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**Independent Living Research Utilization**  
[www.ilru.org](http://www.ilru.org)

# Part 1: Financial Management for SILCs

## Where the rubber meets the road...

**Presenter:**  
**Paula L McElwee**

**SILC Congress 2017**

# Taken primarily from Uniform Guidance and the specific requirements in the Uniform Administrative Requirements for HHS – 45 CFR 75

# What You Will Learn

- OMB's Uniform Guidance (2 CFR 200) and how it relates to HHS's Uniform Administrative Requirements (45 CFR 75)
- A hands-on look at how to incorporate the changes into your policies and procedures
- Key prohibitions in the Uniform Administrative Requirements to ensure federal expenditures are reasonable, necessary, allowable, and allocable
- Resources for further information to implement necessary changes to comply with the Uniform Administrative Requirements

# What You Need to Know

- Demonstrate that you understand the key concepts and you will have better results with funders, particularly if your programs are audited.
- Key areas to be aware of include:
  - Procurement requirements
  - Financial record-keeping
  - Internal controls over federal awards
  - Rules for time and effort reporting
  - Procedures for indirect costs and allocation of them

## Uniform Administrative Requirements

- All entities that receive federal funds, including SILCs, DSEs, and CILs must comply with Uniform Guidance.
- Whether you are a non-profit SILC or another form of a council, you are a “subrecipient” of federal funds that flow through your DSE, and the same requirements apply.
- A federal government-wide effort, led by the Office of Management and Budget, revised and consolidated all existing regulations and guidance concerning the administration of federal funds
- HHS released its own version of Uniform Guidance, called Uniform Administrative Requirements.

# What are Uniform Administrative Requirements?

- In the past non-profit SILCs were governed by OMB Circulars 110, 122 and 133. All other SILCs were governed by the corresponding circulars for the DSE.
- These circulars, both for non-profits and government entities, have been combined into a single guidance called Uniform Guidance.
- For a while this was called the “Super Circular” because it rolled so many prior circulars together.
- These are the rules that govern the use of federal dollars.
- HHS issued its own regulations that encompass Uniform Guidance plus a few additional requirements.

# Code of Federal Regulations

- Uniform Guidance is found at 2 CFR 200.
- The actual title is “Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards,” commonly referred to as “Uniform Guidance.”
- Title VII funds for CILs and SILCs are regulated by Health and Human Services, Administration for Community Living, Independent Living Administration. Their requirements for these regulations are found at 45 CFR 75, titled “Uniform Administrative Requirements, Cost Principles and Audit Requirements for HHS Awards.” While there are a few additions, they are substantially the same as Uniform Guidance.



# When are these new guidelines effective?

- The Uniform Administrative Requirements are applied to entities receiving federal funds for new funding after December 26, 2014. Practically speaking, this means these principles are already being applied to Part C CILs and DSEs (direct recipients).
- These also apply to SILCs, Part B Centers and other non-profits as sub-recipients of funds through the DSE. (For SS, I&E or other federal funds, UG is applied as codified by that federal department.)
- Sub-recipients need to meet the requirements of the DSE, which may vary based on the state's policies. However, meeting UAR should bring you close to your state's requirements.

# Changes in Definitions

- The term **contractor** replaces **vendor**, but it still describes an organization that is providing products or services paid for through your grants.
  - Payments to contractors are not subject to the cost allocation rules; however, they are subject to rules for procurement.
- **Cost objective** is defined.
- **Program Income** is defined. Some funding controls how that income is used.
- **Recipient, sub-award,** and **sub-recipient** are defined.
- The terms **should** and **must** are clarified. Must is something you have to do. Should is a best practice.

# Reasonable, Necessary, Allowable, Allocable



- These are words that are repeated often in the guidance.
- All expenditures of federal funds must be **reasonable**. When in doubt, get bids or compare prices and maintain that research with the record of the expenditure to be able to show reasonableness. If you don't document this, you didn't do it.
- Some accounting systems allow you to scan invoices and other documents like bids. All electronic records are okay now.

# Reasonable, Necessary, Allowable, Allocable, cont'd.



- You may need to make a case that the expense is **necessary** to your project.
- Only **allowable** costs will be permitted. More about that in a moment.
- Expenses must be **allocated** among “cost objectives” or funding sources, if you have more than one, including a fair share of indirect costs. This is done through a Cost Allocation Plan or an approved Indirect Cost Rate proposal.

## Costs must be consistent 45 CFR 75.403

- Costs must be **consistent** with policies and procedures that apply uniformly to both federally financed and other activities of the non-federal entity.
- Costs must be accorded consistent treatment. Similar costs should be treated in the same manner, for example as direct or indirect.
- This also means that you can't arbitrarily move costs from one grant to another or one line item to another because you have some money left over.
- Be consistent in how you record and document costs.

# Cost Principles 45 CFR 75.400

- The non-federal entity (NFE – that’s the entity that receives the funds directly – the DSE) assumes **responsibility for administering federal funds.**
- The NFE has the primary responsibility for employing whatever form of sound organization and management techniques may be necessary in order to **assure proper and efficient administration** of the federal award.
- All costs must be **adequately documented.** Actual receipts for the item (not just credit card receipt for example) must be maintained and the costs identified and shared (allocated) according to your written plan.

# Policies and procedures

Let's look at some of the more specific requirements. These are items that should be addressed in written policies and procedures.

- If you operate under your state's written policies and procedures, those should be readily available to your Council so they can oversee your SILC related to those requirements.
- If you are a non-profit SILC your Council should adopt your own financial policies and procedures which are in conformance with both the federal requirements and any additional requirements imposed by the DSE.

# Rules for Procurement



# When are bids required to show reasonableness?

- You are no longer required to show your bidding process for products or services that are less than \$3,500 over the period of the year. (If your monthly cost is \$292, x 12, that exceeds \$3,500 for the year and must be bid.)
- Your own policies and procedures may be more restrictive, requiring bids or proof of reasonableness at \$1000 or some other number.
- The DSE may have set a lower amount for when bids are required. The SILC needs to follow the DSE policy if the threshold for requiring bids is lower than \$3,500.

- Micro-purchase (less than \$3,500)  
Purchase orders may be awarded without soliciting any competitive quotations if the NFE considers costs to be reasonable. In this case the NFE must, to the extent practicable, distribute these purchases equitably among qualified suppliers, if they offer the same rate.
- Small purchase (more than \$3,500 and less than \$150,000)
- Sealed bid purchase (more than \$150,000)
- Competitive proposal purchase (more than \$150,000)
- Non-competitive purchases (special circumstances which are applicable for all purchase levels)

# More Specifics About Purchases



- Micro-purchase (less than \$3,500)  
How do you “distribute these purchases equitably among qualified suppliers, if they offer the same rate”?
- Small purchase (over \$3500 but less than \$150,000)  
Procedures are “relatively simple and informal.”

Price or rate quotations must be obtained from at least two sources, and can be written, oral, a page from a website, etc. This documentation is filed with the purchase.

- You must take all necessary affirmative steps to assure that minority businesses, women’s business enterprises and labor surplus area firms are used when possible.
- Did you know that the geographic location of a vendor is not an acceptable reason for choosing a vendor?

# This is the foundation to your financial policies



Let's take time to go through the sample policy and procedure developed for IL-NET by John Heveron, the CPA who does our financial management training. You can find this resource at <http://www.ilru.org/il-net-sample-fiscal-policies-and-procedures-handbook> and we recommend you use this model for all your financial policies and procedures for meeting these requirements.

## *Objectives of the Policy*

The SILC's policy has the following objectives:

- Limit purchases to necessary items.
- Minimize the possibility of theft or misuse.
- Control costs while ensuring quality.
- Comply with federal or other regulations where applicable.
- Properly identify the nature and program or supporting service of the purchase.

# Sample Procurement Policy and Procedures, cont'd.

## *Overview*

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

## *Responsibility for Purchasing*

All purchases will be approved by the executive director.

### *Ethical Conduct in Purchasing*

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

# Sample Procurement Policy and Procedures, cont'd. 3

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



# Sample Procurement Policy and Procedures, cont'd. 4

- Vendor contracts shall include a written statement that they have not been suspended or disbarred from doing business with any state or federal agency.
- Davis-Bacon prevailing wage requirements for construction contracts must be met if required by the state or federal award.

# Sample Procurement Policy and Procedures, cont'd. 5

Purchases must be necessary and reasonable for the performance of the federal or other award and shall be properly identified with an award(s). Economical purchase procedures (such as consolidation of purchases), and lease versus purchase, where appropriate shall be considered.

- Purchases shall be treated consistently as direct or indirect costs.
- Purchases treated as direct or indirect costs cannot also be used to meet cost sharing or matching requirements.

# Sample Procurement Policy and Procedures, cont'd. 6

- Costs charged to federal and other awards shall be net of any applicable credits.
- Costs charged to federal and similar awards shall be allowable based on guidance.
- Costs shall be determined in conformity with U.S. generally accepted accounting principles.
- Contractors that develop or draft specifications, requirements, statements of work, or invitations for bids or requests for proposals will be excluded from competing for such procurements.

# Sample Procurement Policy and Procedure, cont'd. 7



- All solicitations shall include a clear and accurate description of the technical requirements for the material, product, or service to be procured.
- Documentation for purchases will be sufficient for an independent person to determine what was purchased, and for what purpose.
- Documentation for purchases shall be kept for at least 7 years and shall document the rationale for the method of procurement, the selection of the contract type, contractor selection/rejection and basis for the contract price and verification that the contractor is not suspended or debarred.

# Sample Procurement Policy and Procedure— Purchase Thresholds



## Purchase Thresholds

- Requirements vary based on the size of the purchase.
- Micro purchases of supplies or services are those that do not exceed \$3,500 (these limits will be updated periodically).
- Small purchase requirements apply when purchases are between \$3,500 and \$150,000 (the current level of the Simplified Acquisition Threshold). These amounts will be indexed for inflation.
- Micro purchases shall be distributed among qualified suppliers but don't generally require competitive quotations.

# Sample Procurement Policy and Procedure—

## Purchase Thresholds, cont'd.

- Small purchases will be made only after price or rate quotations are obtained from an adequate number of qualified sources. Prices can be obtained from published or online price lists.
- Purchases in excess of \$150,000, including services, equipment or supplies, purchases, leased or contracted for require a cost or price analysis (cost analysis evaluates cost components, price analysis evaluates the total price). These purchases shall be made only after receiving, whenever possible, quotations from at least three vendors.

# Sample Procurement Policy and Procedure—

## Purchase Thresholds, cont'd. 2

Selections shall be recommended to the (finance director, CFO CEO) for approval with quotations attached.

Recommendation and selection shall be based on the following criteria:

- A clear and accurate description of the product or service to be purchased
- Skill and experience of key personnel
- Experience providing products or services to THE ORGANIZATION
- Any specific requirements included in the solicitation of bids
- Demonstrated commitment to the non-profit sector

# Procurement Selection Criteria

- Information received from vendor references
- Commitment to time deadlines
- Cost
- Woman- or minority-owned business or qualified small business
- Preference for products and services that conserve natural resources and protect the environment, to the extent possible



## Procurement Selection Criteria, cont'd.

- Construction services shall be procured by sealed bids following formal advertising. Contracts shall be awarded to the responsible bidder whose bid conforms with all the material terms and conditions of the request for bids and is the lowest in price.
- Vendor contracts shall include a written statement that they have not been suspended or debarred from doing business with any federal agency. Alternatively the Organization shall check the SAM (System for Award Management <https://www.sam.gov/index.html>) vendor database. Davis-Bacon prevailing wage requirements for construction contracts must be met if required by the federal award.

# Sample Procurement Policy and Procedures— *Exceptions to Competitive Bidding*

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

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

# Procurement—Exceptions to Competitive Bidding



- A written explanation shall be prepared and maintained whenever a normally required competitive selection is not used.
- Documentation of the basis for contractor selection shall be retained when competitive bidding is performed. Documentation for why competitive bidding was not done shall be retained.

# Sample Policy and Procedures on Procurement, cont'd.



## *Minority Businesses and Woman-Owned Businesses*

The organization will take affirmative steps to encourage minority businesses, woman's business enterprises and labor surplus area firms to be used including:

- Identifying qualified organizations.
- Soliciting from these organizations.
- Dividing total requirements, when economically feasible, into smaller tasks to permit maximum participation by these organizations.

# Sample Policy and Procedures on Procurement, cont'd. 2

## *Uncertainties and Violations*

- Any questions regarding compliance with this policy should be directed to the CFO or the CEO.
- Deliberate violations of any aspect of this policy will be subject to disciplinary action including possible termination.

## When you use the IL-NET sample policies...

- Use them to help ensure that your own financial policies and procedures provide a comprehensive context for sound fiscal management in your SILC. Review the material carefully, consider your SILC's circumstances, and then adopt those policies that apply to your SILC.
- No set of sample policies can be applied in any organization without careful thought and revision to meet the specific requirements of the organization.
- In almost all cases, the sample policies will need to be modified. Change the titles in the sample to match the actual titles of your staff, etc.
- After you write them, you have to implement them. You must DO what you said you would do.

**When is a compliance audit required?  
What about a financial statement audit?**

# What about an Annual Audit?

- The new guidance is very clear that a **single audit** of federal awards is required if your expenditures of federal awards exceed \$750,000 a year.
- It is equally clear that you cannot use federal funds for a single audit UNLESS you have federal awards of **at least \$750,000.**



## What about an Annual Audit? cont'd.

- If your policies, your state, or funders require an audit and your budget for that audit has been approved, your costs for a **financial statement audit** should be allowable as an indirect cost, properly allocated across all funding sources/cost objectives.
- For a financial statement audit, assure that any auditor you engage understands that you are not hiring them to perform a single audit, which is more complex and expensive.

# What about a Compliance Audit?

These regulations provide guidance on compliance audits for recipients of federal program funds.

Nonprofits that spend more than \$750,000 of federal monies in a fiscal year are subject to compliance audit requirements of Uniform Administrative Requirements. These audits incorporate the following:

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

## What about a Compliance Audit, cont'd.

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

# We didn't address this in the IL-NET sample policies...



Next time we revise them we will add a policy about audits. Some elements of that policy will be:

- That your procurement policies will be applicable.
- That the board should approve what type of audit will be performed and the elements to include in a proposal.
- The board may authorize the Executive Director or Accountant to solicit proposals. We suggest that you contact CPA firms in your local community, but also ask other centers if they use someone they feel is good and solicit proposals from other firms knowledgeable about centers.
- The results of the audit should be presented to the board.

# Property and Equipment

# Equipment/Conditional Title 45 CFR 75.316 – 75.323

- Title for equipment acquired under a federal award will vest upon acquisition in the non-federal entity as a “conditional title.”
- This means that the ownership of this equipment vests in the non-federal entity at the time of acquisition and that it is contingent on meeting the requirements for use, management and disposition of the equipment.
- If the non-federal entity is defunded, the equipment is to be returned to the DSE for distribution within the IL network. (Push for this if you see a center closing in your state!)

# Property Records

- You must maintain an equipment inventory system that demonstrates you have an effective system of controls to account for and track equipment acquired with federal funds.
- Identify the product (brand, serial number), provide its purchase price and the % of federal funds, the date of purchase, the location and condition of the property, the disposition date and how you disposed of it.
- Conduct inventory every two years.
- It may be useful for control of purchased items to include all your computer equipment and tablets in inventory, even though they have less value.

# Sample Policy Regarding Property and Equipment

Property and equipment include items such as:

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

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

*\*The regs limit to \$5,000.*



# Sample Policy Regarding Property and Equipment, cont'd.

The depreciation period for capitalized assets is as follows:

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

# Sample Policy Regarding Property and Equipment, cont'd. 2

- A Fixed Asset Log will be maintained by the accountant including date of purchase, asset description, purchase/donation information, cost/fair market value, donor/funding source, identification number, and the depreciable life of the asset.
- Annually\*, a physical inspection and inventory will be taken of all fixed assets, and the accounting system will be updated to reflect any items that are disposed of or are no longer in service.

*\* While the regulations require every two years, often an annual inventory is preferred.*

# Sample Policy Regarding Property and Equipment, cont'd. 3

- A control system shall be in effect to ensure adequate safeguards are in place to prevent loss, damage or theft. The executive director shall be informed in writing of items that are missing, have been disposed of, or are no longer in service. Any missing items must be investigated.
- Depreciation is recorded at least annually. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Any impaired assets discovered during the inventory will be written down to their actual value.

# Conflicts of Interest

# Conflict of Interest Section 45 CFR 75.113

- The federal awarding agency must establish conflict of interest policies for federal awards.
- The non-federal entity has to establish these policies for its own operations.
- The non-federal entity must disclose in writing any potential conflict of interest to the federal awarding agency or pass-through entity in accordance with applicable federal awarding agency policy.

# Suggestions for Conflict of Interest

An observation – often there is a need to explicitly prohibit conflicts on the part of the board or council, and train them on conflicts of interest, as they may be business people whose business you want to use. Typically these would include:

- The board member may not participate in the discussion around their services, unless all similar services are invited to do so.
- The board member may not vote.
- The board member may not remain in the room during discussion & vote.

- Develop a conflict of interest and possibly also a Code of Ethics for your council/board members to sign as they come on board, and that is reviewed at least annually. (A Google search of Code of Ethics will give you lots of ideas for content.)
- Your policy can be expanded to include specific concerns for your board/council.
- A board/council member should be required to disclose their conflict and refrain from discussion/vote if they might benefit.
- Being a staff, council/board member or consumer of a CIL typically does not pose a conflict, as you desire (and the SILC is required to have) members who are knowledgeable of Independent Living.

# Sometimes these Policies are Driven by Circumstances

- We tend to write the details after a problem has occurred.
- Be proactive – anticipate what may happen and consider all examples from your CILs or peers as you develop your next Conflict of Interest policy.



# Sample Policy and Procedure on Conflict of Interest



## *Conflicts of Interest Prohibited*

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

# Sample policy, Conflict of Interest Prohibited, cont'd.

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

# Sample Policy and Procedure on Conflict of Interest, cont'd. 2



- An actual or potential conflict of interest occurs when the employee, officer, or agent, any member of his or her immediate family, his or her life partner, his or her business partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award. Any potential conflict must be disclosed and the individual who has a potential conflict cannot be involved in decision-making related to the area in which they have a conflict.

# Sample Policy and Procedure on Conflict of Interest, cont'd. 3



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

# Sample Policy and Procedure on Conflict of Interest, cont'd. 4



- Any kickback, bribe, substantial gift, or special consideration to an individual or relative is prohibited as a result of any transaction or business dealings involving the SILC in which the individual has influence.
- Any employee found guilty of a conflict will be subject to disciplinary action.
- Actual or potential conflicts of interest involving federally funded activities must be reported to the federal awarding agency.

# What is the DSE's Role with Part B Recipients (CILs and SILC)?

# Subrecipient Monitoring and Management

## CFR 75.351-352



The SILC and Part B centers are treated as a sub-recipient of Part B funds passed through DSE.

- DSE can measure performance as to whether objectives of the federal program are met.
- The non-federal entity (NFE) or recipient of the pass-through funds, has responsibility for programmatic decision making.
- The NFE is responsible for adherence to applicable federal program requirements specified in the award.
- DSE sets the indirect cost rate for the federal award.
- The NFE must provide access to financial records for audit.
- DSE may impose specific conditions if appropriate.

## However...

- The specific language in the most recent amendments to the Rehabilitation Act speak to the autonomy of the SILC.
- While it has not been tested and guidance has not yet been given, it is likely that the Rehabilitation Act as amended by WIOA takes precedence over the Uniform Administrative Requirements.
- If this is so, the DSE monitoring and management cannot supplant the autonomy of the SILC.
- Stay tuned – we don't know yet exactly how this will develop.



# What if you receive other than Part B funds?



- Each source of federal funds has its own codification of Uniform Guidance. Go to the source of those specific regulations as you determine what requirements must be met.
- While all federal departments base their rules on Uniform Guidance, there may be some variations in details.

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# Part 2: Financial Management for SILCs

## Where the rubber meets the road...

**Presenter:**  
**Paula L McElwee**

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# Internal Controls and Recordkeeping

# Internal Controls

- You must establish and maintain internal controls over federal awards that provide reasonable assurance that you are managing them in compliance with general federal requirements and the specific rules for the funding you receive.
- Internal controls should be in compliance with the Green Book *Standards for Internal Controls in the Federal Government* and/or with COSO (Committee of Sponsoring Organizations of the Treadway Commission).

# Internal Controls 45 CFR 75.303

- The non-federal entity (NFE) must establish and maintain effective internal controls over federal awards that provide reasonable assurance that awards are being managed in compliance with federal statutes, regulation and the terms and conditions of the federal award.
- As the recipient of grant funds, the SILC is considered the NFE.
- Your auditor will review the adequacy of your own policies/procedures/practices.

# Policies and procedures, (cont'd. from Part 1)

Specific requirements should be addressed in written policies and procedures.

- If you operate under your state's written policies and procedures, those should be readily available to your Council so they can oversee your SILC related to those requirements.
- If you are a non-profit SILC your Council should adopt your own financial policies and procedures which are in conformance with both the federal requirements and any additional requirements imposed by the DSE.



# These are based on our sample fiscal policies.



Let's take time to go through the sample policy and procedure developed for IL-NET by John Heveron, the CPA who does our financial management training. You can find this resource at <http://www.ilru.org/il-net-sample-fiscal-policies-and-procedures-handbook> and we recommend you use this model for all your financial policies and procedures for meeting these requirements.

# Language from IL-NET's Sample Policy

- Pages 2-5 for details of which staff do what. Internal controls with this level of detail are much more fool-proof. (A number of SILCs have used language from the Sample Policy.)
- You can move the duties around, but assure that two sets of eyes see everything that has to do with spending.
- We've known non-profits where embezzlement occurred – and it was always because there were inadequate internal controls or internal controls were disrupted by staff changes.

# Internal Control Duties (sample chart)

<b>Board of Directors (and Committees)</b>	<b>Executive Director</b>	<b>Accountant (Bookkeeper)</b>	<b>Outside CPA</b>
Set, oversee and clearly articulate the organization's vision, mission, and values.	Provide continuous leadership in the implementation of the mission, strategic direction, budget, and objectives set by the board of directors.	Prepare monthly financial reports including a balance sheet, income and expense report, budget comparison, and other key financial reports for review by the executive director and board of directors.	Prepare annual nonprofit organization filings.
Provide leadership and strategic direction for the mission, budget, and development initiatives that sustain the SILC.	Ensure that a comprehensive, accurate budget and subsequent modifications are developed annually and presented to the council.	Reconcile the bank account.	Perform audits or reviews of the SILC's financial statements.

# Sample Financial Procedures and Controls-- Security



## *Security of Financial Information and Other Records*

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

# Sample Financial Procedures and Controls— Security, cont'd.



- Consumer records, donor records, and personnel records will be kept in a locked area with access limited to those whose job responsibilities require access. *(You will want to specify by job title in your policy.)*

# Sample Financial Procedures and Controls— Segregation of Responsibilities



- The board/council and staff of the SILC will ensure the appropriate level of segregation of duties at all times. The board and staff will accomplish that by following the policies and procedures included in this manual.

# Sample Financial Procedures and Controls—

## Cash Receipts

- Blank checks, checks, or cash held for deposit, and checks held for employees or vendors will be kept in a locked area with access limited to those whose job responsibilities require access.
- Cash receipts generally come from the following sources:
  - Direct donor contributions
  - Fundraising activities

## Cash Receipts, cont'd.

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

- 1) Stamp back of any checks received "For Deposit Only."
- 2) Count any cash received.\*
- 3) Complete a deposit slip.
- 4) Make a photocopy, or electronic copy of any checks received and any accompanying documentation.

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



## Cash Receipts, cont'd. 2

- 5) Make timely bank deposits at least once each week.
- 6) Obtain an office copy of the receipted bank deposit.
- 7) Provide a copy of the checks and deposit slip and receipt (or check scanning report) to the accountant to record in the accounting system.

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

# Sample Financial Procedures and Controls-- Drawdowns



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

# Sample Financial Procedures and Controls— Check Preparation and Signatures



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

Outgoing checks require one signature from the approved list. The list of potential signers is approved by the board of directors, and signature cards are updated as required with the center's banking institution.\*

\*To improve controls over disbursements, SILCs may require two signatures all checks over a certain dollar amount (such as \$2500 or \$5000). In such cases, specify that amount in your manual.

## Check Preparation and Signatures, cont'd.

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

*Note that you may have other staff assist in larger organizations, or board members in smaller ones.*

# Sample Financial Procedures and Controls— Check Preparation and Signatures, cont'd. 2



Changes to the list of names must be approved by the board. The approved list must include, at a minimum, the treasurer, president, and executive director.

# Sample Financial Procedures and Controls, Check Preparation and Signatures, cont'd. 3



- All disbursements will be supported by adequate documentation such as time sheets for time worked, invoices and/or check requests for other disbursements and reimbursements. In no case will expenditures be made without the supporting documentation being reviewed and approved.
- Invoices that are received electronically are printed, and are subject to the same review, approval, and processing procedures as paper invoices that are received.

# Sample Financial Procedures and Controls

## Check Preparation and Signatures, cont'd. 4



- Signed checks must be mailed by a staff or board member other than the person who prepared them.
- Checks will be pre-numbered in sequential order. Access to unused checks is limited to individuals authorized to prepare checks (i.e., the bookkeeper). All voided checks should be retained and defaced with the signature portion of the check removed. All checks should be accounted for.

# Sample Financial Procedures and Controls— Bank Reconciliations



- Bank accounts will be reconciled as outlined in the responsibilities section of this manual.

*Note: you should download the images of checks or request an actual copy so that you have cancelled checks to compare to the check request. Some theft that occurs goes undetected when no one is checking to see that all checks are included in the financial statements and that the payee on the cashed check was not altered.*



# Sample Financial Procedures and Controls

## Debit and Credit Card Procedures



- The SILC has debit, credit, and store charge cards that can be used subject to the following requirements:

### Use of Cards by the Executive Director

- The executive director is authorized to utilize debit, credit, and store charge cards, subject to a limit of \$1,500, for the purchase or payment of allowable costs/expenses related to the normal operation of the programs and services of the SILC.

# Sample Financial Procedures and Controls, Debit and Credit Card Procedures, cont'd.



Normal operations include but are not limited to:

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

The executive director will retain receipts and other documentation for all card purchases, and will provide these to a member of the board for review. The board member will initial documentation, or provide other evidence of their review related to the executive director's use of the card(s).

# Sample Financial Procedures and Controls— Use of Cards by Other Staff or Council Members



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

# Sample Financial Procedures and Controls—Use of Cards by Other Staff or Council Members, cont'd.



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

## Lost or Stolen Cards

- If a debit or credit card is lost or stolen, the person designated with responsibility for the card must report the loss or theft to the executive director immediately. The executive director will immediately contact the bank to cancel the card and request a different card. The executive director will document the circumstances and when the bank was contacted, and determine if other steps are needed based upon the circumstances related to the lost or stolen card.
- An investigation of any unauthorized uses of the card will be conducted and the bank informed.

# Sample Financial Procedures and Controls— Credit Card Codes and Passwords



## Credit Card Codes and Passwords

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

# Sample Financial Procedures and Controls— Misuse of Credit or Debit Cards



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

# Recordkeeping



# What are the recordkeeping requirements?

- You must have a paper or electronic copy of all receipts.
- You must show how the costs are allocated – divided between cost objective.
- You need to show how indirect costs are allocated and that you are following your indirect cost rate proposal or cost allocation plan if your DSE allows that process.
- You must keep all records (receipts, checks, purchase orders, etc.) for 3 years – we recommend 5 years at a minimum.

# What are the record-keeping requirements? cont'd.



- You must keep the financial reports as presented to your boards indefinitely.
- You must keep tax-related and IRS records for at least 7 years.
- You can't destroy anything you know has legal importance in any pending or anticipated legal action.

# Sample Record Retention Policy

**The SILC will follow these guidelines for the retention of records but will also comply with any longer retention requirements of funders.**

- If the SILC has any active, pending or threatened litigation, audit findings or monitoring findings, records will be retained until all issues are fully resolved as determined by the board of directors.
- Financial and programmatic records (including consumer service records) and supporting documents related to federal funding, compliance or performance shall be retained for a minimum of five years from the date in which the corresponding annual reports are submitted to ACL.

## Sample Record Retention Policy, cont'd.

- Paper and electronic records are subject to the same requirements.
- This policy will be modified to accommodate any special requirements of funders or regulators.
- At the end of the retention time frame, paper and electronic records will be destroyed.
- A log of records that are purged and destroyed will be maintained.

## Sample Record Retention Policy, cont'd. 2

<b>Item</b>	<b>Useful life</b>
• Accounts payable ledgers and schedules	5 years
• Accounts receivable schedules	5 years
• Bank reconciliations	5 years
• Bank statements	5 years
• Checks (cancelled, but see exception below)	5 years
• Checks (cancelled for important payments, i.e., taxes, purchases of property, special, contract, etc.) (Checks should be filed with the papers pertaining to the underlying transaction.)	Permanent

# Sample Record Retention Policy, cont'd. 3



## Item

## Useful life

Contracts, mortgages, notes and leases:

- Expired
- Still in effect

7 years

Permanent

# Indirect Cost Rate and Allocation

# Direct and Indirect Costs

- You need a method for allocating indirect costs across cost objectives.
- Under RSA we used a Cost Allocation Plan. DSEs may still allow a Cost Allocation Plan for the SILC.
- HHS is now requiring all Part C centers to apply for an Indirect Cost Rate, and we anticipate this will eventually filter down to the SILCs.
- The state may require the SILC and Part B centers to apply for an Indirect Cost Rate. You can elect to charge 10% for your indirect costs instead, but that will probably leave you inadequate funding.
- If you don't do either, you will have to document that all federal dollars are spent directly.



## Direct and Indirect Costs, cont'd.

- Approved rates vary greatly because, in the same way you get to choose your chart of accounts, you get to choose how you classify your expenses.
- Some SILCs put 100% of administrative staff into indirect while others split out their time with a Personnel Activity Report (PAR).
- Until you have more than one project or funding source (cost objective) you are not required to allocate indirect.
- If you currently have an Indirect Cost Rate, you can elect to keep it in place for four years.

# If you don't have an indirect cost rate approval...

Go to the on-demand webinar training at <http://www.ilru.org/training/how-prepare-indirect-cost-rate-proposal>

This presentation includes all the elements you need for your proposal. You can contact me for individual assistance.

You can also find information on indirect costs in Appendix III to 45 CFR Part 75.

## What do I do once the approval is final?

- You apply the specific methodology you described in your proposal.
- The costs you identified as indirect must be removed from your funding requests, and replaced with the approved percentage.
- Because your ICR is a formula based on some assumptions, the actual percentages may vary month to month, but the methodology should be the same.
- If your rate is provisional, you will be asked to provide the actual direct and indirect costs at year end to reconcile your rate.
- You want to keep track month to month to make sure your costs are in line with what you estimated.

# Time and Effort Reporting

# Changes in Time and Effort Reporting

- This is the method used to allocate the time of staff members across cost objectives.
- The form used for this is a Personnel Activity Report.
- While there have been some changes it is too early to know how they will be enforced, so we recommend that you continue your PAR for now.
- The PAR is staff time broken out by cost objective (usually funding source but including non-allowable or distinct costs like fund raising and lobbying).
- If you only have Part B funding for your SILC, you are not required to allocate your time to different funding sources, unless you do lobbying and show that federal funds are not used for that purpose.

# Time and Effort Reporting

- There were some really stringent but inconsistently enforced requirements to document time and effort in the old regulations. The new rules are more flexible, but we believe they will be more strictly enforced.
- The new rules require that how you charge payroll and related costs must be based on records that accurately reflect, **after the fact**, the work performed. You also need a **policy** that explains your procedure.
- We recommend the use of a **Personnel Activity Report** (PAR). (Example provided at <http://www.ilru.org/training/financial-management-workshop-for-cils-regulations-and-beyond> )

# Time and effort reporting determines how you allocate time—one of your biggest costs

- If someone's work is split between projects (cost objectives) you need to define the cost objectives and give them a tool to track which objective applies at a given time.
- If you can't explain to staff how to allocate their time, you may need to ask if you have two funding sources for a single cost objective.

# What is a cost objective?

## **§ 45 CFR 75.2 and 75.400 Cost objective.**

*Cost objective* means a program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capital projects, etc. A cost objective may be a major function of the non-federal entity, a particular service or project, a federal award, or an indirect (Facilities & Administrative (F&A)) cost activity.



# Are the PAR and a timesheet the same thing?



- You can use one document to record both the total time worked and the allocation of time, or you can choose to use two, as long as they agree to the total number of hours.
- Administrative staff like the executive director may not be required to keep time records if they are exempt from overtime payment; however, they still need to keep a PAR which shows how their time was spent.
- On some periodic basis you need to check your actual time of the PARs and allocate according to those actual hours, not according to the estimates in your budget.

# Sample Payroll and Time and Effort Reporting Procedures

All employees are required to complete, sign, and submit time sheets and personnel activity reports meeting the requirements of Uniform Administrative Requirements. These requirements can be met with separate documents or a single combined document.

*Note: You will want to specify the name of your document(s) in your actual policy and procedures.*

# Sample Payroll and Time and Effort Reporting Procedures, cont'd.



## Payroll Procedures

- Time sheets completed by each employee accurately account for all time worked during each payroll period. After approval of time sheets, the accountant will call/enter time worked into the payroll processing system.\*

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

# Sample Payroll and Time and Effort Reporting Procedures, cont'd. 2



- The payroll service bureau will prepare checks or electronic deposits and a record of payroll by person. The executive director will review the record of payroll by person for accuracy, including proper rates and hours. Checks for payroll and contracted workers are sealed in envelopes by the executive director, and held by the executive director in a locked area for distribution.

# Sample Payroll and Time and Effort Reporting Procedures—Personnel Activity Reports (PARs)



- The time and effort of all employees charged to programs, grants or activities will be supported by personnel activity reports or other documentation that clearly shows the distribution of activity of each employee. The SILC uses this documentation to verify the way employees' time is split between cost objectives. This requirement applies to supervisory and nonsupervisory employees, as well as to hourly and salaried employees.

# Sample Payroll and Time and Effort Reporting Procedures—Personnel Activity Reports (PARs), cont'd.



- Must be an after-the-fact record of actual time worked. It cannot be dated before the end of the time period. **Budget estimates determined before the work is performed do not qualify.**
- Must account for the total activity (100%) of the time for which the employee is compensated.
- Must be signed by the employee and supervisor, with printed names, titles, and dates for each signature. Signatures certify that the percentage of time being reported under each objective is correct.

# Sample Payroll and Time and Effort Reporting Procedures—Personnel Activity Reports (PARs), cont'd. 2



- The supervisory official will have firsthand knowledge of the activities performed by the employee. There will be a notation that the distribution of activity represents a reasonable approximation of the work actually performed by the employee.
- Will be prepared at least monthly and will coincide with one or more payroll period(s).

*Note: If you as director are the only person with firsthand knowledge, you sign your own PAR; or the Council may choose for a Council member to review as well.*

# What costs are non-allowable?



## 45 CFR 75.410

Advertising (45 CFR 75.421) **Allowable** advertising costs are those solely for:

- Recruitment of personnel
- Procurement of goods/services
- Disposal of surplus
- Program outreach or other specific purpose necessary to meet the requirements of the award.

Public relations:

- Communicating with public and press pertaining to specific activities or accomplishments
- Costs specifically required by award (i.e. fund development, outreach if they are in your SPIL)

# Non-Allowable Advertising/Public Relations



- Anything other than what IS allowed.
- Some costs of meetings, conventions, convocations, or other events *for the purpose of advertising are not allowed*, such as
  - Costs of displays, demonstrations and exhibits
  - Costs of meeting rooms, hospitality suites and other special facilities
  - Salaries and wages of staff engaged in setting up and displaying exhibits, making demonstrations and providing briefings

# Non-Allowable Advertising/Public Relations, cont'd.



- Costs of promotional items and memorabilia, including models, gifts and souvenirs
- Costs of advertising and public relations designed solely to promote the non-federal entity.
- Conferences whose primary purpose is dissemination of technical information and deemed necessary and reasonable are allowed.

# Are you confused?

- As you can see, sometimes what is allowable seems to contradict what is non-allowable.
- Be sure to document your rationale if you decide something is allowable that could be questioned.
- When in doubt, ask your program officer for approval of the cost as allowable.

## More Non-allowable Costs

- Entertainment costs. (75.438) including amusement, diversion and social activities and any associated costs, except where specific costs that might otherwise be considered entertainment have a programmatic purpose AND are authorized either in the approved budget or with prior written approval of the federal awarding agency.
- Fines, penalties, damages and other settlements (75.441)
- Goods or services for personal use, including housing costs (75.445)
- Lobbying (75.450)

# Lobbying or Advocacy?

# Your Certification Regarding Lobbying form promises you are not. . .



- **Improperly** influencing activities re: obtaining grants, contracts, cooperative agreements or loans.
- Attempting to **improperly** influence employee or officer of Government.
- Attempting to influence outcomes of federal, state, or local elections, referendums, or initiatives through in-kind or cash contributions, endorsements, or publicity.
- Contributing to expenses of a political party, campaign, or political action committee.
- Attempting to influence votes for or against specific legislation **with certain exceptions.**

**Keep the form on file.**

# Advocacy or Lobbying?

- Proactive advocacy around laws that should be in place for equal rights is not lobbying and is allowed.
- Technical and factual presentations on topics directly related to the performance of a grant, contract or other agreement are not lobbying and are allowed.

Costs of travel, lodging or meals follow the allowability of the advocacy or lobbying.

If the testimony is unallowable so is the travel. If the lobbying is allowable, so is the travel.



## IRS limits are not the same

- Lobbying within percentage limits by the IRS is different from what is allowable and not allowable.
- You need to know this second set of requirements related to keeping your non-profit status.
- You need to file to report the funds used for lobbying to the IRS.
- Uniform Administrative Requirements indicate you can lobby, but don't do it with federal money. The IRS says you can only spend a percent of your funds on lobbying to keep your non-profit status. See <http://www.independentsector.org/> for more details.

# Other Information from the New Requirements

# Other Information from the Uniform Administrative Requirements

- It is now acceptable for your records to be maintained in an electronic-only format.
- Fines and penalties from violations and alleged violations are not allowable costs.
- Rental costs for sale and lease back arrangements are limited to what would have been paid if the property wasn't sold.
- Home office rent is unallowable.
- Temporary dependent care resulting directly from travel to conferences may be allowable.

# Other Interesting Information from the Uniform Administrative Requirements

- Entertainment is allowable only with a program purpose and if you get prior federal approval. Food is typically classified as entertainment. This is more generous than the RSA guidance on the matter was.
- Health & welfare costs incurred for improving working conditions, employee-employer relations, employee health, & employee performance are allowable.
- If you receive donated equipment, you can request reimbursement of depreciation based on fair value or use the item to meet matching requirements—not both.
- You will need to disclose in writing any potential conflicts of interest and any violations of federal criminal law potentially affecting your awards.

# Program Generated Income

- SILCs allowed to conduct resource development activities within the scope of the SPIL.
- You do not need ACL approval to generate program income, consistent with Uniform Guidance as codified at HHS regulations 45 CFR 75.1307.
- Using your Title 7 funds for the staff time needed to generate income is allowed, and leverages your grant award so that individuals with disabilities benefit from the new program.
- You do need to make sure that income generated follows the same rules as federal grants. Only funds generated without any federal costs including your paid time are discretionary and not considered program income.

## Next steps...

## Key things that you need to do quickly include...

- Adopt policies to comply with new rules. Additional samples can be found in resources at <http://www.ilru.org/training/financial-management-workshop-for-cils-regulations-and-beyond>
- Identify who will be responsible for compliance with rules and train them to comply. The link above includes videos from recent training on Financial Management for training.
- Apply your new indirect cost rate or elect a 10% rate to increase what you get paid or decrease your documentation requirements.

# Key things that you need to do quickly include, cont'd.

- The DSE is required to assure that subrecipients – the SILC is one – have an indirect cost rate or cost allocation plan. Work with DSE and use training at <http://www.ilru.org/training/how-prepare-indirect-cost-rate-proposal>.
- Begin to assess whether your current SPIL is adequate or if an amendment will be needed. The Independent Living Administration has indicated that almost half of the SILCs will need to amend their SPIL related to new regulations.



# Uniform Guidance Resources

You can find the text of Uniform Guidance, and lots of helpful aids at: <https://cfo.gov/cofar/>

## Additional resources

- HHS resource for these requirements:  
<http://www.hhs.gov/opa/grants-and-funding/grant-forms-and-references/45-cfr-74.html> (actually Part 75)
- The Green Book  
<http://www.gao.gov/greenbook/overview>
- IL-NET Sample Policies and Procedures  
<http://www.ilru.org/il-net-sample-fiscal-policies-and-procedures-handbook>

# Contact information

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