

SAN LUIS OBISPO COUNTY
AUDITOR-CONTROLLER
CONTRACT ACCOUNTING AND ADMINISTRATION HANDBOOK

The following Handbook is required to be referenced in Board-approved contracts entered into by COUNTY departments with the exception of materials, engineering, and professional services contracts related to construction/maintenance, and with the exception of construction/maintenance contracts. However, whenever possible all vendors should apply the standards detailed in this handbook.

Revised June 2011

Our thanks to the Los Angeles County Auditor-Controller for much of this material.

Table of Contents

A. ACCOUNTING AND FINANCIAL REPORTING	1
1.0 Basis of Accounting	1
2.0 Accounting System	2
3.0 Records	5
4.0 Donations and Other Sources of Revenue	8
5.0 Audits	8
6.0 Single Audit Requirements	9
7.0 Subcontracts	9
B. INTERNAL CONTROLS	9
1.0 Cash Receipts	9
2.0 Disbursements	10
3.0 Payroll Records	12
4.0 Fixed Assets	13
5.0 Bonding	14
6.0 Investments	14
C. COST PRINCIPLES	14
1.0 Policy	14
2.0 Allocation of Cost Pools	15
D. UNALLOWABLE COSTS	19
E. OVERPAYMENTS	19
F. GOVERNANCE	19
1.0 Policy	19
2.0 Duties of the Board of Directors	20
3.0 Audit Committee	20
G. PERFORMANCE MEASURES	21
H. MISCELLANEOUS REQUIREMENTS	22
1.0 Political Activity	22

AUDITOR-CONTROLLER CONTRACT ACCOUNTING AND ADMINISTRATION HANDBOOK

The purpose of this Handbook is to establish required accounting, financial reporting, and internal control standards for entities (CONTRACTOR) which contract with San Luis Obispo County (COUNTY). This handbook applies specifically to all Board-approved contracts.

The accounting, financial reporting and internal control standards described in this Handbook are fundamental. These standards are not intended to be all-inclusive or replace acceptable existing procedures or preclude the use of more sophisticated methods. Instead, this Handbook represents the minimum required procedures and controls that must be incorporated into a CONTRACTOR'S accounting and financial reporting systems. The internal control standards described are those that apply to organizations with adequate staffing. Organizations with a smaller staff must attempt to comply with the intent of the standards and implement internal control systems appropriate to the size of their staff/organization. The CONTRACTOR'S subcontractors must also follow these standards unless otherwise stated in the Agreement.

A. ACCOUNTING AND FINANCIAL REPORTING

1.0 Basis of Accounting

CONTRACTORS may elect to use either the cash basis or accrual basis method of accounting for recording financial transactions. Monthly invoices must be prepared on the same basis that is used for recording financial transactions.

1.1 The COUNTY recommends the use of the accrual basis for recording financial transactions.

Accrual Basis

Under the accrual basis, revenues are recorded in the accounting period in which they are earned (rather than when cash is received). Expenditures are recorded in the accounting period in which they are incurred (rather than when cash is disbursed).

Accruals

Accruals shall be recorded observing the following:

- ◆ Only accruals where cash will be disbursed within six months of the accrual date should be recorded.
- ◆ Recorded accruals must be reversed in the subsequent accounting period.

1.2 Cash Basis with Adjustments to Accrual

- ◆ An agency may elect to use the cash basis for recording financial transactions during the year.
- ◆ If the contractor elects to use the cash basis, necessary adjustments must be made to record the accruals at the beginning and the end of the contract.
- ◆ All computations, supporting records, and explanatory notes used in converting from cash basis to the accrual basis must be retained.

1.3 Prepaid Expenses

Prepaid expenses (e.g., insurance, service agreements, lease agreements, etc.) should only be expensed during a given Agreement year to the extent goods and services are received during that year.

2.0 Accounting System

Each agent shall maintain a double entry accounting system (utilizing debits and credits) with a General Journal, a Cash Receipts Journal, a General Ledger, and a Cash Disbursements Journal. The COUNTY recommends that a Payroll Register also be maintained. Postings to the General Ledger and Journals should be made on a monthly basis. The CONTRACTOR shall separately track and clearly identify funds received and expended on services provided under the attached Agreement.

2.1 General Journal

A General Journal shall be maintained for recording adjusting entries, reversing entries, closing entries, and other financial transactions not normally recorded in the Cash Receipts Journal or Cash Disbursements Journal. Entries in the General Journal must be adequately documented and entered in chronological order with sufficient explanatory notations.

Example:	DR	CR
Rent Expense	100	
Rent Payable		100

To record accrued rent to March 31, 20XX

2.2 Cash Receipts Journal

A Cash Receipts Journal shall be maintained for recording all cash receipts (e.g., COUNTY warrants, contributions, interest income, etc.). The Cash Receipts Journal shall contain (minimum requirements) the following column headings:

- date
- receipt number
- cash debit columns
- income credit columns for the following accounts:
 - COUNTY payments (one per funding source)
 - contributions
 - other income (grants, rental income, misc. revenue, fees, etc.)
- description (entries in the description column must specify the source of cash receipts)

2.3 Cash Disbursements Journal

A Cash Disbursements Journal shall be maintained for recording all cash disbursements (e.g., rent, utilities, maintenance, etc.)

The Cash Disbursements Journal shall contain (minimum requirements) the following column headings:

- date
- check number
- cash (credit) column
- expense account name
- description

Note (1) Separate expense columns are recommended for salary expense and other recurring expense classifications for each program.

Note (2) Entries in the description column must specify the nature of the expense and the corresponding expense classification if not included in the column heading.

Note (3) Checks should not be written to employees (other than payroll, mileage, travel, and petty cash custodian checks).

A Check Register may be substituted for the Cash Disbursements Journal, but this is not recommended. If used, the Check Register must contain the same expense classifications and description information required when a Cash Disbursements Journal is used.

Disbursements without supporting documentation will be disallowed on audit. Canceled checks and credit card statements (VISA, AMEX, department store, etc.) will not solely constitute acceptable support. (See Section A.3.2 and B.3.2 for additional guidance.)

2.4 General Ledger

A General Ledger shall be maintained with accounts for all assets, liabilities, fund balances, expenditures, and revenues. Separate accounts must be maintained for each COUNTY program's expenses and revenues.

2.5 Chart of Accounts

A Chart of Accounts shall be maintained:

- The COUNTY recommends that agencies use the expense account titles on the monthly invoice submitted to the COUNTY.
- If the CONTRACTOR uses account titles, which differ from the account titles on the monthly invoice, each account title must clearly identify the nature of the transaction(s) posted to the account.
- CONTRACTOR must consistently post transactions that are of a similar nature to the same account. For example, all expenses for travel shall be posted to the account titled "travel" or "travel expense" and not intermixed with other expense accounts.

2.6 Payroll Register

The COUNTY recommends that a Payroll Register be maintained for recording all payroll transactions. The Register should contain the following:

- name
- position
- social security number
- salary (hourly wage)
- payment record including:
 - accrual period
 - gross pay
 - itemized payroll deductions
 - net pay amount
 - check number

If a Payroll Register is not used, the above information must be recorded in the cash disbursements journal.

CONTRACTOR will ensure compliance with all applicable federal and state requirements for withholding payroll taxes (i.e., FIT, FICA, FUTA, SIT, SIU,

etc.), reporting, filing (i.e., 941, DE-7, W-2, W-4 and 1099s), and all applicable tax deposits.

CONTRACTOR will ensure compliance with Internal Revenue Service guidelines in properly classifying employees and independent contractors.

2.7 CONTRACTOR Invoices

Each agent shall present an invoice to the COUNTY each calendar month to report the financial activity of the month. In addition, if advanced funding is involved, an invoice shall be presented at the beginning of the contract period. Invoices shall be prepared in the manner prescribed by the COUNTY'S contracting department.

3.0 Records

Adequate care shall be exercised to safeguard the accounting records and supporting documentation. Any destruction or theft of the CONTRACTOR'S accounting records or supporting documentation shall be immediately reported to the COUNTY.

3.1 Retention

All accounting records (e.g., journals, ledgers, etc.), financial records and supporting documentation (e.g., invoices, receipts, checks, etc.) must be retained for a minimum of five years after the termination of the CONTRACTOR'S Agreement, unless a longer retention period is prescribed by the Agreement, or by applicable laws and regulations.

3.2 Supporting Documentation

All revenues and expenditures shall be supported by original vouchers, invoices, receipts, or other documentation and shall be maintained in the manner described herein.

Invoices, receipts, canceled checks and other documentation clearly establishing the nature of the expenditure and its relevance to the COUNTY program being contracted for will be required to support an outlay of funds. Unsupported disbursements will be disallowed on audit. CONTRACTOR will be required to repay COUNTY for all disallowed costs. Photocopied invoices or receipts, any internally generated documents (i.e., vouchers, request for check forms, requisitions, canceled checks, etc.), and account statements do not constitute supporting documentation for purchases.

Supporting documentation is required for various types of expenditures. Documentation related to some of the most frequently encountered transactions consists of, but is not limited to, the following:

Payroll – time and attendance records signed by the employee and approved in writing by the supervisor, time distribution records by program accounting for total work time on a daily basis for all employees, records showing actual expenditures for Social Security and unemployment insurance, State and Federal quarterly tax returns, federal W-2 forms, and federal W-4 forms. Personnel records shall also be maintained documenting employee pay rates. Furthermore, personnel records shall contain documentation confirming that educational and practical experience requirements of an employee's position have been met. Where licensure is a requirement of an employee's position, CONTRACTOR's personnel file shall contain documentation confirming the validity of the employee's license.

Consultant Services – contracts, time and attendance records, billing rates, travel vouchers detailing purpose, time and location of travel, purchase orders and invoices for supplies and invoices or other supporting documentation detailing the nature of services provided.

Travel – travel policies of the CONTRACTOR (written); travel expense vouchers showing location, date and time of travel, purpose of trip, and rates claimed; vehicle mileage logs showing dates, destination and headquarters, purpose of trip, and beginning and ending odometer readings and the resulting mileage. Vehicle mileage logs must clearly identify business versus non-business, or personal travel. Travel related to conferences should include conference literature such as agendas and handouts detailing purpose of the conference. Reimbursement rates for mileage shall not exceed applicable federal guidelines.

Reimbursement for actual receipts or per diem rates for meal expenses shall not exceed the maximum COUNTY'S reimbursement rate for employees.

Receipts shall be required for lodging for approved out-of-town travel dates. Maximum reimbursable lodging amount is the maximum COUNTY'S reimbursement rate for employees for a single occupancy hotel accommodation.

Operating Expenses (e.g., utilities, office supplies, equipment rentals, etc.) – bona fide contracts or lease agreements, if any, and invoices and receipts detailing the cost and items purchased will constitute the primary supporting documentation. For internal control purposes, the CONTRACTOR may maintain vouchers, purchase orders, requisitions, stock received reports, bills of lading, etc.

Outside Meals - receipts and/or invoices for all meals, a record of the nature and purpose of each meal, and identification of the participants.

Loans from Employees – Loans to the CONTRACTOR by employees shall be supported by a written loan agreement and records documenting that the lent funds were deposited into a CONTRACTOR bank account. To the extent that the loan agreement provides for the payment of interest, the interest may not be an allowable expense under the Agreement. If the payment of interest is allowable, interest shall not be accrued at a rate which exceeds the Current One-Year Treasury Rate plus One Percent.

Loans to Employees – Loans to CONTRACTOR'S or COUNTY'S employees are typically not an appropriate use of government resources, and shall not be authorized from funds provided by the COUNTY.

Vehicle Expense – Vehicle expense may be claimed by one of the following methods. The most economical method should be used.

- 1) County standard mileage rate - The County standard mileage rate is used to calculate the reimbursable costs of operating a car, van, or truck for COUNTY contracted business. If the County standard mileage rate is used, the Contractor must keep vehicle mileage logs identifying the date, the number of miles and the nature of the business purpose.
- 2) Actual costs – The CONTRACTOR may claim actual costs for operating a vehicle for COUNTY contracted business. Invoices and receipts detailing the cost and items purchased will constitute the primary supporting documentation.

3.3 Payments to Affiliated Organizations or Persons

CONTRACTOR shall not make payments to affiliated organizations or persons (i.e., related party transactions) for program expenses (e.g., salaries, services, rent, etc.) that exceed the lesser of actual cost or the reasonable cost for such expenses. A reasonable cost shall be the price that would be paid by one party to another when the parties are dealing at arm's length (fair market price).

Organizations or persons (related parties) related to the CONTRACTOR or its members by blood, marriage, or through legal organization (corporation, partnership, association, etc.) will be considered affiliated for purposes of this Agreement. COUNTY shall be solely responsible for the determination of affiliation unless otherwise allowed and approved by the state or federal agencies.

Payments to affiliated organizations or persons will be disallowed on audit to the extent the payments exceed the lower of actual costs or the reasonable costs for such items.

3.4 Filing

All relevant supporting documentation for reported program expenditures and revenues shall be filed in a systematic and consistent manner. It is recommended that supporting documents be filed as follows:

- checks – numerically
- invoices – vendor name and date
- vouchers – numerically
- receipts – chronologically
- timecards – pay period and alphabetically

3.5 Referencing

Accounting transactions posted to the CONTRACTOR'S books shall be appropriately cross-referenced to supporting documentation. It is recommended that expenditure transactions on the CONTRACTOR'S books be cross-referenced to the supporting documentation as follows:

- invoices – vendor name and date
- checks – number
- vouchers –number
- revenue – receipt number

Supporting documentation for non-payroll expenditures (i.e., operating expenditures) should be cross-referenced to the corresponding check issued for payment. If multiple invoices are paid with one check, all related invoices should be bound together and cross-referenced to the check issued for payment.

4.0 Donations and Other Sources of Revenue

Restricted donations and other sources of revenue earmarked specifically for the contract must be utilized on allowable contract expenditures. Similarly, income from investments (e.g., interest or dividends), where the source of the amount invested is COUNTY program funds, shall be deemed restricted revenue that must be utilized on allowable expenditures under the attached Agreement.

5.0 Audits

The agent will make available for inspection and audit to COUNTY representatives all of its books and records relating to the operation by it of each COUNTY project, program or business activity which is funded in whole or part with governmental monies, whether or not such monies are received through the COUNTY. The books and records will be made available upon request, during working hours, during the duration of the contract and for a period of five years thereafter (unless a longer period is specified under the

Agreement, or by applicable laws and regulations). All such books and records shall be maintained, or made available for COUNTY inspection, at a location within San Luis Obispo County.

6.0 Single Audit Requirements

OMB Circular 133, "Audits of State, Local Governments and Non Profit Organizations" requires that certain organizations receiving federal awards, including pass-through awards, have annual audits. Details are contained in the respective Circular.

A copy of any Single Audit reports must be filed with the COUNTY within the timeframes prescribed by the applicable Circular or under the attached Agreement.

7.0 Subcontracts

No CONTRACTOR shall subcontract services without the prior written consent of the COUNTY.

CONTRACTOR shall provide COUNTY with copies of all executed subcontracts and shall be responsible for the performance of their subcontractors.

B. INTERNAL CONTROLS

Internal controls safeguard the CONTRACTOR'S assets from misappropriations, misstatements or misuse. Each CONTRACTOR shall prepare necessary written procedures establishing internal controls for its personnel. The CONTRACTOR shall instruct all of its personnel in these procedures and continuously monitor operations to ensure compliance with them.

1.0 Cash Receipts

1.1 Separate Fund or Cost Center

All contract revenues shall be maintained in a bank account. If revenues from other sources are maintained in the same bank account, revenues for each source must be clearly identifiable on the accounting records through the use of cost centers or separate accounts.

1.2 Deposits

All checks shall be restrictively endorsed upon receipt.

Cash received shall be recorded on pre-numbered receipts. Checks shall be recorded on a check remittance log at the time of receipt.

Cash receipts (i.e., cash and checks) totaling \$500 or more shall be deposited within one day of receipt. Collections of less than \$500 may be

held and secured and deposited weekly or when the total reaches \$500, whichever occurs first.

Duplicate deposit slips shall be retained and filed chronologically and shall contain sufficient reference information for comparison to the Cash Receipts Journal (and individual receipts, if applicable). A recommended best practice would be to retain photocopies of the COUNTY warrants reflected on each deposit slip, or record the individual warrant numbers onto the deposit slip.

1.3 Separation of Duties

An employee who does not handle cash shall record all cash receipts.

1.4 Bank Reconciliations

Bank statements should be received and reconciled by someone with no cash handling, check writing, or bookkeeping functions.

Monthly bank reconciliations should be prepared within 30 days of the bank statement date and reviewed by management for appropriateness and accuracy. The bank reconciliations should be signed and dated by both the preparer and the reviewer. Reconciling items should be resolved timely.

2.0 Disbursements

All disbursements for expenditures, other than petty cash, shall be made by check, credit card or bank ACH transaction with supporting documentation referenced to the payment source (e.g. check number).

Blank check stock shall be secured and accounted for to preclude unauthorized use.

Checks shall not be payable to "cash" or signed in advance. Checks written to employees for reimbursement of out-of-pocket costs must be supported by receipts and invoices.

If the bookkeeper signs checks, a second signature shall be required on the checks, regardless of limits specified in contract.

Voided checks shall be marked void with the signature block cut out. The voided checks must be filed with the cancelled checks.

Unclaimed or undelivered checks shall be cancelled periodically.

All supporting documentation shall be referenced to payment document (e.g., check numbers) and marked "paid" or otherwise canceled to prevent reuse, or duplicate payments.

Disbursements without adequate supporting documentation will be disallowed on audit.

2.1 Approvals and Separation of Duties

Employees responsible for approving cash disbursements and/or signing of checks shall examine all supporting documentation at the time the checks are approved and signed.

All disbursements, excluding petty cash purchases, shall be approved by persons independent of check preparation and bookkeeping activities.

2.2 Petty Cash

A petty cash fund may be maintained for payment of small incidental expenses incurred by the CONTRACTOR (e.g., postage due, small purchases of office supply items, etc.).

Petty cash disbursements must be supported by invoices, store receipts or other external authenticating documents indicating the item purchased and the employee making the purchase. In the event that outside (external) supporting documentation is not obtainable for minor disbursements (under \$10), such as parking meters, etc., then documentation shall be considered as proper supporting documentation on a basis of reasonableness. Petty cash disbursements should not be used as a substitute for normal purchasing and disbursement practices (i.e., payment by check).

The petty cash fund shall be maintained on an imprest basis. A check should be drawn to set up the fund and to make periodic reimbursements. Receipts, vouchers, etc., supporting each fund replenishment must be bound together, filed chronologically and cross referenced to the reimbursement check.

2.3 Credit Cards

The use of credit cards, both CONTRACTOR issued credit cards and an employee's personal credit cards used on behalf of the CONTRACTOR, should be limited to purchases where normal purchasing and disbursement practices are not suitable.

Credit cards issued in the CONTRACTOR'S name must be adequately protected and usage monitored to ensure that only authorized and necessary items are purchased.

All credit card disbursements must be supported by original invoices, store receipts or other external authenticating documents indicating the item purchased and the employee making the purchase. Credit card statements are not sufficient support for credit card purchases.

3.0 Payroll Records

3.1 Timecards

Timecards or time reports must be prepared for each pay period. Timecards or time reports must indicate total hours worked each day by program and total hours charged to each of the CONTRACTOR'S programs. Time estimates do not qualify as support for payroll Expenditures and will be disallowed on audit.

All timecards and time reports must be signed in ink or electronically by the employee and the employee's supervisor to certify the accuracy of the reported time.

3.2 Personnel and Payroll Records

Adequate security must be maintained over personnel and payroll records with access restricted to authorized individuals.

Personnel and payroll records should include (but not be limited to) the following:

- Employee's authorized salary rate
- Employee information sheet
- Resume and/or application
- Proof of qualifications for the position, if required (e.g., notarized copy or original diploma, license, etc.)
- Performance evaluations
- Citizenship Status
- Benefit balances (e.g., sick time, vacation, etc.)

Benefit Balances

Employee benefit balances (e.g., sick time, vacation, personal time, etc.) should be maintained on at least a monthly basis. Benefit balances should be increased when benefit hours are earned and decreased as hours are used.

3.3 Limitations on Positions and Salaries

For purposes of establishing a reasonable maximum level of compensation for CONTRACTOR'S personnel, CONTRACTOR may refer to relevant nationally or regionally recognized salary studies. For, example the Child Welfare League of America (CWLA) Salary Study, or the Compensation and Benefits Survey compiled by the Center of Non-Profit Management would be examples of studies that might be referred to to establish reasonable compensation levels for the management of a non-profit social service agency.

If an employee serves in the same or dual capacities under more than one Agreement or program, the employee may not charge more than 100% of their time to the contracts or programs taken as a whole.

Salaried employees who work less than full-time (i.e., 40 hours per week) shall be paid a salary that corresponds with the employee's work schedule.

The salary expense of salaried employees working on more than one Agreement or program shall be allocated to each program based on the ratio of the number of hours worked on each program during the pay period to the total number hours worked during the pay period.

Separation of Duties

Payroll checks should be distributed by persons not involved in timekeeping, preparing of payroll, or reconciling bank accounts.

All employee hires and terminations, or pay rate changes, shall be approved by authorized persons independent of payroll functions.

All employee hires and terminations, or pay rate changes shall be approved in writing by authorized persons independent of payroll functions.

4.0 Fixed Assets

A fixed asset is defined as an article of nonexpendable tangible personal property having a useful life of more than two years. The COUNTY recommends all fixed assets with an acquisition cost of \$5,000 or more per unit be capitalized.

Acquisition cost means the net invoice unit price of an item, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it was acquired.

4.1 Acquisition

Fixed asset purchases should be provided for under the Agency's agreement with the COUNTY and should be approved by the Agency's Board of Directors or their authorized representative.

Fixed assets shall not be ordered or purchased during the last three months of the term of the Agency's Agreement with the COUNTY, unless the acquisition is pre-approved by the COUNTY.

4.2 Identification and Inventory

All fixed assets purchased with Contract funds are to be used solely for the benefit of the Contract and should be appropriately tagged.

Each CONTRACTOR shall maintain a current listing of fixed assets, including the item description, serial number, date of purchase, acquisition cost and source(s) of funding.

An inventory of all fixed assets should be conducted at least once each year to ensure that all fixed assets are accounted for and maintained in proper working order.

4.3 Security

Physical security should be adequately maintained over fixed assets to prevent misuse and theft of property purchased with COUNTY funds.

4.4 Property Management

The CONTRACTOR shall assume responsibility and accountability for the maintenance of all non-expendable property purchased, leased, or rented with Contract funds.

The CONTRACTOR shall report promptly, in writing, to the COUNTY all cases of theft, loss, damage, or destruction of fixed assets purchased with COUNTY funds. The report shall contain at a minimum item identification, recorded value, facts relating to loss, and where appropriate, a copy of the law enforcement report.

CONTRACTOR shall dispose of or return to the COUNTY all fixed assets in accordance with their Contract.

5.0 Bonding – All officers, employees, and agents who handle cash or have access to the agent's funds shall be bonded.

6.0 Investments – COUNTY program funds may not be utilized on investments where there is a risk of loss. Agency cash not immediately required for expenditure should typically be safe-kept in federally insured bank accounts, certificates of deposit, or other prudent and secure short-term instruments.

C. COST PRINCIPLES

1.0 Policy

It is the intent of the COUNTY to provide funds for the purpose of CONTRACTOR providing services required by the Agreement. CONTRACTOR shall use these funds on actual expenses in an economical and efficient manner and ensure they are reasonable, proper and necessary costs of providing services and are allowable in accordance with the applicable OMB Circular.

1.1 Limitations on Expenditures of Program Funds

CONTRACTOR shall comply with the Agreement and OMB Circular. The Circular defines direct and indirect costs, discusses allowable cost allocation procedures and the development of Indirect Cost Rates, and specifically addresses the allowability of a variety of different costs.

If a CONTRACTOR is unsure of the allowability of any particular type of cost or individual cost, the CONTRACTOR should request advance written approval from the COUNTY prior to incurring the cost.

1.2 Expenses Incurred Outside the Agreement Period

Expenses charged against program funds may not be incurred prior to the effective date of the Agreement or subsequent to the Agreement termination date. Similarly, current period expenses related to events or activities that occurred prior to the effective date of the Agreement may not be allowable. For example, legal costs incurred prosecuting, or defending a lawsuit stemming from events which occurred during a period not covered by a valid Agreement between CONTRACTOR and COUNTY would not be allowable.

1.3 Budget Limitation

Expenses exceeding the maximum limit shown on the contract budget will not be reimbursed.

1.4 Unspent Funds

The COUNTY will determine the disposition of unspent program funds upon termination of the Agreement unless otherwise specified in the Agreement.

1.5 Necessary, Proper and Reasonable

Only those expenditures that are necessary, proper and reasonable to carry out the purposes and activities of the program or service are allowable.

2.0 Allocation of Cost Pools

For CONTRACTORS that provide services in addition to the services required under contract, the CONTRACTOR shall allocate expenditures that benefit programs, or funding sources on an equitable basis.

In accordance with the applicable OMB Circular, agencies shall define their allocable costs as either direct, or indirect costs (as defined below) and allocate each cost using the basis most appropriate and feasible.

The CONTRACTOR shall maintain documentation related to the allocation of expenses (e.g., timecards, time summaries, square footage measurements, number of employees, etc.)

Under no circumstances shall allocated costs be charged to an extent greater than 100% of actual costs or the same cost be charged both directly and indirectly.

2.1 Direct Costs

Direct costs are those costs that can be identified specifically with a particular final cost objective (i.e., a particular program, service, or other direct activity of an organization). Examples of direct costs include salaries and benefits of employees working on the program, supplies and other items purchased specifically for the program, costs related to space used by employees working on the program, etc.

For all employees, other than general and administrative, the hours spent on each program (activity) should be recorded on employees' timecards and the payroll expense should be treated as direct charges and distributed on the basis of recorded hours spent on each program.

Joint costs (i.e., costs that benefit more than one program or activity) which can be distributed in reasonable proportion to the benefits received may also be direct costs.

Examples of bases for allocating joint costs as direct costs:

- number of direct hours spent on each program
- number of employees in each program
- square footage occupied by each program
- other equitable methods of allocation

2.2 Indirect Costs

Indirect costs are those costs that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. Examples of indirect costs include salaries, employee benefits, supplies, and other costs related to general administration of the organization, depreciation and use allowances, and the salaries and expenses of executive officers, personnel administration, and accounting.

Examples of bases for allocating indirect costs:

- total direct salaries and wages
- total direct costs (excluding capital expenditures and other distorting items such as subcontractor payments)

2.3 Acceptable Indirect Cost Allocation Methods

OMB Circulars describe the following allowable methods for allocating indirect costs:

- simplified allocation method
- direct allocation method
- multiple allocation base method
- negotiated indirect cost rate

Simplified Allocation Method

This method can be used when an organization's major functions benefit from its indirect costs to approximately the same degree. Using this method, all allocable costs are considered indirect costs and an indirect cost rate is determined by dividing total allowable indirect costs by an equitable distribution base.

Example

Agency-wide indirect costs	\$250,000
Less: Capital Expenditures	<u>10,000</u>
Allocable indirect costs	240,000
Total Agency-wide direct salaries	\$1,000,000
Indirect cost rate (\$240,000/\$1,000,000)	24%
Program direct salaries	\$100,000
Program indirect costs (24% x \$100,000)	<u>\$24,000</u>

Direct Allocation Method

This method can also be used when an organization's major functions benefit from its indirect costs to approximately the same degree. Using this method, all costs except general administration and general expenses are treated as direct costs. Joint costs for depreciation, rental, facilities maintenance, telephone, and other similar expenses are prorated individually to each direct activity on a basis appropriate for that type of cost.

The remaining costs, which consist exclusively of general administration and general expenses, are then allocated using the simplified allocation method previously discussed.

Multiple Base Allocation Method

This method can be used when an organization's major functions benefit from its indirect costs in varying degrees. Using this method, indirect costs are grouped to permit allocation of each grouping on the basis of the benefits

provided to the major functions. Each grouping is then allocated individually using the basis most appropriate for the grouping being allocated.

2.4 Cost Allocation Plan

If the CONTRACTOR has a negotiated indirect cost rate approved by a federal agency, it shall submit a copy of the approval letter when requested by COUNTY.

If the CONTRACTOR does not have a negotiated indirect cost rate, CONTRACTOR shall submit an annual Agency-wide Cost Allocation Plan when requested by COUNTY. The Cost Allocation Plan shall be prepared in accordance with COUNTY instructions and the applicable OMB Circular and include the following information:

1. CONTRACTOR general accounting policies:
 - Basis of accounting (cash or accrual)
 - Fiscal year
 - Method for allocating indirect costs (simplified, direct, multiple, negotiated rate)
 - Indirect cost rate allocation base
2. Identify the CONTRACTOR'S direct and indirect costs (by category), and describe the cost allocation methodology for each category.
3. Signature of CONTRACTOR management certifying the accuracy of the plan.

Negotiated Indirect Cost Rates

Agencies have the option of negotiating an indirect cost rate or rates for use on all their Federal programs. The CONTRACTOR must submit a cost allocation plan to the federal agency providing the most funds to the organization. The approved indirect cost rate is then applied to the total approved direct cost base.

If CONTRACTOR has a federally approved indirect cost rate, CONTRACTOR shall submit a copy of the approval letter to COUNTY upon request.

D. UNALLOWABLE COSTS

OMB Circulars address the allowability of a variety of different costs. For all costs, there are certain restrictions and limitations; however, the following costs are not allowable under any circumstances:

- bad debts
- contingency provisions
- contributions, gifts, and donations
- fines and penalties (e.g., nsf check fees, traffic citation fees)
- fundraising activities
- interest expense (unless expressly allowed by federal guidelines)
- losses on other awards

E. OVERPAYMENTS

If upon audit, or at any time during the Agreement year, it is determined that invoices submitted to the COUNTY and used as a basis for payments to the CONTRACTOR were inaccurate, COUNTY shall determine the total overpayment and require the CONTRACTOR to repay COUNTY. The COUNTY may withhold payments from CONTRACTOR'S future payments for any amounts not returned to the COUNTY or credited to the Contract unless otherwise prohibited by state or federal regulations.

F. GOVERNANCE

1.0 Policy

Non-profit agencies doing business with the COUNTY shall have a Board of Directors (Board) with a minimum of five members, the majority of which shall be independent. Independent directors are defined as directors that shall have no material relationship with the Agency and cannot be former employees of the Agency until five years after the employment has ended.

The Board shall have a nominating committee composed entirely of independent directors to consider new appointments to the Board.

Similarly, the Board shall have a compensation and employee benefits committee composed entirely of independent directors to establish compensation and benefits for the Agency Chief Executive Officer (CEO), or President and the Chief Financial Officer (CFO), or Treasurer. Such compensation and benefits shall be "just and reasonable" in accordance with the compensation amount or guidelines established in the Agency's contract(s) with the COUNTY and should be reflective of compensation paid to executives of agencies of comparable size and function (See Section B.3.3. Limitations on Positions and Salaries). In no case shall any Agency employee receive compensation or benefits for more than one Agency job. For example, the CEO cannot receive compensation or benefits for the job of CEO and another job such as program manager, etc.

2.0 Duties of the Board of Directors

The Board shall perform the following duties at a minimum:

- a) Be familiar with the terms and conditions of all COUNTY contracts of the Agency.
- b) Adopt and disclose the Agency's governance guidelines including director qualification standards, responsibilities, and compensation for directors.
- c) Adopt and disclose a code of business conduct and ethics for directors, officers, and employees, and promptly disclose to the COUNTY any waivers of the code for Agency directors or officers.
- d) Periodically review the Agency's compliance with the provisions of the COUNTY contract including insurance, internal control, federal and State reporting and payment requirements for payroll withholding, and other such requirements and report any deviations to the COUNTY oversight department.
- e) Establish an Audit Committee, which must be comprised entirely of independent directors. The Audit Committee shall be composed of a minimum of three independent directors, one of which shall have financial experience. A director cannot be independent if he or she has accepted consulting, advisory, or other fees from the Agency – other than director compensation -- or is affiliated with the Agency. In no event shall staff members, the president, chief executive officer, the treasurer, or chief financial officer serve on the Audit Committee.

3.0 Audit Committee

The duties of the Audit Committee shall include the following:

- 3.1 Engage independent auditors to perform the annual single audit of the Agency's financial records if the Agency expends in excess of \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) in a year in Federal awards. The audit shall be performed in accordance with Generally Accepted Government Auditing Standards and comply with the Single Audit Act.
- 3.2 Negotiate the independent auditor's compensation on behalf of the governing Board.
- 3.3 Oversee the work of the Agency's independent auditor, including resolution of disagreements between management and auditors regarding financial reporting.

- 3.4 Confer with the auditor to satisfy committee members that the financial affairs of the nonprofit organization are in order.
- 3.5 Review the audit and decide whether to accept it.
- 3.6 Ensure the COUNTY receives a copy of the annual audit report and all other audits, reviews, and other third party reports.
- 3.7 A member of the Audit Committee shall not receive any remuneration from the Agency other than for their service on the Board. Furthermore, they must not be affiliated with the Agency.
- 3.8 Establish procedures for receiving and addressing complaints regarding accounting, internal controls, and auditing matters.
- 3.9 Pre-approve all audit and non-audit services provided by the auditor. Non-audit services are defined as any professional services provided other than those provided in connection with an audit or review of the financial statements of the Agency. Following is a list of non-audit services for which the independent auditor cannot perform unless the firm follows the independence standard in the Yellow Book issued by the U.S. Comptroller General:
 - a) Bookkeeping or other services related to the accounting records, or financial statement of the audit client;
 - b) Financial information systems design and implementation;
 - c) Internal audit outsourcing services;
 - d) Management functions or human resources;
 - e) Investment adviser, or investment banking services;
 - f) Legal services and expert services unrelated to the audit.

G. PERFORMANCE MEASURES

Many COUNTY departments are including performance measures or results in their agreements with agencies. These indicators provide a means for the County to insure that the level of service being delivered is consistent with the contract requirements and to evaluate its effectiveness. CONTRACTORS are required to maintain the same supporting documentation for performance measures as is required for general accounting records.

CONTRACTORS should develop a system that will provide a means to validate any performance measures or results that are required by the contracting department. The system need not be electronic or expensive, but it must be able to provide detail supporting evidence for performance measures in a logical and understandable manner. The supporting documentation for performance measures must be retained for inspection or audit, available, complete, and easily traceable to actual performance results.

The COUNTY'S contracting department, as part of their monitoring, is responsible for insuring that the CONTRACTOR has an adequate system in place to validate any performance measures.

H. MISCELLANEOUS REQUIREMENTS

1.0 Political Activity

No funds, materials, property, or services contributed to the COUNTY or the CONTRACTOR under this Agreement shall be used in the performance of any political activity, the election of any candidate, or the defeat of any candidate for public office.