

# AUDUBON AREA COMMUNITY SERVICES

INCORPORATED

## Financial Procedures Manual

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**AUDUBON AREA COMMUNITY SERVICES, INC.**

**FINANCIAL PROCEDURES MANUAL**

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## **INTRODUCTION:**

This Financial Procedures Manual was prepared by the Financial Administrator in consultation with members of the Administrative Staff, Program Directors, Auditors, and others. The Manual has been approved by the Executive Director and is effective October 1, 2002

The Executive Director is the only person authorized to amend, modify or terminate any of the policies or procedures contained in the manual. Accordingly, any violations of the procedures should be reported to the Executive Director.

## **ORGANIZATION:**

Audubon Area Community Services, Inc. (AACS) is a private non-profit agency chartered October 15, 1973, upon the submission of Articles of Incorporation to the office of the Kentucky Secretary of State. The Agency formally commenced operations on March 1, 1975 as successor to and the consolidation of two parent agencies operating from April and August 1966 in Henderson and Owensboro, respectively. Audubon Area Community Services, Inc. is a community action agency created under the Economic Opportunity Act of 1964 (Public Law 88-452) and authorized under the Kentucky Revised Statutes (K.R.S.) 273.410 et sequins, as revised under amendments by the 1982 General Assembly, entitled "Community Action Agencies."

The 1980 General Assembly amended Chapter 65 of the K.R.S. and specifically defined the agency as a "special district" of the Commonwealth of Kentucky. Thus, the AACS, as the term "special district" implies is a unique, limited purpose unit of government created for and involved with its special aspect of public service. As a special district, the AACS is fully accountable to the local Fiscal Courts and the general public to whom it must make an annual report of its budget, services, service area, executive officers, and members of its governing Board of Directors.

Audubon Area Community services; Inc. is also the recipient of federal grants either directly or indirectly from various Federal departments and agencies. Accordingly, AACS is subject to statutory and regulatory requirements applicable to these grants. OMB Circular A-122 "Cost Principles for Nonprofit Organizations," and other principles issued by Federal granting agencies. In addition, Federal grants are subject to the provisions of OMB Circular A-110, "Uniform Administrative Requirements for Grants and Cooperative Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations," and other administrative requirements issued by Federal granting agencies, such as the Department of Health and Human Services (HHS) 45 CFR 74, "Administration of Grants."

The AACS Board of Directors is the agency's overall governing authority. It is fundamentally a policy-making and oversight body. The Board defines policy and practice within the agency. Executing the Board's policy and plans is the function of the staff, under guidance and direction of the Executive Director. The Agency has several advisory groups affiliated with its sponsored programs. In some cases, these are mandated in federal legislation. In others, the agency determined they were needed. Each of these councils is advisory to the Board and/or staff, except for the Head Start Policy Council, which functions with the Board in overseeing the governance and operation of the Head Start program. It's specific responsibilities, prerogatives, and authority are set forth in federal regulations, "Head Start Transmittal Notice 70.2," which defines designated Head Start operational roles for parents, administrators, and the Board.

## **FINANCIAL MANAGEMENT SYSTEM STANDARDS:**

The Agency shall meet the following standards for all of its programs.

A. Financial reporting -- Accurate, current, and complete disclosure of the financial results of each project or program shall be made in accordance with the financial reporting requirements of the grant or subgrant.

B. Accounting records -- Records which identify adequately the source and application of funds for grant or subgrant supported activities shall be maintained. These records shall contain information pertaining to grant or subgrant awards, authorizations, obligations, unobligated balance, assets, outlays and income.

C. Internal Control -- Effective control and accountability shall be maintained for all grant or subgrant cash, real and personal property covered by Code of Federal Regulations Part 74 - Administration of Grants, Subpart O - Property or OMB circular A-110, "Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations - Uniform Administrative requirements," Attachment N - Property Management Standards.

D. Budgetary Control -- The actual and budgeted amounts for each grant or subgrant shall be compared. If appropriate or specifically required, the Agency shall relate financial information to performance or productivity data, including the production of unit cost information. If unit cost data are required, estimates based on available documentation will be used whenever possible.

E. Advance Payments -- Agency procedures shall be established to minimize the time elapsing between the advance of Federal grant or subgrant funds and their disbursement. When advances are made by letter-of-credit method, the Agency shall make drawdowns as close as possible to the time of making disbursements. The Agency when advancing cash to subgrantees shall conform substantially to the same standard of timing and amount as apply to advances by Federal agencies to grantees, including requirements for timely reporting of cash disbursements and balances.

F. Allowable costs -- Agency procedures shall be established for determining the reasonableness, allowability, and allocability of cost in accordance with the applicable cost principles contained in OMB Circular A-122, "Cost Principals for Nonprofit Organizations."

G. Source documentation -- Accounting records shall be supported by source documentation such as cancelled checks, paid bills, payrolls, contract, and subgrant award documents, etc.

H. Non-Federal Audits -- The agency shall comply with the requirements concerning Non-Federal Audits in OMB Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions," including any amendments to those requirements published in the Federal Register by OMB.

I. Audit resolution -- The Agency shall follow a systematic method to assure timely and appropriate resolution of audit findings and recommendations in accordance with the requirements of OMB Circular A-133, " Audits of Institutions of Higher Education and Other Nonprofit Institutions."

## **FINANCIAL REPORTING:**

A. Internal Reporting --The Agency's Accounting records are maintained on an automated computer system and fund accounting software which provides on-line financial information to the Executive Director, Financial Administrator and Program Directors. In addition, financial reports are distributed to each Program Director for their review. These reports show a comparison of Budget with actual expenditures for the period-to-date and year-to-date totals. A consolidated financial report is submitted to Board of Directors at each meeting. This report shows the total month-to-date and year-to-date expenditures and revenues for each program. Responsibility for preparing and reviewing financial reports are as follows:

1. The Financial Administrator is responsible for supervising the preparation of all financial reports including the computer-generated information and reports.
2. The Program Director is responsible for monitoring and reviewing all financial information including any financial reports, which are either computer, generated or manually prepared for his or her program. Discrepancies or questions are to be resolved through the Financial Administrator.
3. All financial reports, which are to be distributed to Board of Directors or to anyone outside the Agency, must have the approval of the Executive Director, or in the absence of the Executive Director, the Financial Administrator.

B. Reporting to Funding Sources -- The Agency has a variety of funding sources, each unique and requiring a variety of reporting formats and reporting dates. To assure that all reports are timely submitted, the following procedures will be followed:

1. The Financial Administrator is responsible for supervising the preparation of all financial reports required by funding sources. As part of this responsibility, the Financial Administrator will maintain a file for each funding source, which contains copies of all reports by program year, blank reports, and reporting instructions.
2. The Program Director will receive a copy of each financial report for review and will maintain a report file by year. Discrepancies or questions will be directed to the Financial Administrator.
3. The Executive Director will receive the original of each report for his approval and signature. The Executive Director is the authorized official to approve and sign financial reports or in the absence of the Executive Director, the Financial Administrator.

## **COMPUTER SYSTEMS:**

The Agency's accounting system is maintained on a computer system using fund accounting software. In addition, the Agency has personal computers, which are used for specific purposes within programs or departments. The following procedures apply to all computers and computer systems within the Agency:

A. The Executive Director must be consulted on all purchases of computers and software. This procedure is to be followed to prevent duplication and to assure that all computer equipment and software are compatible with the Agency's goal of a total integrated system.

B. The Financial Administrator is responsible for overseeing the Agency's data processing activity related to the automated computer system and related accounting systems. In addition the agency has an I/T Manager and staff which provides technical assistance support. The following procedures apply:

1. The automated computer system and peripheral equipment used by the finance staff will not be used by anyone without prior approval of the Financial Administrator.

2. Only the finance staff and Executive Director will have keys to permit access to the computer and input terminals when not in use.

3. The Financial Administrator and the finance staff are the only personnel authorized to input, change, process, or merge data. The Financial Administrator will assign passwords to permit access to the various programs and data within the computer system. These passwords will be changed regularly; especially when there are personnel changes, and must be kept secret.

4. The Financial Administrator is responsible for all application software with any subsequent modifications.

5. The following backup and recovery procedures will be followed:

a. Data files will be backed up daily. The backup will consist of five generations of files (Monday thru Friday) and the latest file will be kept off-site.

b. The operating system and application software files will be backed up weekly. The backup will consist of two generations of files and the latest file will be kept off-site.

C. Program Directors are responsible for overseeing the personal computers within their respective programs. At a minimum the following procedures will be followed:

1. Individuals authorized to use the computer must be identified and unauthorized use must be clear to the staff.

2. The operating system, application software, and data files will be backed up at least weekly. The backup will consist of at least two generations of files and the latest file will be kept off-site.

## **PROPERTY MANAGEMENT:**

AACS definition of "Property" -- for the purposes of the agency's inventory Control and Record System, the following standard shall be employed:

**Real Property.** Real property means real estate, including land, land improvements, structures (buildings) and appurtenances (attachments, built-in accessories, et cetera) thereto, excluding moveable equipment and machines.

All real property shall be properly secured by deed and maintained on a current inventory of Agency Real Property.

**Personal Property** Personal property means agency property of any kind except real property. It may be tangible, that is, having a physical existence - or it may be intangible, that is, without physical properties, and include such things as copyrights, trademarks, patents, inventions, or any other form of "intellectual property" created by staff or contractors while in the paid employ of the agency.

Agency personal property is not usually maintained on a formal inventory, but such property still belongs to the agency and may not be converted to personal use or ownership.

Employee personal items located in their offices or other agency premises are *individual private property*. These should be labeled by the respective owners so as to prevent later questions arising as to the true ownership of those items.

**Non-expendable Personal Property.** Non-expendable personal property means at a minimum tangible personal (agency) property having an acquisition cost of \$5,000 or more per unit *and* an expected useful life of one year or more or an acquisition cost of less than \$5,000 *but* an expected useful life of five years or more. The latter would include items such as desks, credenzas, chairs (office furniture only, not folding chairs, children's chairs, and so forth), file cabinets, fax machines, desk calculators and other minor equipment.

Individual agency programs should use more restrictive definitions than that above as may be required by their respective grantor/contracting agencies. For example, some state contracts define non-expendable property as having an acquisition of \$100 or more with a useful life of more than one year. Individual program directors must advise the agency property officer when a more restrictive than usual standard/definition of property is required by their respective grantor or contracting agency.

All non-expendable personal property - all agency/grantor property which meets the above definitions - *must* be maintained on the/an agency Inventory of Agency Non-expendable Property.

Some programs, Head Start, for example, may opt to maintain classroom/center-based/local-operations property on a separate inventory. This is permissible so long as the inventory is monitored/verified regularly - at least annually - and properly recorded, with a copy of each local site inventory provided to the agency property officer for review, filing and audit.

All agency non-expendable personal property must be inventoried at least annually and a copy of the inventory provided to the executive director and respective program director for

review and approval. The Head Start inventory will be coordinated by the property officer through the Head Start Director and performed in conjunction with his/her designee(s) responsible for Head Start's respective classroom/center-based/local-operations property inventory - normally scheduled during April to early May annually. The property officer shall print out and distribute to the respective Head Start inventory designees the currently recorded property cataloged in his/her records and provide that printout for each local office/center to the respective designees by April 1 each year.

No items on the inventory of Agency Non-expendable Property may be moved from one location to another without first notifying the agency property officer of its planned relocation. All appropriate paperwork must then be submitted to the property officer so that the inventory can be updated.

Expendable Personal Property. Expendable personal property refers to all tangible (physical) property of the agency other than that which is required to be listed on the inventory of non-expendable property. It includes anything and everything purchased by the agency - other than services, license fees, and such. All expendable personal property of the agency is available for agency use only and may not in any event or extent be converted for private use.

Excess Property. Excess property means any real or personal property of the agency which is determined by the executive director to be no longer required for agency needs or no longer useful for agency purposes. Upon the executive director's sole direction and approval, the property officer - or other designee, specifically the GRITS Transit Manager, Head Start Director, or other senior program director so designated by the executive director - shall be authorized to dispose of such excess property in accordance with all applicable rules, regulations, contract requirements, and/or applicable law. No one else - and no other procedure - is approved for the final disposition of agency property deemed "excess," "junk," or otherwise unusable/un-useful to the agency.

A. Property records shall be maintained accurately and shall include:

1. A description of the property.
2. Manufacturer's serial number, model number, federal stock number, national stock number, or other identification number.
3. Source of the property.
4. Whether title vests in recipient or the Federal Government.
5. Acquisition date (or date received, if the property was furnished by the Federal Government) and cost.
6. Percentage (at the end of Budget year) of Federal participation in the cost of the project or program for which the property was acquired.
7. Location uses and condition of the property and the date the information was reported.
8. Unit acquisition cost.

9. Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value when retained by AACCS.

B. Property owned by Federal Government must be marked to indicate Federal ownership.

C. Any loss, damage or theft of nonexpendable personal property will be investigated and fully documented by the agency's property officer.

## **BUDGETS:**

A budget will be prepared for each program operated by the Agency at least annually. Development of the program budget will require the cooperation and active involvement of the Executive Director, the Financial Administrator and the Program Director. The following procedures will be followed:

A. Authorization - AACS programs are funded primarily by federal and state grants which are awarded annually. Therefore, formal notification of permission to proceed with planning will be issued by the funding agency, together with a projected program funding level. This may be in the form of a letter of understanding or some similar document.

B. Budget Preparation - The Program Director is primarily responsible for the preparation of the program budget and grant proposal. Consequently, the program budget and grant proposals will be prepared by the Program Director in consultation with members of the program staff and other designated persons.

C. Financial Review - All budgets will be submitted to the Financial Administrator for review prior to being submitted to the funding agency. The Financial Administrator will if needed recommend possible changes or improvements, based on personal observations, to the Program Director.

D. Administrative Review - All budgets must be submitted to the Executive Director for review and approval before they can be included in funding applications.

E. Board Approval - The Executive Director will at appropriate times submit proposals to the Board of Directors for consideration and approval. Proposals will include both budgets and work programs.

1. Head Start Proposals - In the case of the Head Start program, the proposal will also be submitted to the Head Start Policy Council for the consideration and approval.

F. Budget Amendments - All changes, or requested changes to budgets, must be submitted to Executive Director for approval.

G. Record keeping - The Financial Administrator will insure that budgets which have been properly approved by funding source are on file for all grants and contracts.

## **CASH MANAGEMENT:**

The standard for effective cash management which is discussed in 45 CFR 74.61 (e) states that procedures must be established to minimize the time elapsing between the advance of grant or subgrant funds and their disbursement by the recipient. Advancing cash to subgrantees must conform substantially to the same standards of timing and amount as apply to advances received by the Agency, including requirements for timely reporting of cash disbursements and cash balances. The Agency's cash management procedures are as follows:

A. The Financial Administrator is responsible for monitoring and requesting funds for all federal sponsored programs. The following procedures will be followed.

1. Under Advances by Treasury Check -- Under this method a cash advance will be requested quarterly based upon cash needs of the program. The Financial Administrator in coordination with the Program Director will monitor drawdowns vs. disbursements, and will request adjustment in the schedule of advances, as appropriate.
2. Under Payment Management System (PMS) -- Under this method a cash advance will be requested one day in advance of the program's cash needs. The cash advance will be requested from PMS by computer under the SMARTLINK System. The Financial Administrator in coordination with the Program Director, Payables Manager and Payroll Manager will request all drawdowns. The Financial Administrator will make sure that the Federal funds are fully disbursed by the close of business the next workday after they are received, and immediately return all undisbursed Federal funds to PMS.
3. Under Letter-of-Credit -- Under this method a cash advance will be requested not more than seven (7) days in advance of the program's cash needs. The Financial Administrator in coordination with the Program Director, Payables Manager, and Payroll Manager will request all payments. The Financial Administrator will monitor drawdowns vs. disbursements and refund any excess drawdowns except: (1) when the funds involved will be disbursed by the Agency within seven calendar days, or (2) are less than \$10,000 and will be disbursed within 30 calendar days.

## **GRANTS AND CONTRACTS:**

The Board of Directors shall approve all grants, contracts, proposals, amendments or other program related matters, and unless the Chairman of the Board is directly specified by the respective grantor/contractor, the Executive Director is the authorized official to sign grant requests, contracts, grants, amendments, or other related documents. In the absence of the Executive Director, the Financial Administration has the authority.

All grants and contracts and amendments awarded to the Agency for operations of programs will be processed in accordance with following procedures:

A. All grants and contracts and amendments will immediately upon receipt be forwarded to the Executive Director, the Executive Director will review the grant, contract, or amendment and if acceptable will distribute copies to the Program Director and Financial Administrator.

B. The Financial Administrator will review the grant, contract or amendment thereto and will report any possible errors or observations to the Executive Director. If the award is acceptable the Financial Administrator will do the following:

1. Maintain a file for each grant or contract which will contain all awards, amendments, budgets and special conditions.

2. Record budget or update budget in the Accounting system.

3. Initiate a request for funds if appropriate or, if cost-reimbursement program, arrange for an advance of funds from the unrestricted fund.

C. The Program Director will review the grant, contract or amendment thereto and report any possible errors or observations to the Executive Director. If the award is acceptable, the following procedures will be followed:

1. The Program Director will take steps to implement the program in accordance with the terms of the grant or contract.

2. The Program Director will coordinate with the Financial Administrator concerning budgeting, reporting and monitoring of the program.

## **NON-FEDERAL AUDITS:**

The Agency shall have an annual audit made in accordance with OMB Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions." The audit will be for the fiscal year ended February 28, the Agency's adopted fiscal year. The cognizant federal agency for monitoring audits and ensuring the resolution of audit findings is the U. S. Department of Health and Human Services, the Federal Agency that provides Audubon Area Community Services, Inc. with the most funds.

The following procedures will be followed by the Agency for all non-federal audits:

- A. A letter of engagement between the organization and the auditor shall be prepared which contains an understanding of the work that needs to be performed to satisfy the Agency's OMB Circular A-133 requirements for an audit. The letter shall provide an understanding of the terms, nature, and limitations of the engagements. The letter shall include the reporting objectives and responsibilities assumed by the auditors. Agency responsibilities such as the requirements for a client representation letter will also be included.
- B. The Financial Administrator is responsible for scheduling the audit fieldwork, providing records and financial information, coordinating with program directors and accounting personnel for any needed information, and answering all questions related to the financial audit.
- C. The Program Director in coordination with the Financial Administrator is responsible for providing information and answering all questions in connection with the audit that are related to compliance with laws and regulations as it relates to his or her program.
- D. The Executive Director in coordination with the Program Director and Financial Administrator is responsible for the resolution of any audit findings or questioned costs.

## **CASH DEPOSITORIES:**

The following sets forth the Agency's policy and procedures regarding the use of banks and other institutions as depositories of funds:

A. Depositories will be selected on a competitive basis and will be reviewed periodically as deemed necessary by the Executive Director.

1. Consistent with the national goal of expanding the opportunities for minority business enterprises, minority banks (a bank which is owned at least 50 percent by minority group members) will be allowed the maximum feasible opportunity.

2. Depositories must have Federal Deposit Insurance Corporation (FDIC) insurance coverage and any balance exceeding the FDIC insurance must be collaterally secured.

B. The Board of Directors periodically authorizes all bank accounts and check signers.

C. AACS will maintain separate bank accounts for each of its programs to assure that funds are used only for their intended purpose.

## **CASH RECEIPTS:**

The Agency has the following procedures to assure that all cash receipts are deposited promptly and recorded accurately as to account, amount, and period.

A. Incoming Mail - The Agency has a post office box and mail is picked-up each day by the Executive Director or a member of the Financial Staff. The mail is sorted and routed to the various programs and departments. All mail for the finance department is opened by the Fiscal Officer and stamped with the current date and forwarded to the Financial Administrator for review and distribution.

1. All cash, checks and other forms of legal tender are forwarded to the Purchasing and Receiving Manager.
2. Payroll and Unemployment information are forwarded to the Payroll Manager.
3. Health Insurance and employee benefit statements are forwarded to the Fiscal Manager.
4. Vendor statements, invoices, telephone bills, and etc. are forwarded to the Payables Manager.
5. Personnel information, resumes, employment applications, changes of name/address, employment verification are forwarded to the personnel/orientation director/property officer.
6. Bank statements are forwarded to the Fiscal Officer.

B. Recording - The Purchasing and Receivables Manager will receive all cash, checks, and other forms of legal tender received by the Agency and will perform the following procedures.

1. Stamp all checks with a restricted endorsement as follows, " For deposit only to the account of Audubon Area Community Services, Inc." Photocopy of all checks are reviewed by the Financial Administrator and maintained in a separate file
2. Record all receipts into a deposit log by Program.
3. A deposit slip is made for each affected program's bank account and deposited in a timely manner.
4. Documentation for all receipts are filed by program along with the duplicate deposit slip and the validated bank receipt.
5. Cash receipts are entered into the computer system's cash receipts program weekly.

## **PROCUREMENT STANDARDS:**

OMB Circular A-110 prescribes the procurement standards when using Federal funds. The following requirements are to be followed when purchasing goods and services for AACS programs and functions.

A. Positive efforts shall be made to utilize small business and minority owned business as sources of supplies and services. Such efforts should allow these sources the maximum feasible opportunity to compete for contracts utilizing Federal funds. This would apply to all Agency procurement transactions, whether negotiated or advertised, and regardless of dollar value and free competition.

B. The "cost-plus-a-percentage-of-cost" method of contracting shall not be used.

C. Program Directors or designated persons will review and approve all proposed procurements to avoid purchase of unnecessary or duplicated items. Consideration economic purchase. When appropriate, an analysis will be made of lease versus purchase alternatives, and any other appropriate analysis to determine the most economical approach. Program Directors financial staff and designated persons are responsible for determining the responsible for determining the reasonableness, allowability and allocability of cost as provided in OMB Circular A-122, OMB Circular A-110 and Title 45 FR part 74 will attend training, such as the Grants/Fiscal Management Seminar and any other such training as deemed necessary.

D. Contract shall be made only with responsible contractors who possess the potential ability to perform successfully under the terms and conditions of a proposed procurement. Consideration shall be given to such matters as contractor integrity, record of past performance, financial and technical resources or accessibility to other necessary resources. AACS will award contracts to the bidder whose bid is responsive and most advantageous to the recipient to factors such as price and quality. Bids will be awarded to the lowest and best bidder.

E. Request for bids will contain clear specifications and will not contain features, which unduly restrict competition. Prices for blanket bid purchased must be at the lower of bid price or market. This provision will be included in all solicitation for bids exceeding six (6) months.

F. Procurement by sealed bids (formal advertisement). Bids are publicly solicited and a firm-fixed contract (lump-sum or uni price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest and best in price.

G. Sealed bids will be opened in public at the time and place in the Invitation for bids. The bids will be tabulated at the time of the bid opening. The agency will review from the sample work and reference from the lowest and the next lowest bid. The results of the tabulation and the bid procurements will be examined for accuracy and completeness. The bids will be reviewed by the Board of Directors based upon the knowledge of having seen their previous work. After the bid award is made by the agency, a contract will be prepared for execution by the successful bidder. The agency may cancel an Invitation for Bid at any time if it determined that such is in the best interests of the Agency. Bidders will be notified in writing of such cancellation or rejection. The Agency may allow a vendor withdraw a bid requested at any time prior to the bid opening shall be returned to the vendor unopened

H. Competitive Procurement will be in accordance with the following:

1. Orders under \$2,500.00 - A project director, assistant director, supervisor, or the purchasing officer may place an order based on personal judgment without competitive bids.
2. Orders of \$2,500.00 - \$10,000.00 - Quotations should be obtained from at least three vendors by telephone or from catalogs and a written record made of prices quoted. Purchases may be made on the basis of the best bid or quotation received.
3. Orders over \$10,000.00 - Formal written quotations or bids should be obtained from at least three suppliers. As they apply, the Agency shall procure goods and services in accordance with federal/state procedure for sealed bids, competitive proposal, or noncompetitive proposal. Further, procurement records and files for purchases in excess of \$10,000.00 shall include the basis for contractor selection and the basis for award cost or price.
4. Any proposed Sole Source Contract or proposed contract where only one bid or proposal is received by the Agency shall be subject to prior approval by the appropriate Federal Administrative Office if the procurement is expected to exceed \$10,000.00.

I. The Agency shall include the following provisions in all contracts. These provisions shall also be applied to subcontracts.

1. Contracts in excess of \$ 10,000 shall contain contractual provisions or conditions that will allow for administrative, contractual or legal remedies in instances in which contractors violate or breach contract terms, and provide for such remedial actions as may be appropriate.
2. Contracts in excess of \$ 10,000 shall contain suitable provisions for termination including the manner by which termination will be effected and the basis for settlement. In addition, such contracts may be terminated for default as well as conditions where the contract may be terminated because of circumstances beyond the control of the contractor.
3. In all contracts for construction of facility improvement awarded for more than \$ 100,000, the Agency shall observe the bonding requirements provided in OMB circular A-110, Attachment B.
4. All contracts awarded by the Agency, its contractors, or its subgrantees having a value of more than \$ 10,000, shall contain a provision requiring compliance with Executive Order 11246, entitled "Equal Employment Opportunity," as amended by Executive Order 11375, and as supplemented in Department of Labor regulations (41 CFR, Part 60).
5. All contracts and subgrants in excess of \$ 2,000 for construction or repair awarded by the Agency and its sub-recipients shall include a provision for compliance with the Copeland "Anti-Kick Back" Act (18 U.S.C. 874) as supplemented in Department of Labor regulations (29 CFR, Part 3). This act provides that each contractor or subgrantee shall be prohibited from inducing, by any means, any person employed in the construction, completion or repair of public work, to give up any part of the compensation to which he is otherwise entitled. The recipient shall report all suspected or reported violations to the Federal-sponsoring Agency.

6. When required by the Federal program legislation, all construction contracts awarded by the Agency and its subrecipients of more than \$ 2,000 shall include a provision for compliance with the Davis-Bacon Act (40 U.S.C. 276 a to a-7) and as supplemented by Department of Labor regulations (29 CFR, Part 5). Under this Act contractors shall be required to pay wages to laborers and mechanics at a rate not less than the minimum wages specified in a wage determination made by the Secretary of Labor. In addition, contractors shall be required to pay wages not less than once a week. The Agency shall place a copy of the current prevailing wage determination issued by the Department of Labor in each solicitation and the award of a contract shall be conditioned upon the acceptance of the wage determination. The Agency shall report all suspected or reported violations to the Federal-sponsoring agency.

7. Where applicable, all contracts awarded by recipients in excess of \$2,000 for construction contracts and in excess of \$2,500 for other contracts that involve the employment of mechanics or laborers. Shall include a provision for compliance with sections 103 and 107 of the Contract Work Hours and Safety Standards Act (40 U.S.C. 327-330) as supplemented by Department of Labor regulations (29 CFR, Part 5).

8. Contract or Agreements, the principal purpose of, which is to create, develop or improve products, processes or methods, or for exploration into fields that directly concern public health, safety or welfare; or contracts in the field of science or technology in which there has been little significant experience outside of work funded by Federal assistance. Shall contain a notice to the effect that matters regarding rights to inventions and materials generated under the contract or agreement are subject to the regulations issued by the Federal sponsoring Agency and the Agency.

9. All negotiated contracts (except those of \$ 10,000 or less) awarded by the Agency shall include a provision to the effect that the Agency, the Federal sponsoring Agency, the Comptroller General of the United States, or any of their duly authorized representatives, shall have access to any books, documents, papers and records of the contractor which are directly pertinent to a specific program for the purpose of mailing audits, examinations, excerpts and transcriptions.

10. Contract and subgrants of amounts in excess of \$ 100,000 shall contain a provision that requires the recipient to agree to comply with all applicable standards, orders or regulations issued pursuant to the Clean Air Act of 1970 (42 U.S.C. 1857 et seq.) and the Federal Water Pollution Control Act (33 U.S.C. 1251 et seq.) as amended. Violations shall be reported to the Federal sponsoring Agency and the Regional Office of Environmental Protection Agency.

11. No contract shall be made to parties listed on the General Services Administration's List of Parties excluded from Federal Procurement or Nonprocurement Programs in accordance with E.O.'S 12549 and 12689, "Debarment and Suspension."

12. The program directors are primarily responsible for compliance with the Agency's Procurement Standards and any other specific grant on contract requirements. The Executive Director, Financial Administrator and the Purchasing and Receiving Manger will provide consultation regarding the Agency's procurement standards and are responsible for monitoring compliance with these standards.

13. The Agency will provide in all contracts a provision that contractors will comply with the terms, conditions, and the specifications of the contract or order. The Program Director or designated person will monitor the contract or order and any use check-lists or other procedures necessary to assure timely follow-up of any violations.

14 The Drug-Free Workplace Act of 1988 requires grantees of federal agencies, as a prior condition of being awarded a grant, to certify that they will provide drug free workplaces.

## **PURCHASING PROCEDURES:**

For the procurement of equipment, merchandise or services not requiring advance payments, the following documents and procedures will be used for all Agency purchases, except for items listed in the appendixes.

A. Requisitions -- A "requisition for goods and services" (requisition) must be completed for all purchases. The requisition consists of a white and yellow copy and is the primary document used by Agency employees for the requisition of goods and services. Due to the number of programs and the number of center locations it is not practical to use purchase orders; consequently, purchase orders will be used only when required by the vendor. The following procedures apply to requisitions:

1. The requisition will be completed and signed by the person making the request, and forwarded to the program Director or designated person for approval.
2. The person authorized to approve the requisition will sign and date the requisition to indicate approval.
3. The requisition will be kept by the Center Supervisor or Program Director until such time as the goods or services are received along with an original copy of the invoice.

B. Receiving -- The requisition document will be used to document that the goods and services have been received. The following procedures will be used:

1. Goods or services received by a Center which were requisitioned by the Central Office will either notify the Central Office by stamping the invoice or other document with a receiving stamp, initialing and dating the appropriate boxes or by telephone. The Central Office will then sign and date the appropriate blocks on the requisition to indicate that the goods or services have been received.

C. Review -- After the goods or services have been received, the requisition along with the original invoice shall be forwarded to the Purchasing and Receivables Manager who will attach a purchase order, if required, to the requisition and invoice and forward them to the Payables Manager for payment.

**VOUCHER SYSTEM:**

The Agency uses a voucher system for the payment of assistance in the area of utilities, meals, food, transportation, lodging, etc. for families and individuals in the Agency's service area. The voucher system requires a voucher to be prepared for every payment. To voucher a payment it is necessary to make out a voucher form giving the facts about the amount to be paid. Vouchers are prepared and signed only by duly authorized persons in the Agency. Furthermore, a check is written only when a duly authorized and signed voucher is presented.

The payment of vouchers will be in accordance with the Agency's regular cash disbursement procedures. The Financial Administrator is responsible for designating which programs will use the voucher system for assistance type payments.

## **CASH DISBURSEMENTS:**

The Payables Manager is responsible for the preparation of checks for the payment of all invoices and related payables for goods and services. The process of check preparation, which is primarily computer generated, involves the recording of expenses to the various programs and funds operated by the Agency. The following procedures shall be followed.

A. Vendor statements, Blue Cross statements, telephone bills, contracts, leases, etc. along with completed requisitions and purchase orders when required should be forwarded to the Purchasing and Receiving Manager. Who will date everything as it is received and forward to the Purchasing and Receiving Manger and forwarded to the payables Manager who will prepare bills for payment as follows:

1. Utilities, telephone, travel; etc. will be prepared for payment on the next payables run (check preparation).

2. Vendor invoices etc., along with requisitions and purchase orders when required will be filed in appropriate file folders and matched with Vendor's monthly statements before being paid. These bills will generally be paid within 30 days.

3. Leases, etc., which are paid monthly, will be prepared for payment as provided by the lease terms.

B. The Payables Manager or designated fiscal staff will verify that all bills are properly supported by documentation, properly approved, and properly coded by the Program Directors or designated persons. Bills not properly supported in accordance with the above will be sent back to the Program Directors. Bills properly supported will be entered into the computer for payment.

C. Bills are entered into the computer by the Payables Manager or fiscal staff from coding sheets if multiple accounts are involved or from the requisition if only a few accounts are involved.

Computer checks are written twice a month on or near the 10th and 25th of each month. Checks are printed by the computer and this process involves the posting of the expenses to the various programs and accounts. Consequently, various edits will be performed prior to the printing of the checks and the posting of the expenses. In addition to the checks, the following reports will be printed and filed:

A. Pre-check Audit Report -- Filed in Payables office in a blue folder.

B. Check Register/Bank Cash Requirements/Recap of Check Register -- Filed in the blue Payables Check Register Book.

C. Final Posted Transactions -- Filed in Accounts Payable folder.

D. Edit List -- After the Executive Director and Financial Administrator have reviewed it, file in the Final Edit List file kept in the Payables Office.

Check Signing -- The following procedures apply to all check signing:

A. Check signers are authorized by the Board of Director periodically as deemed necessary by the Executive Director.

B. Check Signers will be independent of:

1. Voucher preparation and approval for payment.
2. Check preparation, cash receiving, and petty cash.
3. Purchasing and receiving.
4. Time keeping for payroll checks.

C. Signing blank checks are forbidden.

D. The facsimile signature plate for the check signing machine will be controlled by the Financial Administrator who will authorize its use.

E. Blank check stock will be locked in the Finance Department's computer room to prevent unauthorized use.

F. Custody of checks after signature and before mailing will be controlled by the Financial Administrator who will supervise the mailing.

G. The vendor's invoice, requisition if required, purchase order if required, and coding sheet if required are stapled to the copy of the check and filed in check number order in the regular paid invoice file.

## **PAYROLL:**

The Agency's "Personnel Policy & Procedures Manual" contains the procedures and authority for all employee actions. These policies provide that the Executive Director is the authorized person for executing and signing personnel actions. The following procedures apply to all personnel actions:

A. The Personnel/Orientation Manager and Property Officer is responsible for conducting new employee orientation. As part of the orientation the Personnel/Orientation Manager and Property Officer obtains the following which are kept in the employee's personnel file:

1. Application References Evolution Resume Agreements
2. K-4
3. Employment Eligibility Verification (I-9)
4. W-4
5. Payroll Deposit Authorization
6. Corporal Punishment Form (Head Start only)
7. Drug free Form
8. Ethical Conduct Form
9. Change of status form
10. Confidentiality form

B. For new employees a "Letter of Appointment Information Sheet" signed by the Executive Director accompanied by a "Employee Payroll Information" document will be sent to the Personnel/Orientation Manager and Property Office. The Personnel/Orientation Manager and Property Officer will do the following:

1. Furnish the Program Director or Supervisor a copy of the "Letter of Appointment Information Sheet" signed by the Executive Director, thereby notifying the employee that he/she has been officially hired.
2. Furnish the Payroll Manager a copy of the "Letter of Appointment Information Sheet" and "Employee Payroll Information" document.
3. File the original copy of the "Letter of Appointment Information Sheet" and "Employee Payroll Information" in the employee's personnel file.

C. The Payroll Manager will use information contained in the "Letter of Appointment Information Sheet" and "Employee Payroll Information" sheet to set-up employee information in the computer's payroll master file. A file will be maintained in alphabetic order of all personnel actions by the Payroll Manager.

D. Program Directors or Supervisors upon receipt of "Letter of Appointment Information" will notify employee of appointment.

The following personnel actions will be handled in the same manner:

- A. Salary Advancement Request
- B. Payroll Status Change
- C. Letter of Transfer/Promotion Information Sheet
- D. Notice of Separation/Suspension

The Agency's employees will be paid on a biweekly basis ending on Friday. Payroll checks are issued on the second Friday following the end of the biweekly payroll period. The following shall apply to the Agency's payroll procedures:

A. Time Sheets -- time and attendance reports, showing hours worked, signed by the supervisor and properly dated are required by all Agency's employees. The following procedures apply to time sheets:

1. The Program Director or Supervisor is responsible for the correctness of the time sheets of his/her staff. Accordingly, time sheets will be reviewed by Program Director or Supervisor and each time sheet will be signed and dated indicating that the review has been performed.
2. The Payroll Manager shall receive employee time sheets no later than three (3) working days after the pay period ends.
3. The Program Directors are responsible for assuring that time sheets are timely submitted by their staff. A check-off procedure should be used to expedite this procedure.
4. The Payroll Manager or fiscal staff will compare time sheets with edit list to determine whether any are missing. In addition, time sheet will be reviewed by Payroll Manager to determine if they are properly prepared, reviewed, and that hours appear reasonable.
5. Time sheet information will be entered into the computer by the Payroll Manager or fiscal staff. After all time sheets have been entered, an edit list will be printed and compared with time sheets to assure that no errors were made.

B. Payroll Checks and Register -- During the processing of payroll checks and the various payroll registers, edits will be made prior to running payroll checks to assure that no errors have been made. The procedures for payroll checks are as follows:

1. Payroll checks will be printed by the computer on checks drawn on a separate bank account operated on an imprest system.
2. Payroll checks are pre-numbered, blank stocks are controlled and used in numerical sequence. Payroll checks contain details of gross pay and deductions.
3. Payroll checks will be machine-signed using same procedures used for accounts payable checks.

4. Checks are sorted and mailed by Payroll Assistant. Central office checks will be distributed by the Executive Director or in the absence of the Executive Director, the Payroll Manager.

## **INDIRECT COST:**

The Agency has had an approved Indirect Cost Rate Agreement since 1984, which is annually negotiated. The following procedures will be followed relative to indirect costs.

A. Indirect Cost Proposal -- Within six months after the close of the fiscal year the Agency shall submit a new indirect cost proposal covering the new fiscal year to the cognizant federal agency. The following procedures will be followed:

1. Audited financial statements will be used to prepare the Indirect Cost Proposal.

2. The Fiscal Manager is responsible for the preparation of the Indirect Cost Proposal. As part of this process, the Fiscal Manager may receive technical assistance from the Financial Administrator and the auditor; however, due to the Standard of "independence," the Auditor cannot be engaged to prepare the indirect cost proposal.

3. The Executive Director will approve the indirect cost proposal and sign the certification related to lobbying activities. The Executive Director is the authorized person to negotiate an indirect cost rate with the cognizant federal agency.

B. Indirect Costs -- The Indirect Cost Rate Agreement identifies the salaries and expenses, which are to be, treated as indirect cost. These expenses (administrative costs) will be accounted for in a separate fund. In lieu of charging administrative cost direct to the various programs the following procedures will be followed:

1. Monthly, the Financial Administrator or designated fiscal officer will charge the various programs through the process of multiplying the indirect cost rate by the allowable direct cost (Direct salaries and wages).

2. The Financial Administrator will follow the additional procedures relative to programs sponsored by federal funds.

- a. Monitor the administrative requirements to assure that administrative costs do not exceed the negotiated allowable rate and, if applicable, any other limitations, such as Head Start's 15% limitation of costs of development and administration.

- b. Monitor the budget to assure that funds are available for payment of the administrative costs.

## **CONSULTANT AND CONTRACT SERVICE:**

The Agency shall use formal contracts for all projects for contracts involving professional or technical contracts. The Executive Director must approve all professional and technical service contract or in the absences of the Executive Director, the Financial Administrator. Contracts exceeding \$1,000 in the aggregate must use the "long form" and contracts for \$1,000 or less can use the "short form." An example of these contracts can be found in the Financial Procedures Manual.

A. Selection -- The following will be considered before contracting for professional or technical service:

1. Can the service be provided by in-house staff.
2. Is the cost provided for in the program budget and, if applicable, an allowable program expense.
3. The qualifications of the consultant and the reasonableness of the fee.

B. Payment -- Consultant services will be paid as the work is performed, or at some later date as may be specified in the contract.

### Leases and Rentals:

The Agency shall use formal lease documents which state the amount of rent and other conditions relating to the lease. The Program Director shall negotiate for use of facilities; however, all leases will be approved and signed by the Executive Director or in the absence of Executive Director, the. Financial Administrator

A. Selection -- The following factors will be considered before entering into a lease:

1. Is the cost provided for in the program budget.
2. Does the facility meet federal and state requirements for its intended purpose.
3. Does not obligate the Agency beyond the program year, whenever possible.

B. Payment -- Lease payments generally will be made monthly and will be paid in advance. Leases which require more than a one month advance should be avoided, whenever possible.

## **TRAVEL:**

Employees and other individuals representing the Agency are entitled to reimbursement for travel expense incurred during the course of trips made on official business for the Agency. Reimbursement will be in accordance with rates listed in the official Standardized Federal Government Travel Regulations.

A. In-Area Travel - Travel which is within the Kentucky Counties of Daviess, Hancock, Henderson, McLean, Ohio, Union and Webster and the additional Pennyryle Area Counties for Head Start employees and the Purchase, Pennyryle and the Barren River Counties for Child Care Assistance Program are classified as local or in area travel.

1. Authorization - All employee travel must be authorized by the program director or supervisor. Authorization does not have to be in writing but must be with the consent and knowledge of the program director or supervisor. The program director is responsible for monitoring the budget to assure that travel is authorized and allowable.

2. Limitations - All travel must be by the most direct route. Mileage to and from residence will not be paid by the Agency. The cost of meals will not be reimbursed when an employee is in-area travel status. Agency owned vehicles should be used if available and car-pooling should be used in all circumstance.

3. Employee records - The employee is expected to keep a record of miles traveled on a daily basis.

4. Travel vouchers - At the end of the month the travel voucher will be totaled, signed by the employee and submitted to the supervisor for approval. The program director or responsible person will as part of the approval process designate the account (expense code) that should be charged.

5. Reimbursement - Travel vouchers must be submitted to the finance department for reimbursement. The payable manager will check the travel voucher for accuracy and completeness. Travel vouchers not coded, inaccurate or incomplete will be returned to the Program Director. Travel vouchers, which have been checked for accuracy, have been approved, and have been properly coded, are entered into the computer by the payables manager or other designated finance person for payment. Checks are written twice a month and will be routed to payee after they have been processed.

B. Out-of-Area Travel -- Travel which is outside the Agency's service area as described in section A is classified as out-of-area travel.

1. Authorization--All employee out-of-area travel must be approved by the Executive Director or in his absence, the Financial Administrator. This is to insure that prior approval, which may be required, is obtained from the appropriate Federal or State Agency. The Program Director is responsible for obtaining prior approval from the Federal or State Agency. Consequently, all out-of-area travel requires the approval of the program director as well as the Executive Director.

2. Travel Advances -- A Request for Travel Advancement is the document used to request a travel advance. The Request for Travel Advancement must be signed by employee and submitted and approved by the supervisor. All travel advances should be kept to the

necessary minimum and must not exceed the reasonably expected expenses. The Program Director or responsible person will as part of the approval process designate the account (expense code) that should be charged.

a. The Request for Travel Advancement must be submitted to the finance department for payment. The payable manager will check the travel voucher for accuracy and completeness. Request for Travel Advancement vouchers not coded, inaccurate or incomplete will be returned to the program directors.

b. The Payables Manager will process the Request for Travel Advancement voucher and issue a check in a timely manner. The original copy of the advance will be filed attached to the appropriate copy of the computer payables check. A copy of the Request for Travel Advancement will be filed in the Agency's travel advance file. If the advance is paid by a non-computer (manual) check, the Payables Manager will maintain the original copy of the advance request in the appropriate file by project.

3. Reimbursable Expenses - Expenses essential to the transaction of official business shall be reimbursable. These shall include per diem, in lieu of actual documented subsistence costs; carrier transportation including airplanes, trains, busses, taxis, limousines or other usual means of conveyances; parking and tolls; and the use of rental vehicles may be authorized in advance by the Executive Director if justifiable and reasonably economical in comparison with other options.

a. Per Diem - Per Diem provides "subsistence expenses" to an employee while on official Agency business. It is given in lieu of actual expenses for meals, tips to waiters, porters, etc. Per diem is computed by multiplying the time out-of-area on approved official business times the actual cost of lodging and meal allowance not to exceed the maximum per diem allowed in the federal travel regulations.

b. Transportation - Employees should as a rule, use common carriers, such as airplanes, busses and trains, when the official business of the Agency is better served in consideration for time, cost, and efficiency, or when other transportation is unavailable. In all cases less than first-class accommodations must be requested.

Employees on approved, official business for the Agency will be reimbursed for the cost of coach, or similar types, accommodation on common carriers. Whenever possible, round-trip tickets should be purchased.

Necessary expense to and from a terminal and the employee's abode or place of business will be allowed. Such expense will usually be incurred through the use of a personal vehicle and will constitute mileage and parking. These expenses should be kept to the necessary minimum.

c. Taxis - Taxi fares from a carrier terminal to place of abode or business, or abode to business or return are allowable. Whenever possible the traveler should use the least expensive mode of transportation.

d. Parking - Necessary-parking fees in the course of official business will be reimbursed. Meter parking will not be reimbursed except in unusual circumstances. Fees for lot parking will be substantiated by a receipt.

e. Tolls paid in the course of official travel will be reimbursed.

f. Leave of Absence - When a leave of absence of any kind is taken while in travel status the exact hour of departure from and return to duty status must be shown on the travel voucher. Interrupted travel, such as non-official side trips, constitutes a leave of absence. Per Diem and other travel costs may not be reimbursed while the employee remains in the "non-official" travel status.

4. Travel Vouchers - Travel vouchers for out-of-area travel are due within seven (7) days after the return for out-of-area travel. The seven- (7) day rule applies regardless of whether agency business travel is performed with a travel advancement or without an advancement. Consequently, within seven (7) days the travel voucher will be prepared, signed by the employee and submitted to the supervisor for approval. The Program Director or responsible person will as part of the approval process designate the account (expense code) that should be charged.

5. Reimbursement Due - Travel vouchers must be submitted to the Finance Department for reimbursement. The Payables Manager will check the travel voucher for accuracy and completeness. In addition, the Payables Manager will check the Agency's travel advance file to determine that any advance has been properly reflected on the travel voucher. Travel vouchers not coded correctly, inaccurate or incomplete will be returned to the program directors. Travel vouchers, which have been checked for accuracy, have been approved, and have been properly coded, are entered into the computer by the Payables Manager or other designated finance person for payment. Checks are written twice a month and will be routed to the payee after they have been processed.

6. Refund Due - If the employee owes the Agency, due to a travel advance, which is reflected on the travel voucher, the employee shall make a prompt settlement of the amount owed, preferably by personal check, payable to the Agency upon the submission of the travel voucher to the Finance Department. The Payables Manager will check the travel voucher for accuracy and completeness, as well as check the Agency's travel advance file to determine that the advance has been properly reflected on the travel voucher. Travel vouchers not coded correctly, inaccurate or incomplete will be returned to program directors. Travel vouchers along with the reimbursement, which are deemed to be correct will be forwarded to the Purchasing and Receivable Manager and the reimbursement will be deposited to the program from which the advance was made.

The Payables Manager will periodically review the travel advance file for old outstanding travel advances and report any to the Executive Director.

## **CONTRIBUTION AND DONATION:**

The Agency will accept all contributions or donations which can be used effectively in the operation of the Agency or its programs. These contributions or donations may be in cash or in-kind.

A. Cash Donations -- The Executive Director, Financial Administrator and Program Directors are authorized to accept cash donation on behalf of the Agency or its programs. The following procedures shall be followed for all cash donations:

1. Cash donations designated for a specific purpose or program will be deposited in a fund that clearly identifies its restriction and purpose.
2. Cash donations, which are unrestricted, will be deposited in the Agency's unrestricted fund.
3. All cash donations will be forwarded to the Purchasing and Receiving Manger for deposit and recording in accordance with Agency's cash receipts procedures.

B. In-Kind Contributions -- In-kind contributions usually fall into the following categories: (a) Donated Services; (b) Supplies; (c) Loaned equipment or space; or (d) Donated equipment, building or land. The following procedures shall be followed for all in-kind donations.

1. Program Directors are responsible for collecting, recording, and summarizing in-kind contributions for their respective programs.
2. An in-kind contribution voucher will be prepared by the program director or designated person, and the voucher will be signed by the donor. The voucher will also be signed by the program director or employee, signifying approval.
3. Valuation of in-kind donation will be as follows:
  - a. Volunteer services will be based on rates consistent with that paid for similar work plus a reasonable amount for fringe benefits.
  - b. Supplies and materials will be valued based on market value at date of donations.
  - c. Loan equipment or space will be valued based on fair rental rate for similar equipment or space.
4. Should the Granting Agency require the market value of fair rental rate to be established by a certified real property appraiser, the Program Director should arrange and obtain such appraisals and retain copies for at least five years.
5. In-kind vouchers will be summarized monthly and the report will be forwarded to the finance department for entry into the accounting records.

## **NON-FEDERAL SHARE OR MATCHING:**

The Agency has Federal sponsored program, which requires cost sharing, and matching. In general cost sharing and matching represent that portion of project or program costs not borne by the Federal Government. Cost sharing or matching may consist of:

- A. Charges incurred by the Agency as project costs.
- B. Project costs financed with cash contributed or donated to the Agency by other non-federal public agencies and institutions, private organization, or individuals.
- C. Project costs represented by services and real and personal property, or use thereof donated by other Non-federal public agencies and institutions, private organizations or individuals.

All contributions, both cash and inkind, shall be accepted as part of the Agency's cost sharing and matching when such contributions meet all of the following criteria:

- A. Are verifiable by the Agency's records.
- B. Are not included as contributions for any other federally assisted program.
- C. Are necessary and reasonable for proper and efficient accomplishment of project objectives.
- D. Are types of charges that would be allowable under the applicable cost principles.
- E. Are not paid by the Federal Government under another assistance Agreement (unless the Agreement is authorized by Federal law to be used for cost sharing or matching).
- F. Are provided for in the approved budget when required by the Federal Agency.

In-kind services will be valued in accordance with procedures on contribution and donations. In addition, the accounting for cost sharing and matching will be in accordance with procedures on contributions and donations.

Program Directors are responsible for cost sharing and matching requirements for their respective programs. Accordingly, cost sharing and matching requirements will be reviewed by program directors during the budgeting process and also as part of their review of cost and cost reports.

The Financial Administrator will review cost sharing and matching as part of the budgeting, reporting, and closeout process for Agency's programs.

## **FEDERAL GRANT AND SUBGRANT - RELATED INCOME:**

Grant and subgrant - related income refers to (1) interest and other investment income earned on grant funds, and (2) program income.

Except where exempted by Federal Statute, the Agency shall remit to Federal sponsoring agency any interest or other investment income earned on grant funds. The following procedures shall apply to interest and investment income.

A. The Financial Administrator in consultation with the Program Director will develop a chart of accounts which will provide for separate accounts for recording interest and investment income earned on the grant program.

B. Unless the Agency receives other remittance instructions from the sponsoring federal agency, the Financial Administrator through the Agency's disbursement procedures shall remit the amount due by check to the sponsoring Federal Agency.

C. Interest earned on grant funds will be reported by the Financial Administrator on the SF-272 or PMS-272, line 13.a of the Federal Transaction Report.

Program income generally means gross income earned by the Agency from activities, part or all of the cost of which is either borne as a direct cost by a grant or counted as a direct cost towards meeting a cost-sharing or matching requirement of a grant.

A. Examples of Program Income:

! Fees for services provided

! Sales of products/commodities/assets

! Usage or rental fees for space and equipment

! Copyright or patent royalties

! Publication sales

! License fees or permits

B. General program income will be retained by the Agency and, unless the grant permits alternate procedures, the income will be used for allowable costs of the project or program. If there is a cost sharing or matching requirement, costs borne by the income may not count toward satisfying that requirement. Therefore, the maximum percentage of Federal participation is applied to the net amount determined by deducting the income from total allowable costs and third-party in-kind contributions. The income shall be used for current costs unless the granting agency authorizes deferral to a later period.

The following procedures shall be used by the agency when program income is generated by a federal sponsored project or program:

A. The Program Director is responsible for anticipating program income and negotiating with responsible Federal officials during the funding or refunding stage of the grant a method for the use of program income which would benefit both the project and the Agency.

B. The Financial Administrator in consultation with the Program Director will develop a chart of accounts which will provide for separate accounts for recording program income on the grant program.

## **TAXES:**

Income Taxes--The Agency is exempt from income taxes under Internal Revenue Code Section 501 (c)(3). However, the Agency may be subject to income tax if it has income from operation of a business enterprise not related to the purpose for which it received its exemption.

Sales and Use Taxes -- The Agency is exempt from Kentucky Sales and Use tax on property used for its exempt purpose.

State and County Property Taxes--The Agency is exempt from tangible and intangible property taxes on property used for its exempt purpose.

Federal Unemployment Taxes--The Agency is exempt from federal unemployment taxes as a result of it being exempt under Internal Revenue Code Section 501 (c)(3).

The Agency is responsible for the following federal, state, county and city taxes:

Federal Withholding Tax--The Agency will withhold federal income taxes from employees wages based on Form W-4 (Withholding Allowance Certificate) and applicable withholding tables. Taxes withheld will be deposited in an authorized institution or Federal Reserve Bank within three days after they have been withheld.

Social Security Taxes (FICA)--The Agency will withhold FICA taxes from employees wages based on applicable rates prescribed by the Internal Revenue Service. FICA taxes withheld will be matched by the Agency and deposited in an authorized institution or Federal Reserve Bank within three days after they were withheld.

State Income Taxes--The Agency will withhold state income taxes from employees wages based on withholding allowance certificates and applicable withholding tables. Taxes withheld will be remitted to the states based on their requirements.

City and County Taxes--The Agency will withhold city and county taxes from employees wages based on applicable rates prescribed by the city or county governments. Taxes withheld will be remitted to the city or county governments based on their requirements.

State Unemployment Taxes--The Agency is responsible for unemployment taxes which are based on employee earnings multiplied by an assigned rate. Unemployment taxes will be paid quarterly to the appropriate state unemployment commission.

The Payroll Manager is responsible for preparing all payroll tax reports for the Agency. The Payroll Manager is also responsible for preparing all checks for payment of payroll taxes.

The Financial Administrator will review all payroll tax reports. In addition, the Executive Director is authorized to approve and sign payroll reports or in the absence of the Executive Director, the Financial Administrator.

## **TELEPHONE:**

The Agency's telephones have been installed based on need and for the benefit of its programs. Each telephone is assigned to a particular program and should be used only to conduct business related to that program. Program Directors are responsible for their telephones and should annually review their needs. The following procedures relate to Agency's telephones:

- A. Security codes have been installed to assure that programs are properly charged and to ensure that programs are not charged for unauthorized calls. These security codes are confidential.
- B. Collect calls are prohibited except for calls from known staff members.
- C. Personal Calls -- Because personal calls may tie up the lines and delay important business matters, personal calls should be limited to cases of real need or emergency.
- D. Long Distance -- The following procedures should be followed for all long distance calls:
  - 1. Do not make person-to-person call without specific approval from the Executive Director, Financial Administrator, or a Program Director.
  - 2. Direct distance dialing should be used and operator-assisted calls should be avoided.
  - 3. Keep telephone calls to necessary minimum.
- E. Telephone Bills -- Program Directors are responsible for their telephone bills. The following procedures will be used for monthly telephone bills:
  - 1. Telephone bills will be routed to the respective program directors for their review and for allocating to the various general ledger expense codes.
    - a. Charges which appear to be in error or incorrect should be resolved with the telephone company. Any unresolved discrepancy should be reported to Executive Director.
    - b. Bills, which have been approved for payment and properly coded, will be routed to the Payables Manager for payment.
  - 2. Telephone bills will be paid in accordance with the Agency's disbursement procedures.

## **BONDING AND INSURANCE:**

The Agency will maintain adequate insurance to attempt to protect itself against possible claims or damages resulting from fire and theft, property damage, personal injury, and liability.

A. Insurance Policies--The Personnel/Orientation Manager and Property Officer will maintain an insurance file, which contains all of the insurance policies maintained by the Agency.

B. Adequacy of Insurance--Annually the Executive Director and Personnel/Orientation Manager and Property Officer will review the adequacy of coverage before renewal.

C. Types of Insurance--The Agency will maintain insurance coverage in the following general areas, subject to budgetary limitations and other considerations:

1. Fire and Theft - The Agency will provide fire and theft coverage for all property and equipment at all locations.
2. General Liability - The Agency will maintain commercial general liability insurance and excess liability coverage to protect against personal injury and property damage. The insurance will provide for reasonable amounts of coverage for Head Start students resulting from accidents on Agency property or transportation to and from their homes.
3. Automobile Liability - The Agency will provide insurance protection for all owned and non-owned automobiles to include the following coverage: (a) comprehensive; (b) collision; (c) liability; (d) medical and bodily injury; and (e) uninsured motorist.
4. Fidelity Bond - The Agency will maintain a fidelity bond to protect against employee dishonesty.
5. Workmen's Compensation - Workmen's Compensation insurance will be provided to all employees in the amount of statutory limits.

D. Private Insurance--In addition to the insurance carried by the Agency, each employee who uses his or her personal car for any purpose related to his or her position with the agency must have liability insurance coverage as required by Kentucky Statute.

## **PETTY CASH:**

Program Directors are authorized to establish petty cash funds as they deem necessary; however, the following procedures will be followed:

- A. A petty cash fund cannot exceed \$600.00.
- B. Responsibility for each fund will be assigned to only one person.
- C. Petty Cash fund will be maintained on an imprest basis.
- D. Disbursements cannot exceed \$250.00 for any item or purpose.
- E. Disbursements must be supported by:
  - 1. An invoice or other supporting documents.
  - 2. A petty cash voucher.
- F. Loans to employees and cashing accommodation checks are prohibited.
- G. Reimbursements to petty cash funds should be as follows:
  - 1. When expenditures exceed approximately 90% of the total petty cash fund, the petty cash custodian will total disbursements by program and account classification, and submit a voucher with all receipts attached to the fiscal department for reimbursement.
  - 2. Petty cash fund reimbursements checks will be made payable to the petty cash custodians.
- H. Program Directors are responsible for the petty cash funds and should conduct or designate someone to conduct surprise counts of their petty cash funds at least twice a year.
- I. The Financial Administrator or designee is also authorized to conduct surprise counts of petty cash funds and report any problems to the Executive Director.

**BORROWING:**

The Agency in order to operate must at various times borrow monies from outside sources. The following procedures will be used for financing arrangements and the incurrence of other liabilities (including lease transactions):

- A. All borrowing must have the prior approval of the Board of Directors.
- B. The Executive Director or Chairman of the Board of Directors are the only persons authorized to sign loan documents.
- C. The Financial Administrator is responsible for all debt records and for reviewing compliance with debt covenants periodically.
- D. Interest incurred on any borrowing cannot be charged to programs sponsored by Federal Funds, except as provided by Office of Management and Budget Circular No. A-122, attachment B, section 23, "Interest Fundraising and Investment Management Cost." The Executive Director will designate the unrestricted program fund to be charged.

## **LOANS:**

Restricted funds such as Federal and state grants, endowment, and donor-restricted funds cannot be used for purposes other than the purpose for which they were designated. Consequently, restricted funds cannot be loaned to other funds or other programs within the fund. It is the combined responsibility of the Executive Director, Financial Administrator and program directors to monitor restricted funds to assure that violations do not occur.

Unrestricted funds represent resources over which the Board of Directors has discretionary control and are used to carry out operation of the Agency in accordance with its bylaws. The following procedures are to be followed:

A. Loans from unrestricted funds to other funds or programs must have the approval of the Executive Director.

B. Loans from unrestricted funds to other funds or programs will be recorded as interprogram payables. These accounts will be reconciled monthly by the Purchasing and Receivables Manager.

C. Employee loans are prohibited.

## **RETENTION AND ACCESS REQUIREMENTS FOR RECORDS:**

Each program or department is responsible for their own records and files. The following applies to all financial and programmatic records, supporting documents, statistical records and other records, which are:

- A. Required to be maintained by the terms of a grant or contract.
- B. Required to be maintained by the Internal Revenue Code or other Federal regulations.
- C. Required to be maintained by the Commonwealth of Kentucky Statutes or other Kentucky regulations.

The following retention periods will be used by the Agency:

- A. Records shall be retained 5 years from the date of the Agency's fiscal year end which ends on the last day of February, except as follows:
  - 1. If any litigation, claim, negotiation, audit or other action involving the records has been started before the expiration of the 5-year period. The records shall be retained until completion of the action and resolution of all issues, which arise from it, or until the end of the regular 5 year period, whichever is later.
  - 2. If grantor retention period provides for a longer than 5 year retention period, the records which pertain to that grantor will be retained for the longer period.
  - 3. The retention period for equipment records, where the equipment was purchased in whole or in part with Federal funds, will be 3 years and the retention period will begin on the date of the equipment's disposition, replacement, or transfer at the direction of the awarding party.
  - 4. The retention period for income transactions on Federal sponsored program will be 3 years and will begin at the end of the Agency's fiscal year in which the income was applied to reduce the allowable cost to the program.
  - 5. Indirect cost rate proposal retention period is 3 years and will begin on date of such submission.

Copies made by microfilming, photocopying, or similar methods may be substituted for the original records.

Access to the Agency's records will be as follows:

- A. Access to any Federal sponsored programs will be as follows:
  - 1. The Federal sponsoring agency and the Comptroller General of the United States, or any other authorized representatives, shall have the right of access to any books, documents, papers, or other records of the Agency. Which are pertinent to the sponsored program, in order to make an audit, examination, excerpts, and transcripts.
  - 2. Access will not be limited to the required retention period but shall last as long as the records are retained.

B. Access by the Internal Revenue Service and the Commonwealth of Kentucky regulators will be in accordance with the applicable laws and regulations.

C. Access to all non-federal grants will be in accordance with contract or grant terms.

D. Access by the general public will be in accordance with Chapter 65 and 424 of the Kentucky Revised Statutes.

The Executive Director in coordination with the Financial Administrator will designate and coordinate the storage of all Agency records.

The Executive Director in coordination with the Financial Administrator and, if appropriate, the Program Director will direct and provide access to any Agency records.

**COMMITTEES AND BOARD EXPENSES:**

The Agency's by-laws provide that the Directors of the Agency (Corporation) shall serve as such without compensation, except that the Board may authorize reimbursement of reasonable expenses incurred by the Directors in performance of their duties. The Agency also has several advisory groups affiliated with its sponsored programs. These advisory groups including the Head Start Policy Council also serve without compensation and for all intents and purposes are treated the same as Directors. Travel expenses incurred by Directors and Advisory groups will be reimbursed in accordance with the Agency's travel procedures.

## **CLOSEOUT OF GRANTS OR PROGRAMS:**

Each grant or program shall be closed out as promptly as is feasible after expiration or termination. In closing out grants or programs, the following procedures shall be observed:

A. Request for payment should be filed for any allowable reimbursable costs not covered by previous payments.

B. The Agency shall immediately refund or otherwise dispose of, in accordance with instruction from grantor, any unobligated balance of cash advanced.

C. The Agency shall submit, within 90 days of the date of expiration or termination, all financial, performance, and other reports required by the terms of the grant.

D. The Agency shall make a settlement for any upward or downward adjustment of the Federal share of costs, to the extent called for by the terms of the grant.

Closeout will require the combined effort of the Program Director, the Fiscal Manager and the Financial Administrator. Reports should be prepared and approved in accordance with the Agency's financial reporting requirements.

## **BANK RECONCILIATION:**

The bank accounts of the Agency will be reconciled promptly after the end of each month. The following procedures will be used:

- A. The Fiscal Officer is the person designated to prepare all bank reconciliation.
- B. The Fiscal Officer receives all bank statements (with canceled checks, debit and credit advice, etc.) unopened from the bank.
- C. The Fiscal Officer's procedures for all bank accounts include the following with respect to disbursements.
  - 1. Account for the sequence of check numbers.
  - 2. Examination of canceled checks for authorized signatures.
  - 3. Examination of canceled checks for irregular endorsements.
  - 4. Examination of canceled checks for alterations.
  - 5. Comparison of canceled checks with the check register (Payables checks and Payroll checks) or checkbook (Program Checks) as to number, dates, payee, and amount.
- D. The Financial Administrator will supervise and review completed reconciliation.

## **OCCUPANCY:**

The Agency's procedures for occupancy costs are as follows:"

- A. If the agency owns a facility used for any program, the Agency will charge only depreciation or use allowance based upon the purchase price of the building.
- B. If the Agency rents facilities used for a program, documentation will be obtained to show that charges are reasonable.
- C. If the Agency is using occupancy costs as Non-Federal share, values will be calculated as follows:
  - 1. If the agency does not own the building and rental costs are being contributed, the values established will be reasonable.
  - 2. If a depreciation or use allowance is being used, charges will be based upon actual cost or fair value at the time the building was donated.
- D. All contracts or agreements will be legally sound and will be in the best interest of the agency.
- E. If the renovations are included under the grant, such renovations will qualify as renovation and not construction and will be charged in accordance with the cost principles and, if appropriate, ACF guidance.