents the applicable GAAP at a given point in time. GAAP for local governments is not static but evolving. It is necessary to continually monitor and respond to proposed pronouncements and amend the prescribed guidance in light of new or revised standards. GASB Statements and other changes to GAAP issued after the completion of this manual are not addressed in this document; however, guidance may be provided in subsequent accounting advisories issued by the State Chancellor's Office. These advisories should be referenced in conjunction with the BAM and are incorporated into the BAM periodically as applicable. The following are examples of additional reference materials.

Laws and Regulations

California Education Code (Ed. Code)
California Government Code (CGC)
California Code of Regulations (CCR)
Budget and Accounting Manual (Chapters 2-7)

Accounting Principles

Government Finance Officer's Association's *Governmental Accounting and Financial Reporting (GAAFR)* www.gfoa.org

Governmental Accounting Standards Board's *Codification of Governmental Accounting and Financial Reporting Standards* and *Original Pronouncements of Governmental Accounting and Financial Reporting Standards* www.gasb.org

General Information

California Community Colleges Chancellor's Office www.cccco.edu

Objective and Purpose

California community college districts are required by regulations (*CCR* §58300 et seq.) to prepare financial reports and annual budgets that report all their actual and projected revenues and expenditures on forms as provided by the Chancellor's Office. The objective of this *Budget and Accounting Manual* is to facilitate compliance with this requirement by providing for a uniform fund structure, revenue and expenditure classifications, and other accounting procedures for the consistent and comparable reporting of financial data by all community college districts. The manual is primarily written for the individuals who work daily with the community college accounting system; however, this chapter and the general section at the beginning of each of the other chapters have been written to assist those readers who may desire more general background information.

The annual district audit by the contracted district auditor will assess district compliance with this manual.

Background

Although *Education Code* Section 70901(b)(12) mandates the Board of Governors to establish a uniform system of budgeting and accounting for community college districts, prior to September 1981 and the passage of Assembly Bill 1217 (Stats. 1981, Ch. 930), most major accounting decisions were made by the Legislature itself or locally at each district business office. The Board's role in this area was essentially reactive and secondary. Until 1973, community college accounting practices were governed by a publication of the State Department of Education. In December 1973, the Board adopted the first California Community Colleges *Budget and Accounting Manual*. This document was a modification of the K-12 model with the addition of an activity-centered approach to expenditure reporting that described resource requirement and their direct cost, and the relative use in each of the major activities defined for community college operations. The manual established the basic standards for district use.

Since 1973, the *Budget and Accounting Manual* has been subject to some changes and clarifications and was incorporated into title 5 by reference to give it the force of law (*CCR* §59011). The 1985 revision of the *Budget and Accounting Manual* was an effort to update and improve the accounting procedures of the community colleges.

More recently, in 1988 and 1990, reform legislation strengthened the accountability of community college districts. Assembly Bill 1725 (Stats. 1988, Ch. 973) made substantive revisions to the *Education Code*. In 1988, the Council for Chief Business Officers formed a committee to review and update the manual. In so doing, the committee considered changes in the law, the emergence of a statewide management information system, and general cleanup of technical issues. The update was a cooperative effort between district representatives and Chancellor's Office staff and resulted in the 1993 edition of the *Budget and Accounting Manual*. Project 2000 was begun in 1996 by the Fiscal Standards and Accountability Committee, a standing committee of the Association of Chief Business Officials Board of California Community Colleges to address changes in laws, regulations, and GAAP since 1993. The project was a joint effort of district representatives and Chancellor's Office staff to update the manual and provide additional guidance to promote consistency of financial reporting among California community colleges.

After the 2000 revision, financial reporting requirements changed in multiple areas including the presentation of the annual financial statements, the reporting of other post-employment benefits, and fund balance reports. In 2009, work started on a revision to the BAM to incorporate these changes and any other requirements occurring since the last revision.

ACCOUNTING OVERVIEW

The following overview is provided to assist the reader's understanding of the conceptual framework of community college accounting.

Accounting: The Language of Business

There is no single, concise, comprehensive description of accounting. Accounting has been defined as “. . . *the system of recording and summarizing business and financial transactions and analyzing, verifying, and reporting the results.*” [Webster's Collegiate Dictionary, Tenth Edition, 1998]

Accounting, then, is the special field of theory and practice concerned with the design and implementation of procedures for the accumulation and reporting of financial data. An accounting system is the total structure of records and procedures that identify, assemble, analyze, record and report information on the financial operations of a community college district or any of its funds and organizational components.

An accounting system must make it possible both: (a) To present fairly and with full disclosure the financial position and results of financial operations of the funds of a community college district in conformity with generally accepted accounting principles (GAAP); and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions. An effective control environment helps ensure reliable financial reporting, effective and efficient operations as well as safeguarding assets against theft and unauthorized use, acquisition, or disposal. The control environment includes oversight provided by each district's board of trustees, the district's internal and/or external auditors, and the Chancellor's Office. The responsibilities of the different parties accountable for fiscal oversight are established in title 5. Specific requirements for sound fiscal management are found in *CCR 5§58311*.

Government versus Private Accounting: Measurement Focus and Basis of Accounting

Governmental accounting is founded upon the same basic concepts and conventions that underlie the accounting discipline as a whole. However, governmental accounting tends to focus on the uses of resources to attain the institution's objectives, rather than upon profits or losses. In general, in a private enterprise, products or services are sold directly to consumers who pay at least the cost of producing the products or providing the services. In contrast, the primary services provided by community colleges (instruction, community service, guidance and counseling, etc.) are paid for from a variety of revenue sources, most of which are not direct beneficiaries of the services.

The nonprofit nature of community colleges and the unique flow of revenue results in the use of the flow of current financial resources measurement focus used by other governmental entities. This measurement focus is intended to answer the question “Are there more or less resources that can be spent in the near future as a result of events and transactions of the period?” To better

answer this question, the modified accrual basis of accounting is used. Under the modified accrual basis, revenues are recognized only when they are earned, measurable, and available. Measurable is interpreted as the ability to provide a reasonable estimate of actual cash flow. Revenues are available if collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized when an event or transaction is expected to draw upon current spendable resources.

However, certain community college activities may be similar to private enterprise in that they are funded in large part by direct charges to consumers (e.g., bookstore and cafeteria enterprise operations). Such activities use the flow of economic resources measurement focus to answer the question “Is the fund better or worse off economically as a result of events and transactions of the period?” To better answer this question, the full accrual basis of accounting is used to account for all revenues earned and expenses incurred during the period, regardless of the timing of the cash flows.

Fund Accounting

Because of the varied sources of revenue, some with restrictions and some without restrictions, governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. [GASB Codification Section 1300, NCGA-1]

Fund accounting, therefore, is used as a control device to separate financial resources and ensure that they are used for their intended purposes with the fund as the basic recording entity for reporting specified assets and liabilities and related transactional movements of its resources.

Revenue and Expenditure Classification

Basic to all revenue and expenditure accounting is a systematic classification scheme for describing transactions. There can be no consistency and comparability in the recording of transactions without precise descriptions of the transaction elements.

Revenue classification is primarily by **source** and **purpose** (e.g., 8100 Federal Revenues; 8170 Vocational and Technical Education Act).

Expenditure classification is by **object** and by **activity**. Object classification relates to the commodity or service obtained (e.g., Object Account 1100, Instructional Salaries, Contract or Regular Status). Activity classification relates to the purpose of the expenditure (e.g., Activity Account 0100, Instructional Activities—Agriculture and Natural Resources).

Annual Financial Report and Audit

The annual financial report of the district is the vehicle for summarizing and communicating the results of budgetary decisions and transactions. The *Annual Financial and Budget Report* (CCFS-311) of each district contains, as specified by the Chancellor's Office, a statement of the actual revenues and expenditures for the fiscal year just completed, plus the estimated revenues and proposed expenditures for the succeeding fiscal year (CCR §58303).

An annual financial and compliance external audit, required by *Education Code* Section 84040, is the final examination of the annual financial statements' fairness and reliability. The audit must be conducted by certified public accountants licensed by the State Board of Accountancy. In the event the governing board of a community college district fails to provide for an audit, the Board of Governors shall provide for such audit, and if the Board of Governors fails or is unable to make satisfactory arrangement for such an audit, the Department of Finance shall make arrangements for the audit. The cost of any audit described above shall be paid from district funds. The annual financial statements are the responsibility of the district. Audit adjustments must be recorded in the district's accounting system to ensure the accuracy and consistency of financial reports. The annual financial statements and supplemental information are prepared in accordance with GASB Statements No. 34, *Basic Financial Statements – and Management Discussions and Analysis – for State and Local governments* and 35, *Basic Financial Statements and-Management Discussion and Analysis-for Public Colleges and Universities*. The use of GASB 35 which follows the Business Type Activity (BTA) Model was recommended by the California Community Colleges Chancellor's Office in consultation with Fiscal Standards and Accountability Committee. The use of this model provides for consistent and comparable reporting for all districts within the system.

It is important to understand the distinct purpose and use of the two primary financial reports for all districts, the CCFS 311 and the Annual Audited Financial Statements. The entity-wide financial statements, prepared in accordance with GASB 35, are presented using the economic resources measurement focus and the full accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. All significant interfund transactions are eliminated. This financial statement and supplemental information with the independent auditor's report is the primary document for external reporting and evaluation of a district's financial condition. The report is also prepared in conformance with the requirements of the OMB Circular A-133 and Single Audit Act. In addition to other uses, it is included in the continuing disclosure requirements for long-term debt issuance. The report is distributed to several agencies including the following: the Federal Audit Clearinghouse, the California Department of Finance, and the California Department of Education.

The CCFS 311's use is primarily as an "internal" financial report for use within the System for comparing financial results across California Community College Districts. It is the primary financial report used by the Chancellor's Office for evaluating the financial condition of districts. The CCFS 311 is prepared using the modified accrual basis. Each fund of the district is reported distinctly. Districts generally record financial transactions throughout the year using the fund structure and modified accrual basis which allows for a fairly simple process of reporting year-

end results on the CCFS 311. By contrast, the entity-wide financial statements require additional entries to bring to the full accrual basis and present the entity-wide financial results. These conversion entries are discussed in Chapter 6 of this manual.

As a result of the distinctive uses of the modified basis reporting model required by the CCFS-311 reporting and the Business Type Activities reporting model required by GASB Statement No. 34 and 35, community college districts have a choice in adopting certain reporting standards required by GASB. GASB Statement No. 54 described in Chapter 5 is required for governmental agencies reporting externally on a fund basis. The requirements of GASB Statement No. 54 should be reviewed prior to implementation and discussed with the district auditors to ensure full compliance with the standard, if implemented.

Education Code Section 84040 also provides that the Board of Governors must adopt criteria and standards for periodic assessment of the fiscal condition of community college districts. In addition, the Board of Governors must also take actions to improve the districts' fiscal conditions as necessary to encourage sound fiscal management practices. To this end, an Accounting Advisory: Monitoring and Assessment of Fiscal Condition (FS 05-05) was issued which recommends the minimum prudent unrestricted general fund balance for districts as well as establishing the review process for the Chancellor's Office to monitor and evaluate the financial health of districts. This advisory is included in Appendix C.

Budgeting Overview

General Requirements

Budgeting is an essential element of the financial planning, control and evaluation processes of governments. Every governmental unit prepares a comprehensive budget covering all governmental, proprietary, and fiduciary funds for each annual fiscal period. The accounting system provides the basis for appropriate budgetary control. [GASB Codification Section 2400, NCGA Statement 1] The community college district budget is a plan of proposed expenditure for operations and estimated revenue for a given period of time (fiscal year). The budget represents the operational plans of the district in terms of economic decisions. Budget requirements and process are described in the *California Code of Regulations*, beginning with Section 58300.

Once the budget is adopted, the total amount designated as proposed expenditure for each major object of expenditure classification is the maximum allowed without additional governing board authorization for transfers between major classifications or from the reserve for contingencies in accordance with *California Code of Regulations* Section 58307.

For a definition of the major object of expenditure classifications, refer to Classification of Expenditures by Object (Chapter 4).

Important Dates

<u>Action Required</u>	<u>On or Before</u>	<u>Title 5 Section</u>
Tentative Budget Adoption	July 1	58305
Adopt Appropriation Limit	July 1	Article XIII B, CA Constitution
Newspaper Publication stating Budget is Available as appropriate 58301		
Public Hearing	September 15	58301
Final Budget Adoption	September 15	58305
Annual Financial and Budget Report (CCFS-311) Sent to State Chancellor	October 10	58305
Informational Copy of Budget Sent to County Office of Education (if required)	September 30	58305
Submission of the Annual Audited Financial Statements Sent to the State Chancellor	December 31	

Important References in the California Code of Regulations (CCR), title 5 governing Budgeting and Accounting Requirements

The following table is a representative listing of references and is not to be considered all inclusive of the title 5 regulations.

Title 5§	Title	Excerpt/Description
58300	Requirements to Prepare and File Annual Statement	On or before the 15 th day of September.
58301	Proposed Budget; Hearing; Notice; Publication	...Notification of dates and location(s) at which the proposed budget may be inspected by the public and date, time, and location of the public hearing on the proposed budget shall be published by the district in a newspaper of general circulation in the district, at least three days prior to...
58302	Budget	"budget" includes the preliminary budget and the adopted budget of a community college district.
58303	Contents of Budget Report	...proposed expenditures and of the estimated revenues for the ensuing fiscal year, together with a comparison of each item of revenue and expenditures of the fiscal year just completed...
58304	Form of Budget Report	...annual financial and budget reports shall be made in the form prescribed...(Annual CCFs 311)
58305	Tentative Budget; Filing; Contents; Computation of Tax Levy; Adoption; Filing and Approval of Final Budget	On or before the first day of July in each year, each district shall adopt a tentative budget...; on or before the 10 th day of October each district shall submit ... (Annual CCFs 311)
58306	Effect of Neglect or Refusal to Make a Budget	...the Chancellor may withhold any apportionment of state or local money...
58307	District Budget Limitation on Expenditure	The total amount budgeted as the proposed expenditure of the district for each major classification of district expenditures ... shall be the maximum amount which may be expended for that classification for the school year. Transfers may be made from the reserve for contingencies to any expenditure classification or between expenditure classifications...by written resolution of the board of trustees...

58308	Appropriation of Excess Funds and Limitations	All income accruing to the district in excess of the amounts required to finance the total proposed expenditures...shall be added to the general reserve...
58310	Report on District's Financial Condition	...report in detail to the governing board of the district the district's financial condition ...at least once every three months... (CCFS 311Q)
58311	Principles for Sound Fiscal Management	...The following principles shall serve as the foundation for sound fiscal management in community college districts: See Appendix C: FS 05-05: Monitoring and Assessment of Fiscal Condition
58312	Inadequate Plans by District or Failure to Implement Plans ...	If the Chancellor determines that the district's plans prepared and adopted...are inadequate to solve the financial problems or to implement the principles of sound fiscal management...
58314	Failure of Procedures to Achieve District Financial Stability ...	If the procedures pursuant to 58310 and 58312 fail to achieve district financial stability...reduce or withhold apportionment...
58318	Requirement for Employee Indemnity Bond	...district shall require each employee of the district, whose duty it is to handle funds of the district...
59010	Method of Accounting	Regulation Authorizing Budget and Accounting Manual
59100	General Authority of the Chancellor	...the Chancellor is authorized as needed to have audits or reviews conducted or to investigate any audit or review citing which indicates that the allocation of state moneys or applicable federal funding may have been in error...
59102	Contracting For Annual Audits	Arrangements for annual audits for any fiscal year as required by Section 84040 of the Education Code shall be made final no later than the May 1 preceding that fiscal year.
59104	Review of Annual Audits	Each district governing board shall review the annual audit prescribed pursuant to Section 84040 of the Education Code at a public meeting.
59106	Annual Audit Reports Due Date	Not later than December 31 st .

59108	Chancellor's Review of Audit Citings	The Chancellor shall review the reports of audits conducted pursuant to Section 84040 of the Education Code, or any other audit or review assessing district compliance with audit responsibilities.
59110	District's Right to Respond	...prior to any actions to recover funds or to mandate other corrective measures, a district shall be given the opportunity to present information which might mitigate or refute any audit citing selected by the Chancellor for further investigation.
59112 59114	Audit Resolution Actions, and Apportionment Adjustments	If, upon reviewing a citing, the district's response and any other available information, the Chancellor finds that there is a need for corrective action to resolve a citing, the Chancellor may require the district...
59116	Student Attendance; Accountability for Accounting and Reporting; Minor or Inadvertent Errors; Apportionment; Discrepancy	The apportionment to a district..., shall not be affected by the audit, review or declaration, provided all of the following conditions are met...
59204 59204.1	50% Law (Ed Code 84362) Definitions Supplemental Definition of Hardship	For the purposes of Education Code Section 84362, the following terms shall be defined as set forth below.
59206 59207 59208 59209 59210 59211 59212 59213 59214	District Application for Exemption (50%) Notice To Academic Employees Consideration District Governing Board Response by Academic Employees Chancellor's Recommendation Board of Governors Action Amendments to District Applications Chancellors' Action Failure to Comply	...In the event a district has not expended the required amount and it appears to its governing board that such expenditure would have resulted in serious hardship to the district or in the payment of excessive salaries of classroom instructors, it may apply to the Chancellor in a form and manner to be determined by the Chancellor not later than September 15 th ...
59270- 59272	Auxiliary Organizations ... Implementing Regulations	Each district governing board wishing to establish an auxiliary organization must adopt implementing regulations...

59400 - 59408	Required Instructional and Other Materials	...a district may, consistent with the provisions of this Subchapter, require students to provide instructional and other materials required for a credit or noncredit course... <i>See Appendix C for reference to Student Fee Handbook</i>
59020 59033	Record Retention	...each Community College district shall establish an annual procedure by which the chief executive officer, or other designee shall review documents and papers received or produced during the prior academic year and classify them...
53310	Rules for Calculating Full-Time Equivalent Faculty (FTEF) Attributable to Part-Time Faculty	In calculating full-time equivalent faculty (FTEF) attributable to part-time faculty, the following rules shall be applicable...
58003 58012	Attendance Reporting Procedures	Calculation of Attendance including reporting dates
59410	Withholding Grades, Transcripts, etc., for Nonrepayment of Financial Obligations	...district may provide by appropriate rules and regulations that grades, transcripts, diplomas and registration privileges, or any combination thereof, shall be withheld from any student or former student...

In addition to title 5, district transactions are governed by other provisions in the Education Code, such as the Civic Center Act, and other code sections such as the Public Contracting Code. The above table is not intended as an exhaustive list.

The following is a summary of the Standard III requirements as they relate specifically to the financial analysis and review of a district.

Financial Resources

Financial resources are sufficient to support student learning programs and services and to improve institutional effectiveness. The distribution of resources supports the development, maintenance, and enhancement of programs and services. The institution plans and manages its financial affairs with integrity and in a manner that ensures financial stability. The level of financial resources provides a reasonable expectation of both short-term and long-term financial solvency. Financial resources planning is integrated with institutional planning.

1. The institution relies upon its mission and goals as the foundation for financial planning.
 - a. Financial planning is integrated with and supports all institutional planning.
- Standard III: Resources
- b. Institutional planning reflects realistic assessment of financial resource availability, development of financial resources, partnerships, and expenditure requirements.
 - c. When making short-range financial plans, the institution considers its long-range

- financial priorities to assure financial stability. The institution clearly identifies and plans for payment of liabilities and future obligations.
- d. The institution clearly defines and follows its guidelines and processes for financial planning and budget development, with all constituencies having appropriate opportunities to participate in the development of institutional plans and budgets.
2. To assure the financial integrity of the institution and responsible use of its financial resources, the financial management system has appropriate control mechanisms and widely disseminates dependable and timely information for sound financial decision making.
- a. Financial documents, including the budget and independent audit, reflect appropriate allocation and use of financial resources to support student learning programs and services. Institutional responses to external audit findings are comprehensive, timely, and communicated appropriately.
- b. Appropriate financial information is provided throughout the institution.
- c. The institution has sufficient cash flow and reserves to maintain stability, strategies for appropriate risk management, and realistic plans to meet financial emergencies and unforeseen occurrences.
- d. The institution practices effective oversight of finances, including management of financial aid, grants, externally funded programs, contractual relationships, auxiliary organizations or foundations, and institutional investments and assets.
- e. All financial resources, including those from auxiliary activities, fundraising efforts, and grants are used with integrity in a manner consistent with the mission and goals of the institution.
- f. Contractual agreements with external entities are consistent with the mission and goals of the institution, governed by institutional policies, and contain appropriate provisions to maintain the integrity of the institution.⁵
- g. The institution regularly evaluates its financial management processes, and the results of the evaluation are used to improve financial management systems.
3. The institution systematically assesses the effective use of financial resources and uses the results of the evaluation as the basis for improvement.