

IL-NET Sample FISCAL POLICIES AND PROCEDURES HANDBOOK

An Annotated Example Set of Policies and Procedures for Use in Training for Centers for Independent Living

Version 1.1

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IL-NET

CIL-NET · SILC-NET

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Revisions to Fiscal Policy Manual

[page numbers refer to pages as numbered in the first version of the manual dated April 2013]

Preface, page vi, first paragraph—Added “Policies and procedures are required for compliance and are a necessary internal control for any agency.”

How to Use This Guide, Recommendations for Developing Policies and Maintaining a Policy Manual, page viii—Added bullet point, “Establish a time period in which the policies and procedures document will be reviewed and updated.”

Federal Drawdowns, page 7—Added footnote #16: “CILs are covered by the Cash Management Improvement Act. Following the procedures stated here will help a center maintain compliance with the Act. See EDGAR 74.21-74.22. Failure to meet the time requirements between drawdowns and expenditures will require payment of interest on unexpended funds.”

Payroll Procedures, page 9, first full paragraph—changed “semimonthly payroll periods” to “one or more payroll period(s)”

Payroll Procedures, page 9, second full paragraph—Deleted “Any employees who work on a single cost objective will sign semiannual certifications of time and effort confirming that they continue to work in that single area.”

Payroll Procedures, page 9, third full paragraph—Deleted “and personnel activity reports”

Payroll Procedures, page 9, end of section—new sub-section added, Personnel Activity Report (PAR), “Every employee is required to complete a Personnel Activity Report (PAR) for each time period for which they are paid. The time sheets serve as a PAR for both hourly and salaried employees. Each PAR must meet these requirements:

“(1) Must be an after-the-fact record of the time worked. (It cannot be dated before the end of the time period.)

“(2) Must account for the total activity (100%) of the time for which the employee is compensated.

“(3) Must be signed by the employee and supervisor, with printed names, titles, and dates for each signature. Signatures certify that the percentage of time being reported under each objective is correct. PENN CIL uses this documentation to verify the way employees’ time is split between cost objectives.”

Footnotes added: #24—“The actual federal requirement is ‘every employee paid with federal funds...’; #25— “The actual federal requirement is that the PAR can be for a period of up to one month, but that it must coincide with time period(s) for payroll. In this example the PAR is also the time sheet. A CIL may choose instead to complete two separate documents, in which case a monthly (for pay periods of 1-15 and 16 to month end) or (if payroll is every two weeks) four-week PAR may be prepared and maintained.

A PAR must be completed at least monthly.”; and #26—“The actual federal requirement is that it must be signed by the employee OR a responsible supervisory official having firsthand knowledge of the activities performed.”

Debit and Credit Card Procedures, page 9, second paragraph—Added “subject to a limit of \$1,500”

Debit and Credit Card Procedures, page 11, first paragraph—Added “If the executive director abuses or misuses a card, the card must be relinquished to the board chair or treasurer. The board will determine if other steps are needed based upon the circumstances.”

Financial Reports, page 12, second paragraph—Deleted “prepared and”

Competitive Bidding, page 15, first paragraph—Deleted “, whenever possible,”

Exceptions to Competitive Bidding, page 15, second bullet point—Added footnote #35: “Emergency or urgent need’ means an unforeseen situation has arisen that affects the center’s operations in a substantive way. It does not mean it is a last minute purchase because it’s the end of the fiscal year.”

Ethical Conduct in Purchasing, page 15-16, last paragraph page 15 and top of page 16—Deleted “that might influence purchasing decisions” and added “from potential vendors.”

Conflicts of Interest Prohibited, page 16, first full paragraph—Inserted “...as well as any employees involved in the procurement/purchasing process”

Conflict of Interest, page 16, first paragraph—Deleted “an individual is in a position to influence a decision that may result in a personal gain for that individual or for a relative as a result of the CIL’s business dealings. For the purpose of this policy, a relative is any person who is related by blood or marriage, or whose relationship with the employee is similar to that of persons who are related by blood or marriage.” Inserted “An actual or potential conflict of interest occurs when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award.”

Conflict of Interest, page 16, first paragraph—Inserted “or the executive director;” changed “established” to “implemented”

Procurement under Federal Awards, page 16, final section sub-heading—Inserted “State or”

Procurement under Federal Awards, page 16, first paragraph—Inserted “state or”

Procurement under Federal Awards, page 16, first bullet—Inserted “state or”

Procurement under Federal Awards, page 16, second full paragraph—Inserted “state or”

Procurement under Federal Awards, page 16, third full paragraph—Inserted “state or”

Property and Equipment, page 18, fourth paragraph—Inserted “A control system must be in effect to ensure adequate safeguards are in place to prevent loss, damage or theft” and “Any missing items must be investigated.”

Appendix I—Sample Forms and Other Attachments, page 20—Deleted third bullet point, “Semiannual Time and Effort Certification.”

Appendix IV—Sample Policy for Records Retention, page 30, first paragraph—Inserted footnote #42: “The General Education Provisions Act (GEPA) has a five years statute of limitations on audits. Accordingly, all educational records subject to GEPA should be retained for a minimum of five years after the date the final expenditure report is submitted for each fiscal year. For programs not subject to GEPA, records should be kept as long as any applicable statute of limitations applies. If none, a ‘safe’ practice would be to maintain electronic copies of records and/or paper records to the extent practicable, but no less than 10 years.”

Page 30, new second paragraph inserted—“ If PENN CIL has any active, pending or threatened litigation, audit findings or monitoring findings, records will be retained until all issues are fully resolved as determined by the board of directors.”

Page 30, old second paragraph, changed “three” to “five” years

Page 30, old fifth paragraph, deleted “The exception to this is any instance in which there is any active, pending or threatened litigation. In this case, all purging and destruction of records will be terminated.”

Table, page 30—Changed Accounts payable ledgers and schedules; Accounts receivable schedules, bank reconciliations; and bank statements from “4” to “5” years.

Table, page 31—Changed Correspondence from “2” to “5” years

Table, page 31—changed Employee personnel records (after termination) from “3” to “5” years

Table, page 31—changed Petty cash vouchers; Sales records; and Vouchers for payments to vendors, employees, etc. from “4” to “5” years

OMB Overhaul of Circular A-133, page 33—Deleted entire section

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Preface

This document was created at the request of numerous centers for independent living (CILs) who needed policy examples they could use as a guide for developing or strengthening their CIL's fiscal policies and procedures. There is no area of nonprofit management that is more critical than the proper management of financial resources. Policies and procedures are required for compliance and are a necessary internal control for any agency. Having good written policies and procedures may not ensure the success of an organization, but will go a long way toward facilitating that success.

Since most centers are recipients of federal funds, whether through Title VII of the Rehabilitation Act, as amended, or through other federal agencies or programs, this guide incorporates requirements that nonprofit organizations must adhere to in the management and allocation of federal funds. In addition, centers are required to conduct resource development, and many operate—or will operate—with funding from multiple agencies and programs beyond federal funding. This guide incorporates what are good practices for any nonprofit in its financial management. It is essential to adopt policies and practices that follow generally accepted principles so that centers are prepared to address other requirements that may be imposed by other funders. This guide will address these principles. Specifically, the guide references the following federal circulars and regulations:

- Office of Management and Budget Circular A-110: Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations
- Office of Management and Budget Circular A-122: Cost Principles for Non-Profit Organizations (2 CFR 230)
- Education Department General Administrative Regulations (EDGAR)
- Code of Federal Regulations (CFR) Parts 364 and 366 implementing Title VII of the Rehabilitation Act of 1973, as amended, under which centers are funded

Specific references to regulations and guidelines are shown in footnotes and in the appendixes to this guide. Footnotes are also used to highlight other helpful information.

We hope you find this example handbook useful and we welcome your feedback for future improvements.

How to Use This Guide

Modify These Examples to Fit Your CIL

Use this guide to help ensure that your own financial policies and procedures provide a comprehensive context for sound fiscal management in your center. Review the material carefully, consider your center's circumstances, and then adopt those policies that apply to your center, but only after modifying them to fit your center's circumstances.

To illustrate examples of policies for CILs, we have created a fictitious CIL, PENN CIL. Using a nonexistent CIL allowed us to craft generic policies that would have meaning for as many different circumstances as possible. Even so, no set of example policies can be applied in any organization without careful thought and revision to meet the specific requirements of the organization.

In almost all cases, the example policies will need to be modified. Do not just duplicate the examples. Duplicating them without careful thought to how your own center operates will be counterproductive. Without modifications, the examples will be a poor fit for your center. For example, your staff may have different titles, or the size of your budget may determine whether your CIL contracts with an outside auditor.

Recommendations for Developing Policies and Maintaining a Policy Manual

Before developing a policies and procedures manual, your board of directors must establish the procedures the board and staff will use to fashion new policies and procedures or revise existing ones.

- Establish a board finance committee if your organization doesn't already have one.
- Ensure board and staff are fully engaged in the development process. The more support and involvement there is from board members and key staff members, the easier it will be to both adopt and implement your new policies and procedures.
- Determine roles and responsibilities for board committees, the board, executive director, accountant or bookkeeper in developing policies.
- Determine a process for review and approval, including final approval by the full board.
- Ensure that board minutes reflect the date of adoption of the policies and procedures and of any revisions.
- Ensure the financial management policies and procedures document shows the date of adoption or revision by the full board. Show the adoption date on the cover page and in headers or footers of pages.

- Establish a time period in which the policies and procedures document will be reviewed and updated.

Additional Resources

You are encouraged to review examples of policies on an ongoing basis to keep up with changes and best practice approaches to financial management. Additional resources for developing policies are shown in Appendix VI—Policy Development Resources. Along with resources for financial policies, you will also find references for personnel and whistleblower policies and other useful materials.

Example Fiscal Policies and Procedures Handbook for PENN CIL (a Fictional CIL)

Introduction

PENN CIL¹ is a 501(c)(3) nonprofit organization that provides services to and supports community inclusion for people with disabilities. The Center for Independent Living (CIL) was created by people with disabilities seeking full integration into society. PENN CIL accomplishes its mission by empowering people with disabilities with the practical skills and self-confidence to take control over their lives and become active members of the community in which they live. PENN CIL also works to promote access and change within society and responds with programs and services to meet the needs of people of all ages with a wide range of disabilities.

This manual describes the policies and procedures that will be followed at PENN CIL to ensure that financial statements conform to generally accepted accounting principles; assets are safeguarded; regulations or guidelines of grantors and donors are followed; and that finances are managed with accuracy, efficiency, and transparency.

As a nonprofit recipient of federal grant funds, PENN CIL will comply with the General Principles in OMB Circular A-122 and its attachments to ensure costs are reasonable, allowable, and properly allocated.²

Following these policies and procedures will help safeguard the CIL's assets and ensure that they are used for appropriate purposes based on organizational objectives, the requirements of funders, other applicable rules and regulations, and best practices for nonprofit organizations.

Consistency with Independent Living Program Purpose and Philosophy

All activities and operations shall be consistent with the independent living approach. Specifically, expenditures for activities funded through Title VII, Chapter 1, Part C, of the Rehabilitation Act of 1973, as amended, will be consistent with the IL program purpose and philosophy, as set out in Title VII, as well as federal program regulations 34 CFR

¹ If the CIL administers more than one 501(c)(3) entity, the policy manual should specify the legal names of the organizations that it covers.

² Many centers for independent living receive much of their funding from the federal government. As nonprofit organizations, this places them under the requirements of Office of Management and Budget (OMB) Circular A-122. This circular establishes principles for determining costs of grants, contracts and other agreements with nonprofit organizations. It does not apply to colleges and universities, which are covered by OMB Circular A-21, "Cost Principles for Educational Institutions;" state, local, and federally recognized Indian tribal governments, which are covered by OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments;" or hospitals. The principles are designed to provide that the federal government bear only its share of costs except where restricted or prohibited by law. See Appendix II.

364 and 34 CFR 366, particularly in the delivery of IL core services and other IL services.

Board, Staff and Consultant Responsibilities

The following is a list of parties who have fiscal, administrative, or accounting responsibilities:

Board of Directors (and committees)

- Set, oversee and clearly articulate the organization’s vision, mission, and values.
- Provide leadership and strategic direction for the mission, budget, and development initiatives that sustain the CIL.
- Set a proper tone for the CIL by articulating a code of ethics, mandating compliance with the code, showing no tolerance for dishonesty, questioning unusual transactions or activities, and supporting appropriate training.
- Review and approve the annual budget prior to the beginning of the fiscal year, and any subsequent budget modifications, and ensure that, in the case of IL Part C funds, RSA pre-approval of budget modifications are obtained, in accordance with EDGAR 34 CFR 74.25.³
- Ensure all expenditures of federal funds by PENN CIL are adequately documented and allowable, that those expenditures are allocable and reasonable according to federal cost principles, and that the organization meets all applicable federal requirements.
- Review periodic financial and programmatic reports. Conduct such reviews no less frequently than once each quarter.
- Develop and approve the job description for an executive director.
- Select a qualified executive director, and forward information on the selected candidate to RSA.⁴
- Hire the executive director and establish the salary and benefits for the position.
- Review the executive director's performance annually and establish salary based on responsibilities and on comparative information.
- Review and approve internal controls and accounting policies and procedures.

³ RSA pre-approval is required for significant variance (10% of the annual grant amount or more) between the Part C budgeted and actual amounts.

⁴ Required by EDGAR 34 CFR 74.25(c)(2): “For nonconstruction awards, recipients shall request prior approvals from ED for one or more of the following program or budget related reasons: (1) Change in the scope or the objective of the project or program (even if there is no associated budget revision requiring prior written approval). (2) Change in a key person specified in the application or award document.”

- Provide leadership to the executive director on implementation of internal controls as a function of the board's role in supervising the executive director.
- Assess risk periodically, determine the adequacy of internal controls and determine the types and amounts of insurance coverage required for the organization.
- Review contracts with third parties if those contracts are for \$25,000 or more.⁵
- Assign a member(s) to co-sign any check in excess of a dollar amount established by the board.
- Determine whether the CIL should have a federal compliance audit under OMB A-133 and, if so, select and contract with the auditor.
- Review the CIL's compliance periodically and assure that whistleblower protection policies are in place for anyone reporting suspected illegal acts, waste, fraud or abuse of funds.
- Verify the CIL is not involved in any impermissible political activities or lobbying activities.⁶

Executive Director

- Provides continuous leadership in the implementation of the mission, strategic direction, budget, and objectives set by the board of directors.
- Ensures that a comprehensive, accurate budget and subsequent modifications are developed annually and presented to the board of directors for review and approval.
- Reviews key monthly financial reports (such as balance sheet, income and expense report, and budget comparison).
- Presents key financial and programmatic reports to the board of directors. Presents reports no less often than quarterly.⁷ Provides complete and accurate explanations of the reports. Describes any changes, discrepancies or variances in any of the reports, including the budget comparison report. Highlights any aspects of the reports or the organization's financial position of which the board should be aware in fulfilling its leadership role.
- Reviews and approves all program expenditures to verify that they are reasonable, allowable, and properly allocated.
- Reviews and approves invoices and reimbursement requests and other supporting documentation.

⁵ This is a good example of a policy that will be implemented differently in different organizations; for some, this amount will be far too high and for others, it will be too low.

⁶ As outlined in OMB Circular A-122, Attachment B, Item 25. See Appendix II.

⁷ Many organizations present reports to the board each month. Some present reports at quarterly meetings and provide written reports each month in the interim.

- Reviews and signs or co-signs checks.
- Reviews payroll journals (reports of time worked and pay rates by individual) to ensure hours worked and rates are complete and accurate.
- Reviews bank statements including checks, electronic payments, transfers and other transactions to identify any irregularities.
- Reviews completed monthly bank reconciliations with accountant.
- Reviews written support documentation for drawdowns and approve drawdowns prior to initiation.
- Ensures adherence to all internal controls is thorough and complete.
- Initiates donor thank-you letter acknowledgements.
- Reviews insurance with the board of directors on an annual basis to be sure that the CIL has proper liability, fire and theft, workers' compensation, disability, and other appropriate coverage. Reports to the board on the organization's insurance status and recommend changes as needed.

Accountant (bookkeeper)

- Prepares monthly financial reports including a balance sheet, income and expense report, budget comparison, and other key financial reports for review by the executive director and board of directors.
- Reviews the online bank account, reconciles the bank account, and reviews credit and debit card transactions and documentation.
- Enters debit/credit card transactions into the accounting system.
- Calculates drawdowns based on allowable, allocable, and reasonable expenses.
- Backs up accounting software.
- Prepares 1099s annually.
- Performs an initial review of timesheets prior to executive director approval.
- Prepares and prints paychecks and provides them to the executive director with supporting documentation.
- Reviews or prepares all federal and state quarterly and annual payroll tax reports, and prepare checks for tax deposits.
- Prepares documentation required for workers' compensation insurance audits.
- Classifies receipts, expenditures, and payroll properly by account.

Outside CPA

- Prepares annual nonprofit organization filings.⁸
- Performs audits or reviews of the CIL's financial statements.⁹
- Performs a compliance audit in accordance with OMB Circular A-133. (This must occur in any year that the CIL has \$500,000 or more of expenditures of federal awards.)¹⁰

Financial Procedures and Controls

Security of Financial Information and Other Records

Financial management records, electronic and printed, will be secured at all times. Access to those records will be restricted to those whose job responsibilities require access.

Access to the accounting system will be limited to those whose job responsibilities require such access. Each individual will have his or her own password for the system. If security requirements of the accounting system provide for different levels of access to separate modules, the access rights of each individual will be based on their job-related level of need for access.

Consumer records, donor records, and personnel records will be kept in a locked area with access limited to those whose job responsibilities require access.

Segregation of Responsibilities

The board and staff of PENN CIL will ensure the highest level of segregation of duties at all times. The board and staff will accomplish this by following the policies and procedures included in this manual.

Cash Receipts

Blank checks, checks or cash held for deposit, and checks held for employees or vendors will be kept in a locked area with access limited to those whose job responsibilities require access.

Cash receipts generally come from the following sources:

- 1) Contracts and grants (federal and other)

⁸ Most nonprofits engage an outside CPA firm to prepare these filings.

⁹ As required by regulations or determined by the board, a separate outside CPA firm may be engaged to perform audits or reviews of the CIL's financial statements.

¹⁰ The firm that prepares filings or conducts other ongoing work for the CIL will not be the firm that conducts an annual audit. This policy should be clearly stated in the manual.

- 2) Direct donor contributions
- 3) Fundraising activities

Incoming mail will be opened by the staff receptionist or other staff member designated by the executive director. When checks or cash are received, he or she will perform the following tasks:

- 1) Stamp the back of any checks received “For Deposit Only;”
- 2) Count any cash received;¹¹
- 3) Complete a deposit slip and note the proper accounting classification of the amount received (e.g., contributions, grant revenue, expense reimbursement, etc.);
- 4) Make a photocopy of any checks received and any accompanying documentation;
- 5) Make timely bank deposits at least once each week;¹²
- 6) Obtain an office copy of the receipted bank deposit; and
- 7) Provide a copy of the check and deposit slip and receipt (or check scanning report) to the accountant to record in the accounting system.

Under no circumstance shall the accountant (bookkeeper) perform any of the above seven tasks.

Federal Drawdowns

Drawdowns from the federal government will be made to cover the amounts that have been expended and not previously vouchered and other amounts that will be paid shortly after draws are received.¹³ Reimbursement of federal funds is preferred. However, if advances are required, they will be supported by documented, allowable, and reimbursable costs and will be expended as soon as administratively possible after they are received.¹⁴ The accountant will calculate and document the draw needed to cover these amounts.

PENN CIL will seek cash advances limited to the minimum amounts needed, and advances will be timed to be in accordance with its actual, immediate cash requirements in carrying out the purpose of the approved program or project.¹⁵ It is the

¹¹ If the CIL routinely receives significant amounts of cash, a procedure should be established in which more than one person counts and verifies the receipt.

¹² Consider the use of check scanning equipment to make electronic deposits.

¹³ When expending funds from the Rehabilitation Services Administration, the CIL will comply with the Education Department General Administrative Regulations (EDGAR) requirements as more fully explained under Grant Administration and Payment System and in Appendix II—Compliance with EDGAR, Applicable Federal Circulars and Other Requirements.

¹⁴ This addresses requirements set forth in 34 CFR 74.21(b)(3).

¹⁵ This addresses requirements of EDGAR 74.22(b)(2).

policy of this organization, consistent with federal regulation, to not draw down federal funds in advance of costs to manage cash flow.

PENN CIL will minimize the time that elapses between the transfer of funds to PENN CIL from the U.S. Treasury and the issuance or redemption of checks, warrants or payments¹⁶ by other means for program purposes by PENN CIL, in the following manner:¹⁷

- The accountant will prepare a list of accounts payable supported by documentation, such as approved invoices with allocations to each grant source, and present this information to the executive director.¹⁸
- The executive director will identify checks to be written, after ensuring that costs are reasonable, allowable, and properly allocated.¹⁹
- The executive director will draw the direct deposit funds for the actual amount needed to cover only those checks allocated to that grant.

Password access to the federal payment system will be maintained by the executive director or his/her designee.

Expense Allocations

Payroll and other costs that benefit a single program or cost objective shall be assigned solely to that program or cost objective. Most expenses that benefit more than one program or function (typically administration, rent and other occupancy costs, and minor expenditures such as shared supplies) are allocated to each program or department using a shared cost method, based on PENN CIL's Cost Allocation Plan or Indirect Cost Rate approved by the cognizant federal agency^{20, 21}.

All expenditures of federal funds must be adequately documented to be considered allowable.

¹⁶ CILs are covered by the Cash Management Improvement Act. Following the procedures stated here will help a center maintain compliance with the Act. See EDGAR 74.21-74.22. Failure to meet the time requirements between drawdowns and expenditures will require payment of interest on unexpended funds.

¹⁷ This addresses requirements of 34 CFR 74.21(b)(3).

¹⁸ This example fits a smaller organization; in larger centers, another staff member may be designated to perform this function.

¹⁹ See Appendix II and http://www.whitehouse.gov/omb/circulars_a122_2004

²⁰ In most cases, the U.S. Department of Education's Indirect Cost Group.

²¹ All Part C funded CILs are required to obtain an approved Cost Allocation Plan or Indirect Cost Rate and, in the case of a Cost Allocation Plan, to certify annually that the approved Cost Allocation Plan remains in effect. See Appendix III.

Grant Administration and Payment System

Check Preparation and Signatures

The executive director or his/her designee will authorize the payment of expenses related to the operation of PENN CIL. This includes payment of payroll, payment for products/services received, and lease and contract payments.

Outgoing checks require one signature from the approved list. The list of potential signers is approved by the board of directors, and signature cards are updated as required with the center's banking institution. Changes to the list of names must be approved by the board. The approved list must include, at a minimum, the treasurer, president, and executive director.²²

All disbursements will be supported by adequate documentation such as time sheets for time worked, invoices and/or check requests for other disbursements and reimbursements. In no case will an expenditure be made without the supporting documentation being reviewed and approved.

Invoices that are received electronically are printed, and are subject to the same review, approval and processing procedures as paper invoices that are received.

Signed checks must be mailed by a staff or board member other than the person who prepared them.

Checks will be pre-numbered in sequential order. Access to unused checks is limited to individuals authorized to prepare checks (i.e., the bookkeeper). All voided checks should be defaced with the signature portion of the check removed and retained. All checks should be accounted for.

Bank Reconciliations

The executive director or board treasurer will reconcile any bank accounts from unopened statements. The receptionist will hand deliver the unopened statements to the executive director or board treasurer. Statements will be reconciled within ten business days of receipt. Under no circumstances shall the accountant open or reconcile statements.

Payroll Procedures

All employees are required to complete, sign, and submit time sheets and personnel activity reports meeting the requirements of OMB Circular A-122 and accurately account

²² To improve controls over disbursements, many CILs require two signatures on all checks over a certain dollar amount (such as \$2500 or \$5000). In such cases, it is good practice to specify that amount in the financial policy manual. If there is not a sufficient number of financial administrative staff, a board member may be required to provide the second signature. Exceptions may be made for certain large recurring checks such as rent and utilities.

for all time worked during each payroll period. These requirements can be met with a single document or multiple documents.

The amount of payroll for all employees (supervisory and nonsupervisory) that is charged to programs, grants or activities will be supported by personnel activity reports that clearly show the distribution of activity of each employee. Personnel activity reports will also be maintained for employees whose work involves two or more functions/activities (such as program and administration or fundraising and administration).

Reports will show an after-the-fact determination of the actual activity of each employee and will account for the total activity for which employees are compensated. **Budget estimates (i.e., estimates determined before the services are performed) do not qualify.** Each report must account for the employees' total activity for which they are compensated in fulfillment of their obligations to the organization. The reports will be signed by the employee or by a responsible supervisory official having firsthand knowledge of the activities performed by the employee, with a notation that the distribution of activity represents a reasonable estimate of the work actually performed by the employee. These reports will be prepared at least monthly and will coincide with one or more payroll period(s).

After approval of time sheets, the accountant will call time worked in to the payroll processing system.²³ The payroll service bureau will prepare checks or electronic deposits and a record of payroll by person. The executive director will review the record of payroll by person for accuracy, including proper rates and hours. Checks for payroll and contracted workers are sealed in envelopes by the executive director, and held by the executive director in a locked area for distribution.

Personnel Activity Report (PAR)

Every employee²⁴ is required to complete a Personnel Activity Report (PAR) for each time period for which they are paid²⁵. The time sheets serve as a PAR for both hourly and salaried employees. Each PAR must meet these requirements:

- (1) Must be an after-the-fact record of the time worked. (It cannot be dated before the end of the time period.)
- (2) Must account for the total activity (100%) of the time for which the employee is compensated.

²³ Some centers don't choose to use payroll processing, but others require this outside assurance of proper payroll procedures. One of the most common misuses of funds is the failure to pay workers' compensation insurance, SS withholding, and other items based on payroll. These payments can be set up to happen automatically with a reputable payroll processing bureau or service.

²⁴ The actual federal requirement is "every employee paid with federal funds...."

²⁵ The actual federal requirement is that the PAR can be for a period of up to one month, but that it must coincide with time period(s) for payroll. In this example the PAR is also the time sheet. A CIL may choose instead to complete two separate documents, in which case a monthly (for pay periods of 1-15 and 16 to month end) or (if payroll is every two weeks) four-week PAR may be prepared and maintained. A PAR must be completed at least monthly.

- (3) Must be signed by the employee and²⁶ supervisor, with printed names, titles, and dates for each signature. Signatures certify that the percentage of time being reported under each objective is correct. PENN CIL uses this documentation to verify the way employees' time is split between cost objectives.

Debit and Credit Card Procedures

PENN CIL has debit, credit, and store charge cards that can be used subject to the following requirements:

Use of Cards by the Executive Director

The executive director of PENN CIL is authorized to utilize debit, credit, and store charge cards, subject to a limit of \$1,500, for the purchase or payment of allowable costs/expenses related to the normal operation of the programs and services of the CIL. This includes but is not limited to:

- postage expense
- travel expense
- supplies expense
- equipment purchase

The executive director will retain receipts and other documentation for all purchases using cards and provide these to a member of the board for review. The board member will log the receipt/review of the documentation related to the executive director's use of the card(s).

Use of Cards by Other Management Staff

Other management staff may use cards for the purchase or payment of cost/expense related to the normal operation of the programs and services of the CIL with prior approval from the executive director subject to a \$300 limit. Prior approval may be received in writing, by email, or over the phone. If approval is by phone, the date, time of approval, and type and amount of the expenditure approved will be noted by the executive director and made part of the supporting documentation.

As soon as possible after the expenditure, anyone using the cards will produce the original receipt and other documentation related to the expense for internal processing and submission first to the staff member's supervisor and then, after approval, to the accountant. The documentation and/or accompanying notes will explain the nature of the item(s) purchased in a way that permits verification that the

²⁶ The actual federal requirement is that it must be signed by the employee OR a responsible supervisory official having firsthand knowledge of the activities performed.

item is reasonable, necessary, and allowable, and specify the program or function to which it should be allocated.

Debit Card Purchases Are Limited to the Following Areas:

- postage expense
- travel expense
- supplies expense
- equipment purchase

Lost or Stolen Cards

If a debit or credit card is lost or stolen, the person designated with responsibility for the card must report the loss or theft to the executive director immediately. The executive director will immediately contact the bank to cancel the card and issue a different card. The executive director will document the circumstances and when the bank was contacted, and determine if other steps are needed based upon the circumstances related to the lost or stolen card.

Credit Card Codes and Passwords

No staff member is allowed to change the original code/password for the debit card that they utilize without permission from the executive director.

Misuse of Credit or Debit Cards

If staff abuse or misuse a card, the executive director will require the staff member to relinquish the card to the executive director. The executive director will determine if other steps are needed based upon the circumstances related to the misuse of the card, up to and including initiation of civil or criminal proceedings. If the executive director abuses or misuses a card, the card must be relinquished to the board chair or treasurer. The board will determine if other steps are needed based upon the circumstances.

Travel

Travel outside of the local area can be reimbursed to staff, board, volunteers, and consumers (if provided as a part of consumer's IL goals such as education/community participation). This includes travel necessary for participation in state/regional committees or task forces, attending workshops, conferences or other trainings, advocacy, development and/or networking activities.²⁷

²⁷ For centers that do not maintain their own vehicles, local staff travel for center business (such as travel to the home of a consumer for IL skills training) may be covered and the policy should address this kind of travel.

Pre-Approval of Travel

All reimbursable travel must be allowable, allocable, reasonable, and necessary to achieve the purposes of the CIL and the involved funding sources, in accordance with federal cost principles and the CIL's approved budget and written travel policies and procedures; and must be pre-approved by the individual's immediate supervisor and/or the executive director. The approving individual has authority about the mode of travel that will be reimbursed, and preference will always be given to the mode that is the most economic and efficient (e.g., coach rather than first class airfare). Any reasonable accommodation needs will be considered in this determination.

Reimbursement and Documentation

Documentation for the cost of and purpose for travel must be submitted for reimbursement. A travel reimbursement request with supporting documentation must be submitted within 30 days of travel.

Reimbursement for approved business use of personal vehicles will be based on rates established by PENN CIL that do not exceed the federal approved rate.²⁸

Per Diem

Meals for out-of-area travel will be reimbursed at rates that do not exceed the federal per diem rates that are documented on the U.S. General Services Administration Per Diem Rate Lookup Website <http://www.gsa.gov/portal/category/100120>

To receive Per Diem reimbursement for meals associated with out-of-area travel, travel must begin before or be inclusive of 7:00 am (for breakfast), 10:00 am - 1:00pm (for lunch) and/or end after 7:00 pm (for dinner).

Accounting for Donated Services

The objective of accounting for donated services is to comply with generally accepted accounting principles and with requirements for annual filings. The PENN CIL will also track and document that in-kind items qualify for Grant Matching.²⁹

Fair value will be determined at the date of the gift. Services will only be counted as donations if:

²⁸ Available at http://www.gsa.gov/portal/content/100715?utm_source=OGP&utm_medium=print-radio&utm_term=mileage&utm_campaign=shortcut

²⁹ Often, funding agencies require matching funds or in-kind contributions from the grantee. Some funding agencies allow grantees to include non-cash donations as part of their matching funds or in-kind contribution. Goods that may be counted include land, buildings and equipment (such as computers or office equipment for direct use, or wheelchairs or other equipment that will be provided to consumers), and rent-free space.

- services are performed as part of PENN CIL's programs or services, and would otherwise be performed by salaried personnel;
- PENN CIL has control over the employment and duties of the donors of the services; and
- PENN CIL has a clearly measurable basis for the amount claimed.

The following in-kind items will be recorded in the accounting system:

- items intended to be used or controlled by the CIL (for example: a computer or copier that would be used by the CIL; or adaptive equipment, the use of which the CIL oversees).
- donated use of items or facilities, such as real estate.
- donated services that are key to the CIL's operations, programs or services and have been performed by specialists (such as review of contracts by an attorney).

Financial Reports

All expenditures are to be incurred and paid in accordance with a budget approved by the board of directors.³⁰

Financial statements are reviewed by the executive director each month and by the board (and finance committee) at least quarterly.

The following financial statements are prepared:

Balance Sheet

- Assets (what we have)
- Liabilities (what we owe)
- Net assets (what's left)

The balance sheet is created as of a particular point in time, such as month-end.

Net assets will be classified as restricted by donors, designated by the board for use in certain areas, or as available for use where needed.

Statement of Income and Expenses and Budget Comparisons

These statements report contributions received and income earned, as well as expenses for payroll and for products and services received. Reports will be generated

³⁰ With regard to IL Part C funds, an ED Form 524 Budget, and subsequent modifications thereof, must be submitted annually for approval by RSA.

for a period of time such as a month and/or year-to-date and may be compared to the prior year, and/or to budgeted amounts.

Other Financial Reports

An accurate Financial Form SF-425, required for IL Part C funds, will be submitted annually to RSA by December 31.³¹

Other financial reports will be prepared for review as requested by the Board of Directors including:

- cash flow report
- dashboard report (key asset and operating results)
- cash flow forecast
- an aging of accounts payable³²
- an aging of accounts receivable³³

Information Technology Controls

Information technology controls are created to protect confidential information, preserve financial data, and operate efficiently.

The CIL will properly protect its information technology with the following procedures:

- Backups of important data will be made and stored off-site periodically.
- Backups will be verified at least quarterly to make sure they are working.
- Surge protectors will be used on all computers and UPS/battery backups will be used on the server.
- Access to computers will be limited to those needing access required for the performance of job duties.
- Access will be immediately removed when someone leaves or is terminated.
- Secure passwords will be used and changed monthly.³⁴
- Up-to-date virus protection and anti-spam software will be used.

³¹ See instructions at <https://ncrtm.org/moodle/mod/page/view.php?id=3806>

³² Usually important if paying bills on time is a concern.

³³ Usually important if billing on time or receiving funds on time is a concern.

³⁴ At present, many consider passwords that are updated monthly and that consist of at least eight characters, including one or more numbers, to be relatively secure; however, the security landscape is changing rapidly and the center should adhere to current best practices.

- Any remote devices such as laptops, smartphones or notepads that are integrated with the computer system will be secured with passwords and/or encrypted.
- Hard drives will be defragmented periodically, error logs will be reviewed for potential problems, and problems will be remedied.
- License and warranty information will be maintained in a secure central location.

Purchasing Policy

Objectives of the Policy

The center's policy has the following objectives:

- To limit purchases to necessary items
- To minimize the possibility of theft or misuse
- To control costs while ensuring quality
- To comply with federal or other regulations where applicable
- To properly identify the nature and program or supporting service of the purchase

Overview

It is the policy of the CIL to follow ethical, responsible, and reasonable purchasing procedures. These policies describe the principles and procedures to be followed by all staff in connection with their purchasing responsibilities.

Responsibility for Purchasing

All purchases will be approved by the executive director.

Competitive Bidding

Purchases in excess of \$5,000 annually, including services, equipment and certain supplies purchased, leased or contracted for, shall be made only after receiving quotes from at least three vendors. Selections shall be recommended to the executive director for approval with quotes attached. If the amount exceeds the purchasing authority of the executive director, the board will review the information and make the final decision.

Recommendation and selection will be based on the following criteria:

- A clear and accurate description of the product or service to be purchased
- Skill and experience of key personnel
- Experience providing products or services to the CIL
- Specific requirements included in the solicitation of bids

- Demonstrated commitment to the nonprofit sector on the part of the vendor
- Statements made by the references supplied by the vendor
- Ability of the vendor to adhere to specified time lines
- Cost
- Status of vendor as woman- or minority-owned business or qualified small business
- The vendor's capacity to deliver products and services that conserve natural resources and protect the environment, when possible

Exceptions to Competitive Bidding

Competitive bidding will not be required in certain limited circumstances including the following:

- The item is available only from a single source.
- An emergency or urgent need³⁵ will not permit a delay for competitive selection.
- Staff or client health, welfare, or safety does not permit a delay for competitive selection.
- After solicitation of a number of sources, competition is deemed to be inadequate.

A written explanation must be prepared and maintained whenever competitive selection is not used.

Ethical Conduct in Purchasing

Individuals involved in the purchasing process will discourage the offer of, and decline gifts or gratuities for themselves, their families or friends from potential vendors. They will never discriminate unfairly by dispensing special favors or privileges to anyone whether for remuneration or not.

Conflicts of Interest Prohibited

Employees and members of the board of directors have an obligation to conduct business within guidelines that prohibit actual or potential conflicts of interest. This policy establishes only the framework within which the CIL will operate. The purpose of these guidelines is to provide general direction for all employees and members of the board of directors. Employees are expected to seek further clarification from their supervisor on issues related to the subject of acceptable standards of operation if any question arises. Board members, as well as any employees involved in the

³⁵ "Emergency or urgent need" means an unforeseen situation has arisen that affects the center's operations in a substantive way. It does not mean it is a last minute purchase because it's the end of the fiscal year.

procurement/purchasing process, are expected to disclose any potential conflict of interest and to remove themselves from discussion and decision making in any item of business in which they have a conflict of interest.

Conflict of Interest

An actual or potential conflict of interest occurs when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award.

No “presumption of guilt” is created by the mere existence of a relationship with an outside firm. However, when the individual has any influence on transactions involving purchases, contracts, or leases, it is imperative that they disclose to the executive director, or, in the case of a board member or the executive director, to the full board, as soon as possible the existence of any actual or potential conflicts of interest so that safeguards can be implemented to protect all parties.

Personal gain is prohibited. Transactions are prohibited where the individual or relative has significant ownership in a firm with which the CIL does business. Any kickback, bribe, substantial gift, or special consideration to an individual or relative is prohibited as a result of any transaction or business dealings involving the CIL in which the individual has influence.

Procurement under State or Federal Awards

Procurement of goods and services that will be charged to state or federal awards received by the CIL is subject to all of the policies above and also to the following:

- The CIL will purchase only those items necessary for the performance of the duties required by a state or federal award.
- Where appropriate, an analysis will be made of lease versus purchase acquisitions to determine which would be most economical and practical.
- Documentation of the basis for contractor selection shall be retained when competitive bidding is performed; documentation for why competitive bidding was not done shall be retained.

Vendor contracts shall include a written statement that they have not been suspended or disbarred from doing business with any state or federal agency.

Davis-Bacon prevailing wage requirements for construction contracts must be met if required by the state or federal award.

Program Income

If the CIL receives any program income for programs that are federally funded, the source and application of program income will be tracked to ensure that it is expended

only on allocable and allowable costs. Specifically, program income will be added to the funds committed to the project by the federal awarding agency to further eligible project or program objectives or deducted from the total project or program allowable costs in determining the net allowable costs on which the federal share of cost is based.³⁶ Program income will be reported on the Federal Financial Reports.

Property and Equipment

Property and equipment include items such as:

- Office furniture and equipment
- Computer hardware
- Computer software
- Leasehold improvements

It is the CIL’s policy to capitalize all items that have a unit cost greater than one thousand dollars (\$1,000) and a useful life of more than one year. Items purchased with a value or cost less than one thousand dollars and a useful life not exceeding one year will be expensed in the period purchased.³⁷

The depreciation period for capitalized assets is as follows:

Computer Hardware	36 months
Office Equipment	60 months
Office Furniture	60 months
Computer Software	36 months
Leasehold improvements	Length of lease

A Fixed Asset Log will be maintained by the accountant including date of purchase, asset description, purchase/donation information, cost/fair market value, donor/funding source, identification number, and the life of the asset.

Annually, a physical inspection and inventory will be taken of all fixed assets, and the accounting system will be updated to reflect any items that are disposed of or are no longer in service.

A control system must be in effect to ensure adequate safeguards are in place to prevent loss, damage or theft. The executive director shall be informed in writing of items that are missing, have been disposed of, or are no longer in service. Any missing items must be investigated.

³⁶ EDGAR 34 CFR 74.24

³⁷ EDGAR and OMB A-122 set a limit of \$5000.

Depreciation is recorded at least annually. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Any impaired assets discovered during the inventory will be written down to their actual value.

Equipment purchased with federal funds is subject to specific provisions in EDGAR 74.34. See Appendix II.

Personnel Records

All personnel files will contain the following documents: an application and/or resume; date of employment; position and pay rate; job description; performance evaluations; authorization of payroll deductions; W-4 withholding authorization; termination data where applicable; a signed confidentiality agreement; a signed acknowledgement of receipt of Employee Handbook; acknowledgement of the organization's whistleblower, drug-free workplace, lobbying and conflict of interest policies and procedures; an emergency contact form; and other forms as deemed appropriate by the executive director.

All employees will fill out an Employment Eligibility Verification (I-9) and submit the specified allowable forms of identification to the executive director.

The completed I-9 forms will be kept in a secure location separate from the personnel files.

All personnel files are to be kept in a secure, locked file cabinet and accessed only by authorized personnel, as assigned by the executive director.

Reports to Funding Agencies and Organizations

The CIL is required to submit programmatic and financial reports periodically to funders and oversight agencies. In all cases, the CIL will keep a paper or electronic file of documentation supporting financial, unit of service, programmatic, and other information included in the report along with a copy of the report itself.³⁸

³⁸ Centers receiving funding under Title VII of the Rehabilitation Act are required to follow the implementing regulations, as well as requirements of the Education Department General Administrative Regulations (EDGAR). In accordance with 34 CFR 75.731, all programmatic and financial reports, including the 704 report, ED form 524, budgets, and the SF 425 financial report, must have supporting documentation, subject to RSA verification.

Appendix I—Sample Forms and Other Attachments

Your CIL may wish to include a sample of each of the center’s internal forms and documents as attachments to the policies and procedures manual. Examples include:

- Time Sheet
- Personnel Activity Report
- Check Request Form
- In-Kind Contribution Tracking Form
- Travel Expense Reimbursement Request
- Financial Reports

Appendix II—Compliance with EDGAR, Applicable Federal Circulars and Other Requirements

Centers for independent living are required to comply with the Education Department General Administrative Regulations (EDGAR) OMB Circular A-122, OMB Circular A-110 and other regulations. Centers should ensure policy manuals address the following requirements.

Supporting Documentation

It is the responsibility of the board and staff of the organization to ensure the CIL maintains adequate supporting documentation for all expenditures. Expenditures that lack adequate supporting documentation may be disallowed. This is consistent with 34 CFR 75.731 and OMB Circular A-122 (2 CFR 230).

Compliance with Various Requirements of EDGAR, Federal Circulars, and Other Applicable Regulations

Organizations are required to maintain financial management systems according to EDGAR (34 CFR 74.21 (b) (1), (2), (3), (4), (5), (6), and (7)), including the following:

- 1) Accurate, current, and complete disclosure of the financial results of each federally-sponsored project in accordance with the reporting requirements established in §74.52.³⁹
- 2) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to awards, authorizations, obligations, unobligated balances, assets, outlays, income, and interest.
- 3) Effective control over and accountability for all funds, property, and other assets. Centers must adequately safeguard all assets and assure they are used solely for authorized purposes.
- 4) Comparison of outlays with budget amounts for each award. Whenever appropriate, financial information will be related to performance and unit cost data.
- 5) Written procedures to minimize the time that elapses between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks,

³⁹ If the Department of Education requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient shall not be required to establish an accrual accounting system. These recipients may develop accrual data for their reports on the basis of an analysis of the documentation on hand.

warrants or payments by other means for program purposes by the recipient.⁴⁰

- 6) Written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable federal cost principles and the terms and conditions of the award.
- 7) Accounting records including cost accounting records that are supported by source documentation.

Equipment Acquisition and Documentation

Consistent with EDGAR 74.34, procedures for equipment acquired with federal funds and federally-owned equipment shall include all of the following:

- 1) Equipment records shall be maintained accurately and shall include the following information: (i) a description of the equipment; (ii) manufacturer's serial number, model number, federal stock number, national stock number, or other identification number; (iii) source of the equipment, including the award number; (iv) whether title vests in the recipient or the federal government; (v) acquisition date (or date received, if the equipment was furnished by the federal government) and cost; (vi) information from which one can calculate the percentage of federal participation in the cost of the equipment furnished by the federal government); (vii) location and condition of the equipment and the date the information was reported; (viii) unit acquisition cost; and (ix) ultimate disposition data, including date of disposal and sales price or method used to determine current fair market value where a recipient compensates the Department of Education for its share.
- 2) Equipment owned by the federal government must be identified to indicate federal ownership. A physical inventory of equipment must be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records must be investigated to determine the cause of the difference.
- 3) The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.
- 4) A control system must be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the federal government, the recipient shall promptly notify the Department of Education.

⁴⁰ This ensures compliance with the provisions of the Cash Management Improvement Act (CMIA) (Pub. L. 101-453) wherein payment methods of state agencies, instrumentalities, and fiscal agents shall be consistent with CMIA Treasury-State Agreements or the CMIA default procedures codified at 31 CFR Part 205—Withdrawal of Cash from the Treasury for Advances under Federal Grant and Other Programs.

- 5) Adequate maintenance procedures must be implemented to keep the equipment in good condition.
- 6) Where the recipient is authorized or required to sell the equipment, proper sales procedures must be established that provide for competition to the extent practicable and result in the highest possible return.

Allowability of Costs (based on OMB Circular A-122)

To be allowable under an award, costs must meet the following general criteria:

- 1) Be reasonable for the performance of the award and be allocable thereto under these principles.
- 2) Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.
- 3) Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the organization.
- 4) Be accorded consistent treatment.
- 5) Be determined in accordance with generally accepted accounting principles (GAAP).
- 6) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally financed program in either the current or a prior period.
- 7) Be adequately documented.

Reasonable Costs (based on OMB Circular A-122)

A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. In determining the reasonableness of a given cost, consideration shall be given to the following:

- 1) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.
- 2) The restraints or requirements imposed by such factors as generally accepted sound business practices, arms-length bargaining, federal and state laws and regulations, and terms and conditions of the award.
- 3) Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the federal government.
- 4) Significant deviations from the established practices of the organization that may unjustifiably increase the award costs.

Allocable Costs (based on OMB Circular A-122)

A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it

- 1) is incurred specifically for the award,
- 2) benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or
- 3) is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.

Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award.

Supporting Documentation for Financial and Programmatic Reports

All programmatic and financial reports, including the 704 Report, ED Form 524 budgets and the SF-425 financial report, must have supporting documentation, subject to RSA verification. This meets requirements of 34 CFR 75.731.

Appendix III—Sample Cost Allocation Plan

Reader's Notes on Cost Allocation Plans

OMB Circular A-122, ***Cost Principles for Non-Profit Organizations***, establishes the principles for determining costs of grants, contracts and other agreements with the federal government. The circular addresses direct and indirect allocation methods. The Direct Allocation Method treats all costs as direct costs except general management and administrative costs. Direct costs are those that can be identified specifically with a particular final cost objective. Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.

Cost allocation plans must be approved by the “cognizant agency” prior to implementation. In the case of centers for independent living, this agency is the U.S. Department of Education. All Part C-funded CILs are required to have a cost allocation plan (CAP) or indirect cost rate (ICR) approved by the U.S. Department of Education’s Indirect Cost Group, in compliance with the RSA Commissioner’s Memorandum (CM 04-05). For most CILs, the best option is a CAP. However, some CILs—particularly those with a majority of funds coming from sources other than IL Part C—may wish to consider an ICR instead.

Information about ICRs is available at
<http://www2.ed.gov/about/offices/list/ocfo/fipao/abouticg.html>

A model CAP for CILs is available at
http://wiki.ilru.net/images/a/af/Model_CAP_2013.pdf

ICRs must be submitted annually. Once approved by the Indirect Cost Group, CAPs require only annual certifications as long as the approved cost allocation method remains valid, that is, non-Part C funding sources and amounts have not changed significantly.

The annual certification template is available at
http://wiki.ilru.net/images/6/62/Yearly_CAP_Cert2.pdf

Note: RSA does not review or approve CAPs, ICRs or annual certifications.

CAPs are required to include the seven attachments listed below. Attachment A, for example, consists of a narrative description of the proposed method for allocating direct and indirect costs in each of the cost categories (salary and wages, fringe benefits, rent and utilities, etc.) in the CIL’s current accounting system. The Indirect Cost Group provides detailed guidance regarding Attachment A and the other required attachments in its model CAP.

Further assistance may be obtained from one of the Indirect Cost Group state contacts listed at <http://www2.ed.gov/about/offices/list/ocfo/fipao/icgreps.html>

In addition, a simplified model cost allocation plan (Attachment A) is provided below. It is provided for illustration purposes only and is not intended to be submitted as such. Each CIL is required to tailor its own plan in accordance with guidance provided in the Indirect Cost Group's model CAP as well as the CIL's own accounting system and funding sources and amounts.

Attachment A: Cost Allocation Plan

Purpose and General Statements

The purpose of this cost allocation plan is to summarize, in writing, the methods and procedures that this organization will use to allocate costs to various programs, grants, contracts and agreements.

PENN CIL's Cost Allocation Policy is based on the Direct Allocation method described in OMB Circular A-122.

Direct costs are those that can be identified specifically with a particular final cost objective. Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.

Only costs that are allowable, in accordance with the OMB A-122 cost principles, will be allocated to benefiting programs by PENN CIL. The exception to this is resource development costs. As a center for independent living, PENN CIL is required to conduct resource development activities. Fundraising costs are allowable and are addressed in this plan.

General Approach

The general approach of PENN CIL in allocating costs to particular grants and contracts is as follows:

- a) All allowable direct costs are charged directly to programs, grants, activity, etc.
- b) Allowable direct costs that can be identified to more than one program are prorated individually as direct costs using a base most appropriate to the particular cost being prorated.
- c) All other allowable general and administrative costs (costs that benefit all programs and cannot be identified to a specific program) are allocated to programs, grants, etc., using a base that results in an equitable distribution.

Allocation of Costs

The following information summarizes the procedures that will be used by PENN CIL to allocate direct and indirect costs beginning [*insert effective date*], in the following areas:

- 1) Salaries and Wages (Personnel Costs)—Time sheets are completed on a daily basis⁴¹ by all CIL employees and reflect an after-the-fact determination of the actual activity of each employee. The time sheets account for the employee's total activity during the pay period. Each individual signs the time sheet at the end of each pay period indicating that the distribution of activity on the time sheet represents a reasonable estimate of the actual work performed by the employee during the period.

The majority of the CIL's employees direct charge their salary costs since their work is specifically identifiable to specific grants, contracts, or other activities of the organization such as lobbying, fundraising or providing services to members.

Salary costs that benefit all programs or the actual administration of the organization are considered indirect and must be allocated to programs. Administrative functions typically relate to general, financial, and personnel management, as well as clerical and administrative support.

Costs of paid absences, (such as vacation, sick and holiday pay) are considered part of salary costs and allocated to programs in the same manner as those costs. Separate claims for release time are not made. Vacation leave earned but not used during each fiscal period is recorded as a cost in the period earned. Sick and other leave are recorded when taken.

- 2) Fringe Benefits—The CIL contributes to the following fringe benefits for employees: FICA, unemployment compensation, workers' compensation, health insurance, and pension plan. The fringe benefits costs are allocated in the same manner as salaries and wages.
- 3) Travel Costs—Travel is charged directly to the program that benefits from the travel. Administrative travel costs that benefit all programs will be allocated based on a ratio of each program's salaries to total program salaries. Travel that benefits only a few programs will be allocated to those programs based on the ratio of each program's salaries to the total of those programs' salaries.
- 4) Contractual and Professional Services—Contractual services consisting of interpreter services, recreation services, and consumer service contracts are charged directly to the programs benefiting from the services. Professional service costs are also charged directly to the program for which the service was incurred. Contractual and professional service costs that benefit all programs will be allocated based on a ratio of each program's expenses to total program expenses. Contractual and professional services that benefit only a few programs will be

⁴¹ This language reflecting "daily completion" is included in the Department of Education's model Cost Allocation Plan. This is certainly "best" practice which helps ensure that staff reporting is fully accurate; however, CILs have found less frequent entry of information still allows them to maintain complete and accurate records. Regardless, time and effort and payroll logs must be completed frequently enough that staff can accurately record their activities.

allocated to those programs based on the ratio of each program's expenses to total of the selected program expenses.

- 5) Capital Expenditures—Capital expenditures are charged directly to programs only with prior approval of the awarding agency. Capital expenditures are unallowable as indirect costs.
- 6) Depreciation—The CIL depreciates equipment purchased with non-federal funds when the initial acquisition cost exceeds [\$ ____]. Items below [\$ ____] are reflected in the supplies category and expensed in the current year. Depreciation costs for allowable equipment used solely by one program are charged directly to the program using the equipment. Depreciation of equipment that benefits all programs will be allocated based on a ratio of each program's expenses to total program expenses. If only a few programs benefit from the equipment, then an allocation of the depreciation costs will be based on a ratio of each program's expenses to the total of the selected programs' expenses.
- 7) Office Supplies, Postage, and Printing—Office supplies and printed materials used for a specific program are charged directly to that program. Postage expenses are charged directly to programs to the extent possible. Costs that benefit all programs are allocated based on a ratio of each program's expenses to total program expenses. Costs that benefit only a few programs are allocated to those programs based on the ratio of each program's expenses to the total of the selected programs' expenses.
- 8) Facility Expenses (including utilities, facility maintenance and repairs)—The CIL occupies owned/leased space (if space is leased, identify the lessor). Facility expenses are allocated to each program based on the percentage of total program salaries charged to each program by personnel.

OR

Facility expenses are allocated to programs based on square footage usage. An allocation of square footage is calculated based on usage by programs. Facilities costs related to general and administrative activities are allocated to programs in a second step based on the ratio of each program's square footage to total program square footage.

- 9) Insurance—Insurance needed for a particular program is charged directly to the program requiring the coverage. Other insurance coverage that benefits all programs is allocated based on a ratio of each program's expenses to total program expenses.
- 10) Telephone/Communications—Long distance and local calls are charged to programs if readily identifiable. Other telephone/communications expenses that benefit more than one program are allocated to those programs based on the ratio of each program's expenses to total program expenses. Costs that benefit only a few programs are allocated based on a ratio of each program's expenses to the total expenses of the selected programs as shown.

- 11) Training/Conferences/Seminars—Expenses are charged directly to the benefiting program. If the expenses benefit more than one program, costs are allocated to those programs based on the ratio of each program’s expenses to the total of the selected programs’ expenses. Administrative training, conferences or seminar costs are allocated to each program based on the ratio of each program’s salary expenses to total program salary expenses.
- 12) Board Expenses—Board expenses are incurred for travel and other related costs. These expenses benefit all programs and are allocated based on a ratio of each program’s expenses to total program expenses. Travel costs are subject to the restrictions in OMB Circular A-122.
- 13) Other Costs (including dues, licenses, fees, etc.)—Other joint costs will be allocated on a basis determined to be appropriate to the particular costs. (Grantee should describe methodology for applicable costs.)
- 14) Unallowable Costs—The CIL assigns account numbers to unallowable costs, so that the costs are identified and excluded from the allocation. Costs that are unallowable in accordance with OMB Circular A-122 include lobbying, alcoholic beverages, bad debts, contributions, entertainment, certain advertising, and fines and penalties. The CAP does not allocate unallowable costs to federal programs.

Attachment B: Organizational Chart

Attachment C: Schedule of Awards (IL Part C and other funding sources and amounts)

Attachment D: Statement of Total Costs (proposed direct and indirect costs for each cost category across all funding sources)

Attachment E: Schedule of Salaries (proposed direct and indirect cost allocation by CIL staff person)

Attachment F: Cost Allocation Plan Certification (signed certification that the proposed direct and indirect cost allocations meet federal requirements)

Attachment G: Audited Financial Statement (or approved budget or Form 990)

Appendix IV—Sample Policy for Records Retention

PENN CIL will follow these guidelines for the retention of records but will also comply with any longer retention requirements of funders.⁴²

If PENN CIL has any active, pending or threatened litigation, audit findings or monitoring findings, records will be retained until all issues are fully resolved as determined by the board of directors.

Financial and programmatic records (including consumer service records) and supporting documents related to Part C funding, compliance or performance shall be retained for a minimum of five years from the date in which the corresponding annual reports are submitted to RSA.

Paper and electronic records are subject to the same requirements.

This policy will be modified to accommodate any special requirements of funders or regulators.

At the end of the retention time frame, paper and electronic records will be destroyed.

A log of records that are purged and destroyed will be maintained.

Item	Useful life
Accounts payable ledgers and schedules	5 years
Accounts receivable schedules	5 years
Bank reconciliations	5 years
Bank statements	5 years
Checks (cancelled, but see exception below)	5 years
Checks (cancelled for important payments, i.e., taxes, purchases of property, special, contract, etc.) (Checks should be filed with the papers pertaining to the underlying transaction.)	Permanent
Contracts, mortgages, notes and leases:	
Expired	7 years
Still in effect	Permanent
Correspondence	5 years

⁴² The General Education Provisions Act (GEPA) has a five years statute of limitations on audits. Accordingly, all educational records subject to GEPA should be retained for a minimum of five years after the date the final expenditure report is submitted for each fiscal year. For programs not subject to GEPA, records should be kept as long as any applicable statute of limitations applies. If none, a “safe” practice would be to maintain electronic copies of records and/or paper records to the extent practicable, but no less than 10 years.

Item	Useful life
Deeds, mortgages and bills of sale	Permanent
Depreciation schedules	Permanent
Duplicate deposit slips	2 years
Employment applications	3 years
Employee personnel records (after termination)	5 years
Expense analyses/expense distribution schedules	7 years
Financial statements: Year-end Other	Permanent Optional
Garnishments	7 years
General ledgers	5 years
Insurance policies (expired)	3 years
Insurance records, current accident reports, claims, policies, etc.	Permanent
Vouchers for reimbursement	5 years
Invoices from vendors	5 years
Journals (receipts, disbursements)	5 years
Minute books of directors and stockholders, including bylaws and charter	Permanent
Notes receivable ledgers and schedules	7 years
Payroll records and summaries, including payments to pensioners	7 years
Personnel records (terminated)	7 years
Petty cash vouchers	5 years
Property appraisals by outside appraisers	Permanent
Property records—including costs, depreciation reserves, end-of-year trial balances, depreciation schedules, blueprints and plans.	Permanent
Retirement and pension records	Permanent
Sales records	5 years
Subsidiary ledgers	5 years
Annual filings	Permanent
Time sheets/cards/books	7 years
Vouchers for payments to vendors, employees, etc. (including allowances and reimbursement of employees, officers, etc. for travel and entertainment expenses)	5 years
Withholding tax statements	7 years

Appendix V—Federal Compliance Audits

OMB Circular A-133

The U.S. Office of Management and Budget (OMB) provides guidance on compliance audits for recipients of federal program funds. Nonprofits that spend more than \$500,000 of federal monies in a fiscal year are subject to audit requirements of OMB Circular A-133: Audits of States, Local Governments and Non-Profit Organizations. These audits incorporate the following:

- Regular financial statement audits
- Governmental Auditing Standards (the Yellow Book)
- Additional requirements and controls for the preparation of financial statements
- Compliance with laws, regulations, contracts and grants

Auditors must test whether the organization complied with the terms of federal awards, and also whether they have proper controls over that compliance such as training of staff involved with compliance and internal verification to assure compliance. Compliance includes whether individuals being served are eligible for that service, whether services are performed during the time frame required by the grant, and whether cash management requirements are in place and followed.

Appendix VI—Policy Development Resources

In this appendix are resources for developing policies for nonprofit organizations. They are generally generic in nature, yet can be quite useful as models. Along with financial management policies, there are also resources for other policies: personnel, whistleblower, conduct, etc.

Financial Management and Related Policies

- Financial Management Resources from the Council of Nonprofits:
<http://www.councilofnonprofits.org/resources/financial-management>
- Guide for Developing a Comprehensive Financial Plan from the Nonprofit Risk Management Center (Available for Purchase):
<https://www.nonprofitrisk.org/tools/mfmp/mfmp.shtml>
- Newsletter and Website on Nonprofit Management from Blue Avocado Newsletter:
<http://www.blueavocado.org/>
- Article on Internal Controls from Blue Avocado Newsletter:
<http://www.blueavocado.org/content/five-internal-controls-very-small-nonprofit>
- Article on Nonprofit Budgeting from Blue Avocado Newsletter:
<http://www.blueavocado.org/content/focus-destination-not-route-budget>
- Article on Nonprofit Audits from Blue Avocado Newsletter:
<http://www.blueavocado.org/content/get-most-value-your-audit>

Risk Management

- Newsletter on Risk Management from the Nonprofit Risk Management Center:
<https://www.nonprofitrisk.org/>
- Risk Management Policies from the Nonprofit Risk Management Center (Available for Purchase): <https://www.nonprofitrisk.org/tools/mrmp/mrmp.shtml>

Cost Allocation Plans and Indirect Cost Rates

- Model Cost Allocation Plan: http://wiki.ilru.net/images/a/af/Model_CAP_2013.pdf
- Indirect Cost Rate Information:
<http://www2.ed.gov/about/offices/list/ocfo/fipao/abouticg.html>
- Indirect Cost Group State Contacts:
<http://www2.ed.gov/about/offices/list/ocfo/fipao/icgreps.html>
- Yearly Cost Allocation Certificate Form
http://wiki.ilru.net/images/6/62/Yearly_CAP_Cert2.pdf



Personnel Management

- Frequently Asked Questions on Employment Practices from the Nonprofit Risk Management Center: <http://www.nonprofitrisk.org/advice/faqs/employment2.shtml>
- Guide on Employment Practices from the Nonprofit Risk Management Center (Available for Purchase): http://www.nonprofitrisk.org/store/pub_detail.asp?id=60

Whistleblower Policies

- Sample Whistleblower Policy from Blue Avocado Newsletter: <http://www.blueavocado.org/content/model-whistleblower-policy-nonprofits>
- Information on Whistleblower Policies from the Nonprofit Risk Management Center: <http://www.nonprofitrisk.org/library/articles/employment091005.shtml>

Codes of Conduct and Corporate Compliance

- Article on Codes of Ethics from the Council on Nonprofits: <http://www.councilofnonprofits.org/resources/resources-topic/ethics-accountability>
- Explanation of Corporate Compliance from CARF: <http://www.carf.org/WorkArea/DownloadAsset.aspx?id=22494>

Federal Circulars, Regulations and Resources

- Office of Management and Budget Circular A-110: Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations: http://www.whitehouse.gov/omb/circulars_a110
- Office of Management and Budget Circular A-122: Cost Principles for Non-Profit Organizations: http://www.whitehouse.gov/omb/circulars_a122_2004
- Article on OMB Circular A 122 from Nonprofit Basics: <http://www.nonprofitaccountingbasics.org/federal-awards/omb-circular-122>
- Office of Management and Budget Circular A-133: Audits of States, Local Governments, and Non-Profit Organizations: http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2012
- Education Department General Administrative Regulations (EDGAR): <http://www2.ed.gov/policy/fund/reg/edgarReg/edgar.html>
- Office of Special Education and Rehabilitative Services, Rehabilitation Services Administration Resources: <http://www2.ed.gov/programs/cil/resources.html>