# South Central
# Human Resource Agency

## Accounting & Financial
## Policies and Procedures Manual

| |
|---|
| ***Effective Date of Policy:*** ____________________ |
| ***Date Last Amended:*** _______________________ |

## Effective Date(s) of Accounting Policies

The effective date of all accounting policies described in this manual is May 1, 2017. If a policy is added or modified subsequent to this date, the effective date of the new/revised policy will be indicated parenthetically immediately following the policy heading.

## SECTION 1: POLICIES

INTRODUCTION

The following accounting manual is intended to provide an overview of the accounting policies and procedures for South Central Human Resource Agency, which shall be referred to as "SCHRA" or "the Organization" throughout this manual.

**SCHRA** is incorporated in the state of Tennessee. SCHRA is exempt from federal income taxes under IRC Section 501(c)(3) as a nonprofit corporation. SCHRA's tax-exempt mission is:

***"To help people in need to help themselves and each other to enrich their lives."***

This manual shall document the financial operations of the Organization. Its primary purpose is to formalize accounting policies and selected procedures for all staff who have a role in accounting processes and to document internal controls.

***If a particular grant or award has provisions that are more restrictive than those in this manual, the more restrictive provisions will be followed only for that grant or award.***

The contents of this manual were approved as official policy of the Organization by the Governing Board, Executive Director, and Director of Finance. All SCHRA staff members are bound by the policies herein, and any deviation from established policy is prohibited.

# GENERAL POLICIES

# ORGANIZATIONAL STRUCTURE

## The Role of the Governing Board

SCHRA is governed by its Governing Board, which is responsible for the oversight of the Organization by:

1. Planning for the future.
2. Establishing broad policies, including financial and personnel policies and procedures.
3. Approving grant applications.
4. Reviewing and approving the annual audit.
5. Reviewing financial information.
6. Identifying and proactively dealing with emerging issues.
7. Interpreting the Organization's mission to the public.
8. Soliciting prospective contributors.
9. Hiring, evaluating, and working with the Executive Director.
10. Establishing and maintaining programs and systems designed to ensure compliance with terms of contracts and grants.
11. Authorizing establishment of all bank accounts and check signers.

The Executive Director shall be responsible for the day-to-day oversight and management of SCHRA.

## Governing Board Committee Structure

The Governing Board shall form committees to assist the board in fulfilling its responsibilities. These committees are responsible for the review of particular programs and providing recommendations to the full board. Standing board-level committees of SCHRA consist of the following:

1. Executive Committee
2. Personnel/Policies & Procedures Committee
3. Budget, State/Local Appropriations, and Audit Committee
4. Property Committee

See the Organization's bylaws for board and committee details. However, roles of committees with direct responsibilities for the financial affairs of the Organization are further described in this manual. These committees shall be referred to in appropriate sections of this manual.

## Budget, State/Local Appropriations, & Audit Committee

The Budget, State/Local Appropriations, & Audit Committee is responsible for direction and oversight regarding the overall financial management of SCHRA. Functions of the Committee include:

1. Review and recommendation of the Organization's annual budget (prepared by the staff) for final approval by the full board.
2. Long-term financial planning.

3. Establishment of investment policy and monitoring investment performance.
4. Evaluation and approval of facilities decisions (i.e., leasing, purchasing property).
5. Monitoring of actual vs. budgeted financial performance.
6. Oversight of reserve funds.
7. Review of financial procedures.

The review of the Organization's financial statements shall not be limited to the Committee, but shall involve the entire Governing Board.

The Committee recommends an independent CPA firm to the full board for its approval. The Committee communicates directly with the CPA firm for an annual audit, as described in the Organization's bylaws. The full board shall review and approve the final audited financial statements and any other communications received from the auditor regarding internal controls, illegal acts, or fraud.

The Executive Director serves as the primary point of contact for any employee who suspects that fraud has been committed against the Organization or by one of its employees or board members.

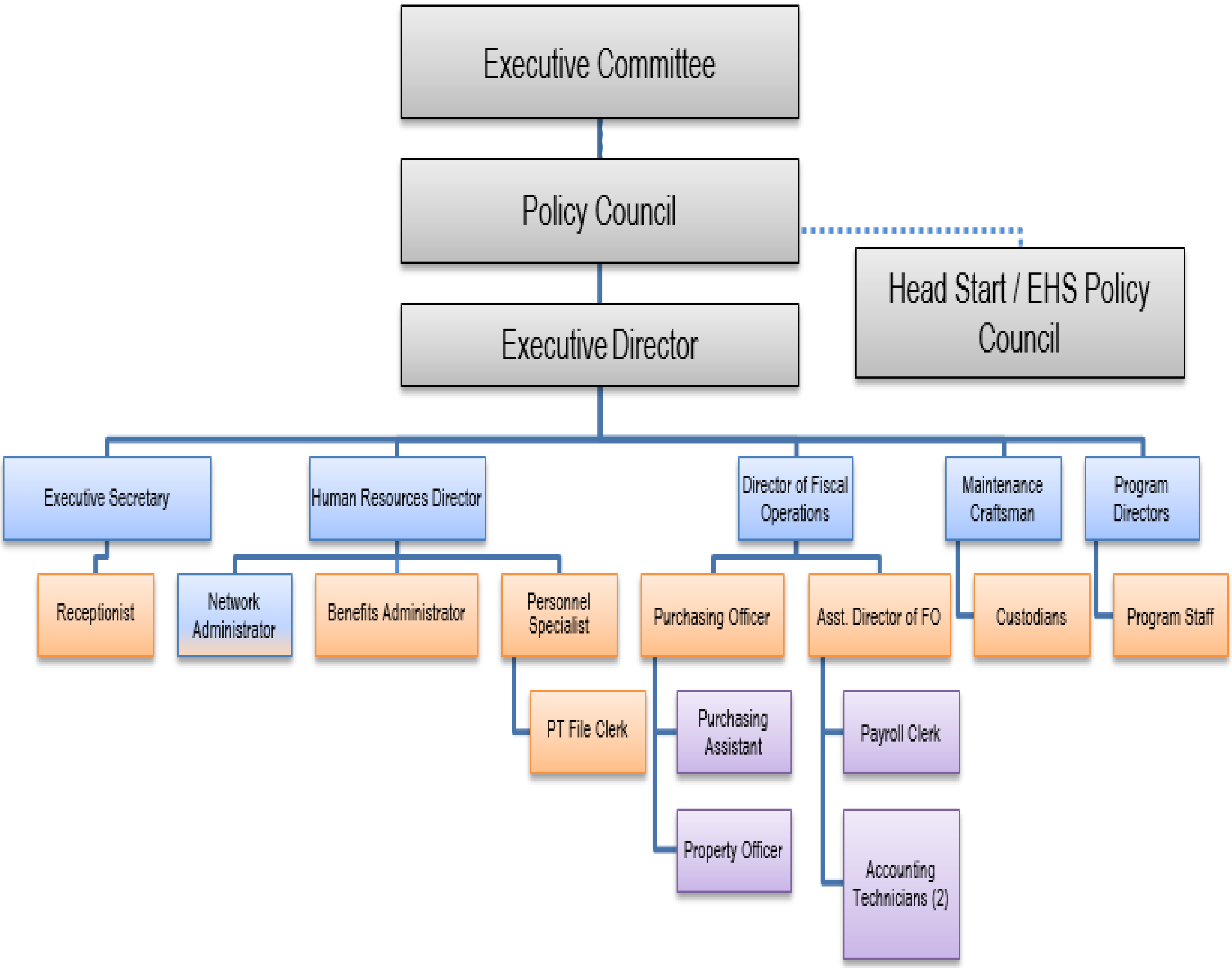
The Committee's role in the annual audit is more fully explained in the section of this manual covering the annual audit.

## **The Roles of the Executive Director and Staff**

The Governing Board hires the Executive Director, who reports directly to the board. The Executive Director is responsible for hiring and evaluating Program Directors for each of the Organization's departments. Each Program Director reports to the Executive Director.

Program Directors are responsible for hiring employees to work in that program with approval from the Executive Director. All employees within a program shall report directly to that program's Program Director, who shall be responsible for managing and evaluating all employees within the program.

**Organizational Chart**



# ACCOUNTING DEPARTMENT OVERVIEW

## Organization Structure

The accounting department consists of 9 staff members who manage and process financial information for SCHRA. The following positions comprise the accounting department:

- Director of Finance
- Assistant Director of Finance
- Payroll Technician
- Accounting Technician (2)
- Purchasing Officer
- Purchasing Technician
- Property Officer
- Property Worker

Other officers and employees of SCHRA who have financial responsibilities are as follows:

- Executive Director
- Program Directors
- Board of Directors

## Department Responsibilities

The primary responsibilities of the accounting department consist of:

- General ledger
- Budgeting
- Cash and investment management
- Asset management (property)
- Grants and contracts administration
- Purchasing
- Accounts receivable and billing
- Cash receipts
- Accounts payable
- Cash disbursements
- Payroll
- Financial statement processing
- External reporting of financial information
- Bank reconciliation
- Reconciliation of subsidiary ledgers
- Compliance with government reporting requirements
- Annual audit
- Grantor reviews/audits
- Leases
- Insurance

## Standards for Financial Management Systems

In accordance with 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, SCHRA maintains a financial management system that provides for the following. Specific procedures to carry out these standards are detailed in the appropriate sections of this manual.

1. Identification, in all its accounts, of all Federal awards received and expended and the Federal programs under which they were received.

2. Accurate, current, and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements of 2 CFR Parts 200.327, Financial Reporting, and 200.328, Monitoring and Reporting Program Performance, and/or the award.

3. Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income, and interest and be fully supported by source documentation.

4. Effective control over and accountability for all funds, property, and other assets. SCHRA must adequately safeguard all such assets and ensure they are used solely for authorized purposes.

5. Comparison of outlays with budget amounts for each award.

6. Information that relates financial data to performance accomplishments and demonstrates cost effective practices as required by funding sources. (*2 CFR Part 301, Performance Measurement*)

7. Written procedures to minimize the time elapsing between the transfer of funds and disbursement by SCHRA. Advance payments must be limited to the minimum amount needed and be timed to be in accordance with actual, immediate cash requirements. . *2 CFR Part 200.305 Payment*

8. Written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the 2 CFR Part 200 Subpart E, Cost Principles, and the terms and conditions of the award.

# BUSINESS CONDUCT

## Practice of Ethical Behavior

SCHRA requires board members, committee members, and employees to observe high standards of business and personal ethics in the conduct of their duties and responsibilities, and all directors, committee members, and employees to comply with all applicable laws and regulatory requirements. Unethical actions, or the appearance of unethical actions, are unacceptable under any conditions. The policies and reputation of SCHRA depend to a very large extent on the following considerations.

Each employee must apply her or his own sense of personal ethics, which should extend beyond compliance with applicable laws and regulations in business situations, to govern behavior where no existing regulation provides a guideline. Each employee is responsible for applying common sense in business decisions where specific rules do not provide all the answers.

In determining compliance with this standard in specific situations, employees should ask themselves the following questions:

1. Is my action legal?

2. Is my action ethical?

3. Does my action comply with SCHRA policy?

4. Am I sure my action does not <u>appear</u> inappropriate?

5. Am I sure that I would not be embarrassed or compromised if my action became known within the Organization or publicly?

6. Am I sure that my action meets my personal code of ethics and behavior?

7. Would I feel comfortable defending my actions on the 6 o'clock news?

Each employee should be able to answer "yes" to all of these questions before taking action.

Each director, manager, and supervisor is responsible for the ethical business behavior of her or his subordinates. Directors, managers, and supervisors must carefully weigh all courses of action suggested in ethical, as well as economic, terms and base their final decisions on the guidelines provided by this policy, as well as their personal sense of right and wrong.

## Compliance with Laws, Regulations, and Organization Policies

SCHRA does not tolerate:

- The willful violation or circumvention of any federal, state, local, or foreign law by an employee during the course of that person's employment.
- The disregard or circumvention of SCHRA policy or engagement in unscrupulous dealings.

Employees should not attempt to accomplish by indirect means, through agents or intermediaries, that which is directly forbidden.

The performance of all levels of employees will be measured against implementation of the provisions of these standards.

## CONFLICTS OF INTEREST - *Please refer to the Conflicts of Interest located in the Personnel Policy and Procedures*

## Policy on Suspected Misconduct/Fraud

### **<u>Introduction</u>**

This policy communicates the actions to be taken for suspected misconduct committed, encountered, or observed by employees and volunteers.

Like all organizations, SCHRA faces many risks associated with fraud, abuse, and other forms of misconduct. The impact of these acts, collectively referred to as misconduct throughout this policy, may include, but not be limited to:

- Financial losses and liabilities.
- Loss of current and future revenue and customers.
- Negative publicity and damage to the Organization's good public image.
- Loss of employees and difficulty in attracting new personnel.
- Deterioration of employee morale.
- Harm to relationships with clients, vendors, bankers, and subcontractors.
- Litigation and related costs of investigations, etc.

Our Organization is committed to establishing and maintaining a work environment of the highest ethical standards. Achievement of this goal requires the cooperation and assistance of every employee, contractor, consultants and volunteer at all levels of the Organization.

### **<u>Definitions</u>**

For purposes of this policy, misconduct includes, **<u>but is not limited to</u>**:

1. Actions that violate the Organization's Standard of Conduct (and any underlying policies) or any of the accounting and financial policies included in this manual.

2. Fraud (see below).

3. Forgery or alteration of checks, bank drafts, documents or other records (including electronic records).

4. Destruction, alteration, mutilation, or concealment of any document or record with the intent to obstruct or influence an investigation, or potential investigation, carried out by a department or agency of the federal government or by the Organization in connection with this policy.

5. Disclosure to any external party of proprietary information or confidential personal information obtained in connection with employment with or service to the Organization.

6. Unauthorized personal or other inappropriate (non-business) use of equipment, assets, services, personnel, or other resources.

7. Acts that violate federal, state, or local laws or regulations.

8. Accepting or seeking anything of material value from contractors, vendors, or persons providing goods or services to SCHRA. Exception: gifts valued at $25 or less.

9. Impropriety of the handling or reporting of money in financial transactions.

10. Failure to report known instances of misconduct in accordance with the reporting responsibilities described herein (including tolerance by supervisory employees of misconduct of subordinates).

11. Employee misconduct in the performance of essential job duties.

12. Violation of the Federal False Claims Act, State False Claims Act

Fraud is further defined to include, **but not be limited to**:

- Theft, embezzlement, or other misappropriation of assets (including assets of or intended for the Organization, as well as those of our clients, subcontractors, vendors, contractors, suppliers, and others with whom the Organization has a business relationship).
- Intentional misstatements in the Organization's records, including intentional misstatements of accounting records or financial statements.
- Authorizing or receiving payment for goods not received or services not performed.
- Authorizing or receiving payments for hours not worked.
- Forgery or alteration of documents, including but not limited to checks, timecards, contracts, purchase orders, receiving reports.

SCHRA prohibits each of the preceding acts of misconduct on the part of employees, officers, executives, volunteers, and others responsible for carrying out the Organization's activities.

## Reporting Responsibilities

All employees, officers, and volunteers are responsible for immediately reporting suspected misconduct to their supervisor, Executive Director, Director of Finance, or the Chair of the Budget, State/Local Appropriations, & Audit Committee. When supervisors have received a report of suspected misconduct, they must immediately report such acts to their manager, Executive Director, the Director of Finance and HR Director.

## Whistleblower Protection

The Organization will consider any reprisal against a reporting individual an act of misconduct subject to disciplinary procedures. A "reporting individual" is one who, in good faith, reported a suspected act of misconduct in accordance with this policy, or provided to a law enforcement officer any truthful information relating to the commission or possible commission of a federal offense or any other possible violation of the Organization's Standard of Conduct.

## Investigative Responsibilities

Due to the sensitive nature of suspected misconduct, supervisors and managers should not, under any circumstances, perform any investigative procedures.

The Executive Director, Director of Finance, and HR Director has the primary responsibility for investigating suspected fraud/misconduct involving employees. The Director of Financial Operations and HR Director shall provide a summary of all investigative work to the Executive Director and Board Chairperson.

The Program Director in coordination with Executive Director and HR Director will investigate misconduct in an employee's performance of their essential job duties.

Investigation into suspected misconduct will be performed without regard to the suspected individual's position, length of service, or relationship with the Organization.

In fulfilling its investigative responsibilities, the Executive Director, Director of Finance, and HR Director shall have the authority to seek the advice and/or contract for the services of outside firms, including but not limited to law firms, CPA firms, forensic accountants and investigators, etc.

Members of the investigative team shall have free and unrestricted access to all Organization records and premises, whether owned or rented, at all times. They shall also have the authority to examine, copy, and remove all or any portion of the contents (in paper or electronic form) of filing cabinets, storage facilities, desks, credenzas and computers without prior knowledge or consent of any individual who might use or have custody of any such items or facilities when it is within the scope of an investigation into suspected misconduct or related follow-up procedures.

The existence, the status, or results of investigations into suspected misconduct shall not be disclosed or discussed with any individual other than those with a legitimate need to know in order to perform their duties and fulfill their responsibilities effectively.

## Protection of Records – Federal Matters

SCHRA prohibits the knowing destruction, alteration, mutilation, or concealment of any record, document, or tangible object with the intent to obstruct or influence the investigation or proper administration of any matter within the jurisdiction of any department or agency of the United States government, or in relation to or contemplation of any such matter or case.

Violations of this policy will be considered violations of the Organization's Code of Ethics and subject to the investigative, reporting, and disclosure procedures described earlier in this Policy on Suspected Misconduct.

## Disciplinary Action

Based on the results of investigations into allegations of misconduct, disciplinary action may be taken against violators. Disciplinary action shall be coordinated with appropriate representatives from the Human Resources Department. The seriousness of misconduct will be considered in determining appropriate disciplinary action, which may include:

- Reprimand
- Probation
- Suspension
- Demotion
- Termination
- Reimbursement of losses or damages
- Referral for criminal prosecution or civil action

This listing of possible disciplinary actions is for information purposes only and does not bind the Organization to follow any particular policy or procedure; nor affect the employee's At-Will status with the Organization.

## Confidentiality

All authorized investigators shall treat all information received confidentially. Any employee who suspects dishonest or fraudulent activity will notify the Executive Director, Director of Finance, and HR Director and should not attempt to personally conduct investigations or interviews/interrogations related to any suspected fraudulent act (see Reporting Procedures section above).

Great care must be taken in the investigation of suspected improprieties or irregularities so as to avoid mistaken accusations or alerting suspected individuals that an investigation is under way. Investigation results will not be disclosed or discussed with anyone other than those who have a legitimate need to know. This is important in order to avoid damaging the reputations of persons suspected but subsequently found innocent of wrongful conduct and to protect SCHRA from potential civil liability. Such matters will be discussed during a closed meeting conducted by the Executive Director, Director of Finance, and HR Director and other authorized investigators.

An employee who discovers or suspects fraudulent activity may remain anonymous. All inquiries concerning the activity under investigation from the suspected individual(s), his or her attorney or representative(s), or any other inquirer should be directed to the Executive Director or legal counsel. No information concerning the status of an investigation will be given out. The proper response to any inquiry is "I am not at liberty to discuss this matter." Under no circumstances should any reference be made to "the allegation," "the crime," "the fraud," "the forgery," "the misappropriation," or any other specific reference.

The reporting individual should be informed of the following:

1. Do not contact the suspected individual in an effort to determine facts or demand restitution.

2. Do not discuss the case, facts, suspicions, or allegations with anyone unless specifically asked to do so by the SCHRA legal counsel.

## Disclosure to Outside Parties

Allegations of and information related to allegations of suspected misconduct shall not be disclosed to third parties except under the provisions described in this policy (such as disclosure to outside investigators hired by the Organization to aid in an investigation).

However, all known frauds involving the Executive Director, senior management, or members of the Governing Board, as well as all material frauds involving employees below the senior management level, shall be disclosed by the Board Chairperson to the members of the Governing Board, State Fraud Hotline, and Organization's external auditors.

The Organization will disclose, in a timely manner, in writing to Federal awarding agencies all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award. (*200.113 Mandatory disclosures)*

# SECURITY

## Accounting Department

All offices within the SCHRA Accounting Department have locks. Each employee has a key to their respective office.  This door shall be closed and locked in the evenings and whenever the Accounting Department is vacant.  The Purchasing Officer maintains a master key to all the offices, there is also a second set of master keys that is secured in a lockbox. When an employee leaves the agency the keys are to be turned into the Purchasing Officer or other personnel as approved by the Executive Director.

SCHRA's blank check stock shall be stored in a locked closet in the Accounting Department.  This cabinet will be locked with a key that is kept in the Accounting Department.  Access to this file cabinet shall be by keys in the possession of the Assistant Director of Finance and accounting staff.

Petty cash is stored in a drawer locked with a key.  The Petty Cash Custodian and the Director of Finance will be the only employees with keys to the petty cash drawer.

## Access to Electronically Stored Accounting Data

Access to the accounting system is set and controlled by the IT Department. All Accounting staff, Purchasing Staff, and Personnel Department only have access to the software. The Program Directors of the Agency have only "viewing" rights to the financial and transaction reports. The IT Department also updates all accounting software when needed.

The Community Representative Payee Department has a separate data base that tracks their clients. This department only has access to their data base and is also controlled by the Assistant Director of Finance.

SCHRA utilizes passwords to restrict access to accounting software and data.  Only duly authorized accounting personnel with data input responsibilities will be assigned passwords that allow access to the system.  Information technology staff members are restricted from accessing accounting software.

Accounting personnel are expected to keep their passwords secret and to change their passwords on a regular basis, no less frequently than every 90 days.  Administration of passwords shall be performed by a responsible individual independent of programming functions.

Each password enables a user to gain access to only those software and data files necessary for each employee's required duties.  On an annual basis, SCHRA performs a review of accounting software users to ensure they have the appropriate access levels.  Unnecessary access will be rescinded.

## Storage of Sensitive Data

In addition to accounting and financial data stored in the Accounting Department, other sensitive data, including protected personally identifiable information (PII) such as social security numbers of employees and/or clients may be stored in areas other than the Accounting Department. Locations of sensitive data include, but are not limited to:

1. Other Organization departments such as programs, Human Resources, etc.
2. Electronic or on-line storage

The Organization's policy is to minimize the storage of sensitive data outside the Accounting Department by shredding documents with such data or deleting the sensitive data from documents that are stored outside the Accounting Department as soon as possible. Please see the Organization's technology policies for standards for electronic and on-line storage.

## Destruction of Consumer Information

As stated earlier, all sensitive data must be securely stored and shredded when no longer needed. SCHRA will also shred all consumer information obtained by the Organization for any reason. Shredding will be performed on a schedule determined by each department that possesses such data, and the schedule shall be made a part of the Record Retention policy (see the "Fiscal Management" policies section of this manual).

## General Office Security

During normal business hours, all visitors are required to check in with the receptionist. After hours, a security key is required for access to the offices of SCHRA. Keys are issued only to employees of SCHRA.

# GENERAL LEDGER AND CHART OF ACCOUNTS

The general ledger is the collection of all asset, liability, net assets, revenue, and expense accounts. It is used to accumulate all financial transactions and is supported by subsidiary ledgers that provide details for certain accounts. The general ledger is the foundation for the accumulation of data and production of reports.

## Chart of Accounts Overview

The chart of accounts is the framework for the general ledger system and the basis for the accounting system. The chart of accounts consists of account titles and account numbers assigned to the titles. General ledger accounts are used to accumulate transactions and the impact of these transactions on each asset, liability, net asset, revenue, expense, and gain and loss account.

SCHRA's chart of accounts is comprised of six types of accounts:

1. Assets
2. Liabilities
3. Net Assets
4. Revenues
5. Expenditures
6. In-Kind

Each account shall be preceded by a three digit fund/program code.

## General Ledger

| Account Range | Category | Definition |
|---|---|---|
| 0001-1999 | **Assets** | Assets are probable future economic benefits obtained or controlled by the organization as a result of past transactions or events. Assets of SCHRA are classified as current assets, fixed assets, contra-assets, and other assets. Current assets are assets that are available or can be made readily available to meet the cost of operations or to pay current liabilities. Some examples are cash, temporary investments and receivables that will be collected within one year of the statement of financial position date. Fixed assets are tangible assets with a useful life of more than one year that are acquired for use in the operation of the agency and are not held for resale. Contra-assets are accounts that reduce asset accounts, such as accumulated depreciation and reserves for uncollectible accounts receivable. Other assets include long-term assets that are assets acquired without the intention of disposing them in the near future. Some examples are security deposits, property and long-term investments. |
| 2000-4999 | **Liabilities** | Liabilities are probable future sacrifices of economic benefits arising from present obligations of the Agency to transfer assets or provide services to other entities or clients in the future as a result of past transactions or events. Liabilities of SCHRA are classified |

| | | |
|---|---|---|
| | | as current or long-term. Current liabilities are probable sacrifices of economic benefits that will likely occur within one year of the date of the financial statements or which have a due date of one year or less. Common examples of current liabilities include accounts payable, accrued liabilities, short-term notes payable and deferred revenue. Long-term liabilities are probable sacrifices of economic benefits that will likely occur more than one year from the date of the financial statements. An example is the non-current portion of a mortgage loan. |
| 5000-5999<br>7000-7999 | **Revenues** | Revenues are inflows, other enhancements of assets or other activities that constitute an Agency's ongoing major and/or central operations. Revenues of SCHRA include small contributions from donors, interest earned, stock dividends, program income, and grants received from federal/state government agencies. |
| 6000-6999<br>8000-8999 | **Expenditures** | Expenditures are outflows, depletion of assets, incurrences of liabilities from delivering, rendering services or carrying out other activities that constitute SCHRA'S ongoing major and/or central operations. |

## Distribution of Chart of Accounts

All SCHRA employees involved with account coding or budgetary responsibilities will be issued a current chart of accounts, or the section of the chart of accounts applicable to their program. As the chart of accounts is revised, an updated copy of the chart of accounts shall be promptly distributed to these individuals.

## Chart of Accounts

6010 SALARIES & WAGES

Charges to this account include salaries and wages of all programmatic and administrative except special purpose employees as may be designated by grantors, program participants treated as employees, substitutes, and other employees whose salary is specially allocated within a program under granter conditions.

6020 SALARIES & WAGES - SPECIAL ALLOCATION

Charges to this account include salaries and wages allocated to more than one programmatic function within a grant. Primarily used for WAP.

6050 SALARIES & WAGES - PROGRAM PARTICIPANTS

Charges to this account include salaries and wages of program participants who are treated as employees for training purposes. Examples of this are TITLE V enrollee wages.

6070 SALARIES & WAGES - SPECIAL PURPOSE EMPLOYEES

Charges to this account include salaries and wages for employees designated as "Special Purpose" whose costs must be accounted for separately by grant conditions. Examples of this are the Homemaker staff.

6090 SALARIES & WAGES - SUBSTITUTES

Charges to this account include salaries and wages paid for substitute labor.

6106 FICA - SPECIAL ALLOCATION

Charges to this account include the employer portion of FICA which accompanies special allocation salaries and wages. Example WAP.

6107 FICA - PROGRAM PARTICIPANTS

Charges to this account include the employers' portion of FICA which accompanies program participant wages.

6110 FICA - Charges to this account include the employer portion of FICA which accompanies the salaries and wages of all employees not otherwise designated.

6112 WORKER COMPENSATION

Charges to this account include the cost of workers compensation insurance coverage for all employees.

6113 STATE UNEMPLOYMENT INSURANCE

Charges to this account include those amounts assessed under the State Unemployment Tax Act (SUTA) on salaries and wages for all employees not otherwise designated.

6114 FICA - SPECIAL PURPOSE EMPLOYEE

Charges to this account include the employer's portion of FICA which accompanies special purpose employees. Example is Homemaker.

6115 WORKER COMPENSATION - SPECIAL PURPOSE EMPLOYEE

Charges to this account include the cost of workers compensation insurance coverage for special purpose employees.

6116 STATE UNEMPLOYMENT INSURANCE - SPECIAL PURPOSE

Charges to this account include those amounts assessed under SUTA on salaries & wages of special purpose employees. Example is Homemaker.

6118 WORKER COMPENSATION - PROGRAM PARTICIPANTS

Charges to this account include the cost of workers compensation insurance coverage for program participants treated as employees. Example Title V.

6120 RETIREMENT

Charges to this account include the employer's contribution to the retirement account of all eligible employees not otherwise designated.

6122 RETIREMENT - SPECIAL PURPOSE EMPLOYEES

Charges to this account include the employers contribution to the retirement account of all eligible employees designated as special purpose.

6123 HEALTH INSURANCE

Charges to this account include the employer's share of health insurance for participating employees except as otherwise designated.

6124 HEALTH INSURANCE - SPECIAL PURPOSE EMPLOYEES

Charges to this account include the employer's share of health insurance for participating employees designated as special purpose.

6127 STATE UNEMPLOYMENT INSURANCE - SUBSTITUTES

Charges to this account include those amounts assessed under SUTA on salaries and wages of substitute workers.

6139 WORKER COMPENSATION - SUBSTITUTES

Charges to this account include the cost of worker compensation insurance coverage for substitute workers.

6140 FICA - SUBSTITUTES

Charges to this account include the employer's portion of FICA which accompanies substitute workers.

6310 PROFESSIONAL SERVICES

Charges to this account include the costs of legal, accounting, computer, architectural, employee background verification, drug testing, and other professional services.

632A DIAGNOSTIC EVALUATIONS

Charges to this account include professional diagnostic evaluations of program participants. This is a special purpose account used primarily by Community Corrections Program (CCP).

632B OUTPATIENT PSYCHOLOGICAL AND COUNSELING SVC.

Charges to this account include professional psychological and counseling services to program participants. This is a special purpose account used primarily by CCP.

632D DRUG TESTING/PARTICIPANTS

Charges to this account include all costs associated with drug testing and evaluation of program participants. This is a special purpose account used primarily by CCP.

632F OUTPATIENT ALCOHOL AND DRUG COUNSELING

Charges to this account include professional drug and alcohol counseling for program participants. This is a special purpose account used primarily by CCP.

632G PHYSICAL ASSESSMENTS

6320 MEDICAL & DENTAL SERVICES/PARTICIPANTS

Charges to this account include medical and dental services to program participants. This includes yearly physicals for FGP, Title V and CRPP.

6321 MEDICAL & DENTAL SERVICES/EMPLOYEES

Charges to this account include medical and dental services to program employees. This includes physicals, TB testing and flu shots.

6322 MEDICAL & DENTAL SERVICES/EMPLOYEES SPECIAL PURPOSE

Charges to this account include medical and dental services to program employees who are classified as special purpose. For Homemaker, includes physicals, TB testing and flu shots.

6330 SPECIAL TRAINING AND EDUCATION

Charges to this account include specific training for program participants. Used with Corrections to help program participants obtain their GED.

6331 EDUCATION SERVICES

Charges to this account include contracted educational services for employees. This would include tuition fees and books.

6332 EDUCATION SERVICES

Contract $5000+ (TTA)

6340 CONTRACT LABOR

Charges to this account include amounts paid for contracted labor such as carpenters, electricians, janitorial, lawn care and pest control. These workers are under their own directions and provide their own tools. Charges that are less than $5,000 per occurrence.

6341 STIPENDS

Charges to this account includes per hour amounts paid to specially designated participants (Volunteers) as specified by Federal Statues. Currently this is a special purpose account used by FGP.

6342 CONTRACT LABOR $5000+

Charges to this account include amounts paid for Weatherization (WAP) contracts that exceed $5000.

6350 CONTRACTED EMPLOYEES

Charges to this account include Salaries and Benefit cost for Pre-K contracted employees.

6410 TRAVEL - IN AREA MILEAGE (Staff)

Charges to this account include reimbursement on a per mile basis for use of an employee's personal vehicle to perform agency business within the service area encompassed.

6420 TRAVEL - OUT OF AREA (Staff)

Charges to this account include reimbursement on a per mile basis for the use of employee's personal vehicle and on a per diem basis, for meals, when overnight travel is required. Also included would be the cost of lodging and other costs incidental to this travel such as parking, taxi, and luggage assistance. Charges to this account include both in-state and out of state travel.

642A OUT OF AREA TRAVEL - SPECIAL PURPOSE

Charges to this account include out of area travel as stated above.

6430 TRAVEL - BOARD MEMBER

Charges to this account include all travel expenses reimbursed to or incurred on behalf of board members. Included in these costs would be mileage, per diem, lodging, and other incidentals for both in-area and out of area performed on behalf of the Agency.

6440 FUEL, OIL & LUBRICANTS - STAFF

Charges to this account include fuel, oil, and lubricants purchased for Agency owned vehicles used to transport both programmatic and administrative staff.

6441 FUEL, OIL & LUBRICANTS - PARTICIPANTS

Charges to this account include fuel, oil, and lubricants purchased for Agency owned vehicles used to transport program participants and food.

6450 TRAVEL - PARTICIPANTS

Charges to this account include reimbursement on a per mile basis for the use of a participant's personal vehicle to perform travel as required by the program. This would include: FGP, Title V, Volunteers, VITA and RSVP.

6451 CONTRACTED TRANSPORTATION

Charges to this account include the cost of transportation services contracted with vendors to serve program participants. Examples would be public transportation and CDL drivers.

6470 REGISTRATION/STAFF

Charges to this account include the registration fees for conferences and meetings attended by Agency Staff.

6471 REGISTRATION/BOARD MEMBERS

Charges to this account include the registration fees for conferences and meetings attended by board members.

6480 VEHICLE REPAIR & MAINTENANCE

Charges to this account include repairs and maintenance costs of agency vehicles. Examples would include tires, oil changes, tags, licenses and registration and routine maintenance.

6510 OFFICE SUPPLIES

Charges to this account include those supplies ordinarily used in the operation of an office such as file folders, bank fees, pens, pencils, stationary, copy and computer paper etc. For programs that have departments, this would be charged to central office.

6520 MEDICAL & DENTAL SUPPLIES

Charges to this account include those items ordinarily used for the treatment or prevention of illness or injury of program participants or employees. Examples would include toothpaste, band aides, first aide, etc. Primarily used by all Head Start programs.

6530 PROGRAM SUPPLIES

Charges to this account include those supplies which are required to fulfill a program or departments objectives or grant requirements on behalf of participants unless otherwise more restrictively classified. Supplies that are reusable, kitchen utensils, Head Start diapers, baby wipes, etc.

6531 JANITORIAL SUPPLIES

Charges to this account include the cost of supplies used to maintain space occupied by staff or participants to a clean and healthy standard. Examples are cleaning supplies and utensils, light bulbs, restroom supplies, air filters, etc.

6532 TRAINING SUPPLIES

Charges to this account include the cost of supplies used in conjunction with training staff.

6533 FOOD SERVICE SUPPLIES

Charges to this account include the cost of those supply items needed to prepare and serve meals on behalf of program participants or employees, unless otherwise more restrictively classified. Other items include materials used for cleanup and disposal of refuse before and after meal preparation.

6535 FIELD TRIPS

Charges to this account include any expenses that are related to Head Start or Early Head Start field trip activities for children.

6540 FOOD

Charges to this account include the cost of raw food used in the preparation of meals for participants, employees or board members.

6541 FOOD SERVICE MEALS

Charges to this account include the cost of meals purchased from the SCHRA Food Service Program.

6550 CONTRACTED FOOD

Charges to this account include the cost of catered meals for participants, employees and board members.

6560 PRINTING

Charges to this account include the cost of printed materials, forms, brochures and business cards. Also included are the costs of copying of duplicating.

6570 POSTAGE

Charges to this account include the cost of postage stamps, metered mail, registered mail and overnight delivery services etc.

6590 NON-EXPENDABLE SUPPLIES/PROGRAMMATIC

Charges to this account include the cost of minor equipment with a unit cost of $250 or more but less than $500 and having a useful life of more than one year, unless otherwise more restrictively classified. Items charged to this account would be used to satisfy program requirements directly related to participant service.

6610 RENT - BUILDINGS

Charges to this account include rent paid for space occupied by the Agency.

6620 UTILITIES

Charges to this account include utility costs such as water, sewer, gas, electric, and garbage service necessary to operate Agency facilities.

6630 REPAIR & MAINTENANCE - BUILDING

Charges to this account include the cost of items or services needed to maintain the existing state of a facility. Examples are painting, repair of worn or broken fixtures, and lawn care.

6650 EQUIPMENT - STATE DEFINITION

Charges to this account include the cost of equipment which has a unit cost of $500 but less than $5,000 and a useful life of over 2 years.

6651 SENSITIVE EQUIPMENT

Charges to this account include the cost of items designated by the State of Tennessee as "Sensitive" that are subject to personal use. Items with a unit cost of less than $100 will not be considered in this.

6652 EQUIPMENT - FEDERAL DEFINITION

Charges to this account include the cost of equipment which have a unit cost of $5,000 or more and a useful life of over 2 years.

6654 PROPERTY

Charges to this account include expenses for Land, Buildings, etc.

6660 RENT - EQUIPMENT

Charges to this account include the cost of renting equipment or tools.

6670 REPAIR & MAINTENANCE EQUIPMENT

Charges to this account include the cost of repairing or maintaining equipment. Also included are those contracts or agreements for the maintenance of specific equipment.

6680 RENOVATIONS - LEASEHOLD IMPROVEMENTS

Charges to this account include the cost of items or services needed to restore a facility to an acceptable level of use before occupancy or that will enhance the value or quality or that which increases the value by betterment of reality held through lease. Such items include, new roof, rewiring, remodeling, new fencing, fire alarm systems, etc.

6690 VEHICLE LEASE

Charges to this account include the cost of a vehicle lease for use of the program. Such rental can be from the agency or a private company.

6710 CONTRACTED MATERIAL

Charges to this account include the cost of materials provided by contractors used for participant benefits. Examples are those materials included in complete contractor renovations on behalf of WAP.

6712 CONTRACTED MATERIAL $5000+

Charges to this account include amounts paid for WAP contracts that exceed $5000.

6741 HEATING ASSISTANCE

Charges to this account include payments for heating assistance for program participants. These payments may include gas, electric, wood, coal, and kerosene. These payments may be made directly to the participants or to small vendors.

6742 HEATING ASSISTANCE - MAJOR VENDORS

Charges to this account include payments for heating assistance directly to utility vendors on behalf of program participants.

6750 EMERGENCY ASSISTANCE

Charges to this account include all payments made under emergency conditions on behalf of participants. Examples are utility bills, food, lodging, transportation, medicine, etc.

6752 CSBG EMPLOYMENT

Charges to this account enable participants to continue employment. Examples are car repairs, specific clothing attire such as uniforms or boots.

6753 CSBG HEALTH

Charges to this account assist participants with health needs. Examples are prescriptions, doctor visits, eye exams, dental exams, etc.

6754 CSBG HOUSING

Charges to this account provide assistance to participants with WAP (Weatherization Assistance Program) applications.

6755 CSBG NUTRITION

Charges to this account provide home delivered meals to participants to ensure that nutritional value is being met. This program also provides commodities to eligible clients after applications are approved and accepted.

6756 CSBG EDUCATION

Charges to this account allow participants to further their education with financial assistance. Examples are application fees, books, uniforms, etc.

6757 CSBG INCOME MANAGEMENT

Charges to this account allow participants assistance with Income Management. Examples are family budgeting and Income Tax Assistant.

6760 PARENT ACTIVITY

Charges to this account include those costs to support parent activities as described by the HHS Headstart guidelines. This is a single purpose account used only by the Preschool Programs.

6770 HOMELESS ASSISTANCE

Charges to this account include costs which meet the definition set forth by TDHS as "CSBG Homeless Client Benefit". This is a single purpose account used only by the CSBG program.

6771 HOMELESS PREVENTION ASSISTANCE

Charges to this account include costs which meet the definition set forth by TDHS as "CSBG Homeless Prevention Client Benefits". This is a single purpose account used only by the CSBG Program.

6780 RECOGNITION

Charges to this account include costs which are designated to reward volunteers and further encourage volunteers. Examples are awards, prizes, meals, training, etc. This account is limited only by the intent of expense incurred.

6810 TELEPHONE

Charges to this account include all forms of telephone service.

6812 TELEPHONE FIELD

Charges to this account include all telephone charges for Title V field offices.

6820 INSURANCE

Charges to this account include insurance for all agency purposes unless otherwise classified. Examples are general liability, employee bonding, automotive liability and property damage, other property coverage.

6821 INSURANCE - PARTICIPANTS

Charges to this account include insurance coverage for specific participants or volunteers.

6830 DUES & SUBSCRIPTIONS, LICENSING

Charges to this account include membership dues to organizations with whom the Agency participants. Also included in this account are charges for periodicals and other publications subscribed by the Agency and HS/EHS center licensing.

6840 DEPRECIATION BUILDING

Charges to this account include expenses for depreciated building assets.

6860 AUDIT

Charges to this account include the cost of the Agency annual audit.

6880 CLOSED EXPENDITURE ACCT

Charges to this account are to close out expenditures for the fiscal year.

6890 MISCELLANEOUS

Charges to this account are made only when all other more descriptive accounts are deemed inappropriate.

6900 INDIRECT

Charges to this account are composed of those costs necessary to operate the Fiscal and Executive Departments. These costs include their respective staff's salaries and benefits and other supporting costs of their operation. These costs are administrative and are accumulated for allocation to the various programs in operation each month on the basis of direct cost. These costs cannot be otherwise directly charged to programmatic activities.

6930 BUILDING POOL ALLOCATION

Charges to this account are composed of those costs necessary to operate the Building Fund. These costs include its respective staff's salaries and benefits and other supporting costs of its operation. These cost are accumulated for allocation to the various programs in operation each month on the basis of square footage used by each fund. These costs cannot be otherwise directly charged to programmatic activities.

6960 TOTAL APPLIED

This account is used to subtract the monthly expenditure from the cost pools into the indirect cost for each fund.

8010 IN-KIND PERSONNEL

Charges to this account are for personnel expenses donated.

8100 CLOSING EXPENDITURE ACCT

Charges to this account are to close out In-kind expenditures for the fiscal year.

8110 IN-KIND BENEFITS

Charges to this account are for the benefits associated to donated personnel expenses.

8310 IN-KIND PROFESSIONAL SERVICES

Charges to this account are for skills donated by various professional in their related field of expertise.

8320 IN-KIND MEDICAL SERVICES

Charges to this account are cost associated with donated medical services.

8410 IN-KIND TRAVEL

Charges to this account are the cost associated with donated transportation cost for program activities.

8450 IN-KIND TRAVEL PARTICIPANT

Charges to this account are the cost associated with donated transportation cost for specific participant activities.

8510 IN-KIND OFFICE SUPPLIES

Charges to this account are the cost associated with donated office supplies.

8530 IN-KIND PROGRAM SUPPLIES

Charges to this account are the cost associated with donated program supplies.

8540 IN-KIND MEALS

Charges to this account are the cost associated with donated meals for program participants.

8570 IN-KIND POSTAGE

Charges to this account are the cost of donated postage.

8610 IN-KIND SPACE

Charges to this account are the cost associated with the donated space used by and for programs and their activities. These costs are calculated based on a fair market value.

8620 IN-KIND UTILITIES

Charges to this account are the cost associated with the donated utilities for facilities used by programs.

8630 IN-KIND MAINTENANCE

Charges to this account are the cost associated with the donated expenses for various repairs to the building, lawn care etc.

8680 IN-KIND LEASEHOLD IMPROVEMENTS

Charges to this account are the cost of goods and/or services donated for the purpose of improving a facility that is occupied by a program.

8780 IN-KIND RECOGNITION

Charges to this account are the cost of goods and/or services donated for the purpose of recognizing participants contributions to their programs.

8810 IN-KIND TELEPHONE

Charges to this account are the cost of phone services donated to a program.

8910 IN-KIND OTHER

Charges to this account are cost of donated goods and/or services which cannot be otherwise identified.

## Control of Chart of Accounts

The Director of Finance and the Assistant Director of Finance monitors and controls the chart of accounts, including all account maintenance, such as additions and deletions. Any additions or deletions of accounts must be approved by the Director of Finance and or Assistant Director of Finance, who ensures that the chart of accounts is consistent with the Organizational structure of SCHRA and meets the needs of each division and department.

## Fiscal Year of Organization

SCHRA shall operate on a fiscal year that begins on July 1 and ends on June 30. Any changes to the fiscal year of the Organization must be ratified by majority vote of SCHRA's Board of Directors.

## Program Year End

A programs year end will be as dictated by the grantor and, thus, could end at any point in a calendar year.

## Accounting Estimates

SCHRA utilizes numerous estimates in the preparation of its interim and annual financial statements. Some of those estimates include:

1. Useful lives of property and equipment
2. Fair market values of investments
3. Fair market values of donated assets
4. Values of contributed services
5. Cost allocation calculations

The Director of Finance will reassess, review, and approve all estimates yearly. All conclusions, bases, and other elements associated with each accounting estimate shall be documented in writing. All material estimates, and changes in estimates from one year to the next, shall be disclosed to the Finance Committee, the Audit Committee, and the external audit firm.

## Journal Entries

All general ledger entries that do not originate from a subsidiary ledger shall be supported by journal vouchers or other documentation, including an explanation of each such entry. Examples of such journal entries are:

1. Recording of noncash transactions
2. Corrections of posting errors
3. Nonrecurring accruals of income and expenses

Certain journal entries, called recurring journal entries, occur in every accounting period. These entries may include, but are not limited to:

1. Depreciation of fixed assets
2. Amortization of prepaid expenses
3. Accruals of recurring expenses
4. Amortization of deferred revenue

Recurring journal entries shall be supported by a schedule associated with the underlying asset or liability account or, in the case of short-term recurring journal entries or immaterial items, a journal voucher.

All journal entries not originating from subsidiary ledgers shall be authorized in writing by the Director of Finance and or Assistant Director of Finance by initialing or signing the entries.

# POLICIES ASSOCIATED WITH REVENUES AND CASH RECEIPTS

# REVENUE

## Revenue Recognition Policies

SCHRA receives revenue from several types of transactions. Revenue from each of these types of transactions is recognized in the financial statements in the following manner:

1. **Grant income –** Monthly accrual based on incurrence of allowable costs (for cost-reimbursement awards) or based on other terms of the award (for fixed price, unit-of-service, and other types of awards).

2. **Performance based income –** Income that isn't awarded from a federal or state grant but rather billed per unit. This is recognized in the enterprise fund of the agency.

3. **Program Income –** Defined as gross income generated by a supported activity or earned as a result of an award, and is recognized as a reduction in expenditures in the period in which it is received.

4. **State and local contributions** – Any income received from the city, county, state appropriation and state programs.

5. **Interest income** – monthly accrual based on when it was earned.

6. **In-Kind Contributions –** Recognized as income when received. (See the following section titled "Cost Sharing and Matching.")

Immaterial categories of revenue may be recorded on the cash basis of accounting (i.e., recorded as revenue when received) as deemed appropriate by the Director of Finance.

## Definitions

The following definitions shall apply with respect to the policies described in this manual:

**Contribution –** An unconditional transfer of cash or other assets to the Organization, or a settlement or cancellation of the Organization's liabilities, in a voluntary nonreciprocal transfer by another entity or individual.

**Condition** – A donor-imposed stipulation that specifies a future and uncertain event whose occurrence or failure to occur gives the promisor a right of return of the assets it has transferred to the Organization or releases the promisor from its obligation to transfer its assets. In practical terms, this means a donor has imposed some type of stipulation other than a purpose or time period stipulation (which is defined as a restriction below) and that condition has some degree of uncertainty as to whether or not it will occur, and if the condition is not met, the Organization is not entitled to the contribution. Conditions may or may not be within the control of the Organization.

**Restriction –** A donor-imposed stipulation that specifies a use for the contributed asset that is either limited to a specific future time period or is more specific than the broad limits resulting from the nature of the Organization, the environment in which it operates, and the purposes specified in the Articles of Incorporation and Bylaws. Restrictions on the use of an asset may be temporary or permanent.

**Nonreciprocal Transfer** – A transaction in which an individual or entity incurs a liability or transfers assets to SCHRA without directly receiving value in exchange.

**Promise to Give –** A written or oral agreement to contribute cash or other assets.

**Exchange Transaction** – A reciprocal transaction in which SCHRA and another entity each receive and sacrifice something of approximately equal value.

# ADMINISTRATION OF FEDERAL AWARDS

## Definitions

SCHRA may receive financial assistance from a donor/grantor agency through the following types of agreements:

**Grant**: A financial assistance award given to the Organization to carry out its programmatic purpose.

**Cooperative Agreement**: A legal agreement where the Organization implements a program with the direct involvement of the funder.

Throughout this manual, federal assistance received in any of these forms will be referred to as a federal "award."

## Preparation and Review of Proposals

Individual departments are responsible for preparing proposals for projects that the department intends to pursue. However, all proposals shall be reviewed by the Director of Finance prior to submission to government agencies or other funding sources to ensure the proposed budget includes all appropriate costs. Final proposals shall be reviewed and approved in writing by the Board of Directors and the Executive Director.

1. All grant applications will be approved by the Board.
2. The full Board (or appropriate Board committee) will approve acceptance of all grants.
3. The full Board will be involved in all decisions concerning new funding sources.

In addition, SCHRA may refuse to consider all grants under a certain dollar amount based on the cost/benefit of administering such awards.

Note that the Head Start / Early Head Start Policy Council must approve the Head Start / Early Head Start grant application prior to its submission.

## Post-Award Procedures

After an award has been made, the following steps shall be taken:

1. Verify the specifications of the grant or contract. The Accounting Department shall review the terms, time periods, award amounts, and expected expenditures associated with the award. A *Catalog of Federal Domestic Assistance* (CFDA) number shall be determined for each award. All reporting requirements under the contract or award shall be summarized.

2. Create new general ledger account numbers (or segments). New accounts shall be established for the receipt and expenditure categories in line with the grant or contract budget.

3. Gather documentation. See the following section, "Document Administration", for details.

## Compliance with Laws, Regulations, and Provisions of Awards

SCHRA recognizes that as a recipient of federal funds, the Organization is responsible for compliance with all applicable laws, regulations, and provisions of contracts and grants. To ensure that the Organization meets this responsibility, the following policies apply with respect to every grant or contract received directly or indirectly from a federal agency:

1. For each federal award, an employee within the department responsible for administering the award will be designated as "grant manager" this is, in most cases, the program director.

2. Each grant manager shall attend a training on grant management prior to beginning his or her role as a grant manager (or as early in their functioning as a grant manager as practical). Thereafter, all grant managers shall attend refresher/update courses on grant management every two years.

3. The grant manager shall take the following steps to identify all applicable laws, regulations, and provisions of each grant and contract:

    a. Read each award and prepare a summary of key compliance requirements and references to specific laws and regulations.
    b. Review *2 CFR Part 200 Appendix XI, Compliance Supplement* (updated annually) published by the Office of Management and Budget (OMB) for compliance requirements unique to the award and for compliance requirements common to all federal awards.
    c. Review the section of the *Catalog of Federal Domestic Assistance* (CFDA) applicable to the award.
    d. The grant manager will communicate grant requirements to those who will be responsible for carrying them out, or impacted by them.

4. The Accounting Department shall forward copies of applicable laws regulations to the grant manager (such as OMB Circulars, pertinent sections of compliance supplements, and other regulations).

5. The grant manager and/or the Accounting Department shall identify and communicate any special changes in policies and procedures necessitated by federal awards as a result of the review of each award.

6. The grant manager shall take all reasonable steps necessary to identify applicable changes in laws, regulations, and provisions of contracts and grants. Steps taken in this regard shall include, but not be limited to, reviewing subsequent grant and contract renewals, reviewing annual revisions to 2 CFR Part 200 Appendix XI, *Compliance Supplement*, and communications with federal awarding agency personnel.

7. The grant manager shall inform the independent auditors of applicable laws, regulations, and provisions of contracts and grants. The grant manager shall also communicate known instances of noncompliance with laws, regulations, and provisions of contracts and grants to the auditors.

## Document Administration

For each grant/award received by SCHRA from a federal, state, or local government agency, a master file of documents applicable to the award shall be prepared and maintained. The responsibility for assembling each master file shall be assigned to the Program Director under Document Administration.

The master file assembled for each government award shall include all of the following documents (including originals of all documents received from the awarding agency):

1. Copy of the initial application for the award and corresponding budget
2. All correspondence to and from the awarding agency post-application, leading up to the award
3. The final, approved budget and program plan, after making any modifications
4. The grant agreement and any other documents associated with the initial making of the award
5. Copies of pertinent laws and regulations, including awarding agency guidelines, associated with the award
6. Subsequent grant modifications (financial and programmatic)
7. Copies of program and financial reports
8. Subsequent correspondence to/from the awarding agency
9. Results of any monitoring visits conducted by the awarding agency, including resolution by SCHRA of any findings arising from such visits
10. Correspondence and other documents resulting from the closeout process of the award

The preceding grant document file shall be organized into four sections as follows:

1. Pre-award documents
2. Post-award documents, including reports
3. Laws, regulations, and agency guidelines
4. Audit/monitoring-related documents

On the inside front cover of the grant document file shall be a Summary of Critical Award Provisions, prepared by the Program Manager. This summary shall include, at a minimum, the following:

1. Key compliance requirements, including citations of applicable laws and regulations
2. Important deadlines
3. Correspondence contact information at the awarding agency

The original grant document file shall remain in the office of the Program Manager in a locked filing cabinet. The Program Manager shall maintain a separate file of frequently requested documents that shall consist of photocopies of the documents included in the secure grant document file. The purpose of this file of copied documents is to limit the potential for loss of valuable documents. Any other SCHRA employee making a valid request for access to grant documents shall be provided with the file of copied documents and shall be asked to sign this file out of the Program Manager's office.

The file referred to in the preceding paragraph should also be established in electronic form and made available on the network to appropriate personnel within SCHRA. This further reduces the risk of loss of key documents.

In addition, the Finance Department should receive a copy or have access to electronically, all of the documents referred to in the preceding paragraphs.

## Closeout of Federal Awards

SCHRA shall follow the closeout procedures described in 2 CFR 200.343 – 345, Closeout, and in the grant agreements as specified by the granting agency.

SCHRA and all subrecipients shall liquidate all obligations incurred under the grant or contract within 90 days of the end of the grant or contract agreement.

# COST SHARING AND MATCHING (IN-KIND)

## Overview

SCHRA values contributed services and property that are to be used to meet a cost sharing or matching requirement at their fair market values at the time of contribution, unless award documents or federal agency regulations identify specific values to be used.

SCHRA shall claim contributions as meeting a cost sharing or matching requirement of a federal award only if all of the following criteria are met:

1. They are verifiable from SCHRA records.

2. They are not included as contributions (or match) for any other federally-assisted project or program.

3. They are necessary and reasonable for proper and efficient accomplishment of project or program objectives.

4. They are allowable under the federal cost principles, 2 CFR Part 200 Subpart E, Cost Principles.

5. They are not paid by the federal government under another award, except where authorized by federal statute to be used for cost sharing or matching.

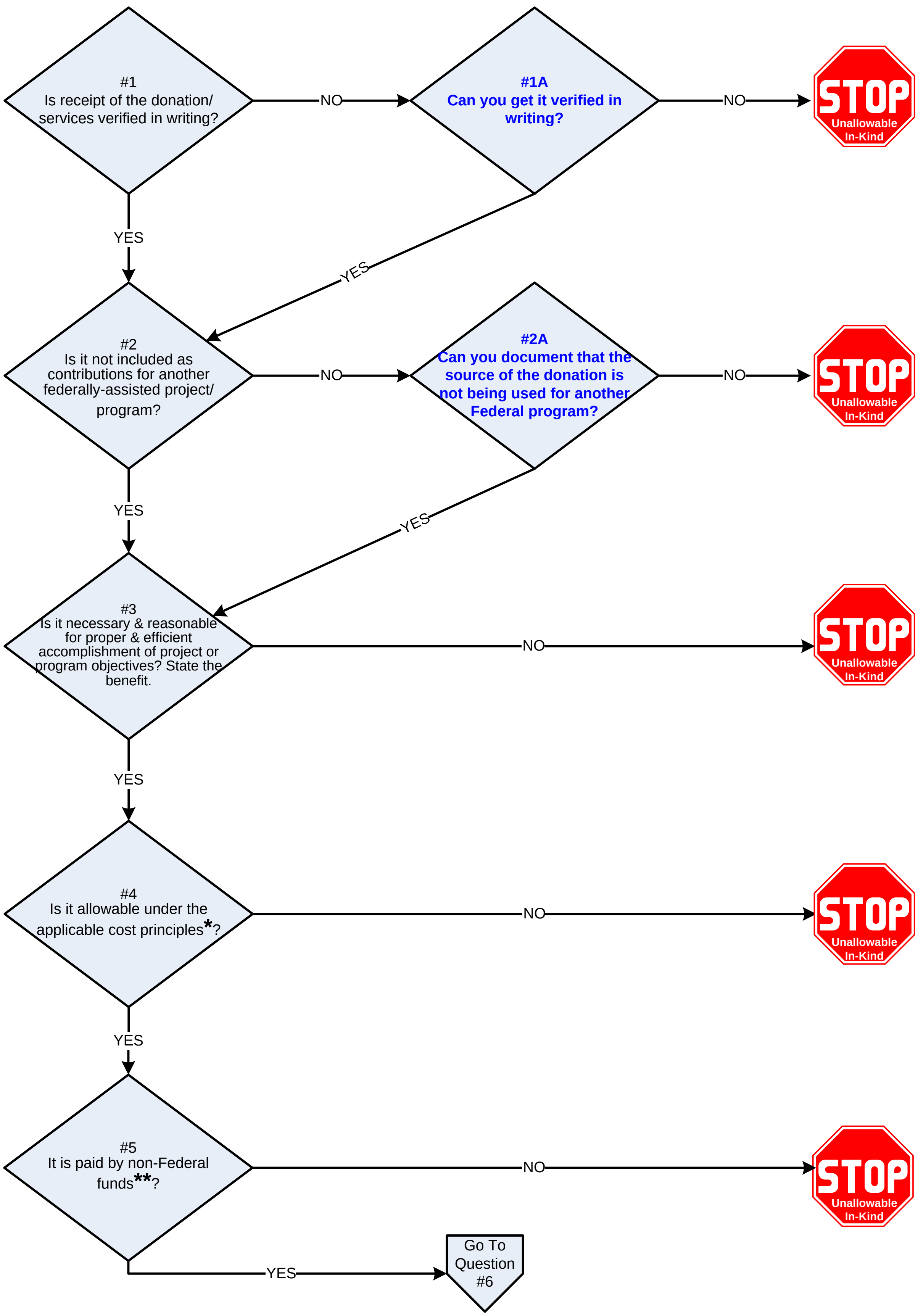
6. They are provided for in the approved budget when required by the federal awarding agency.

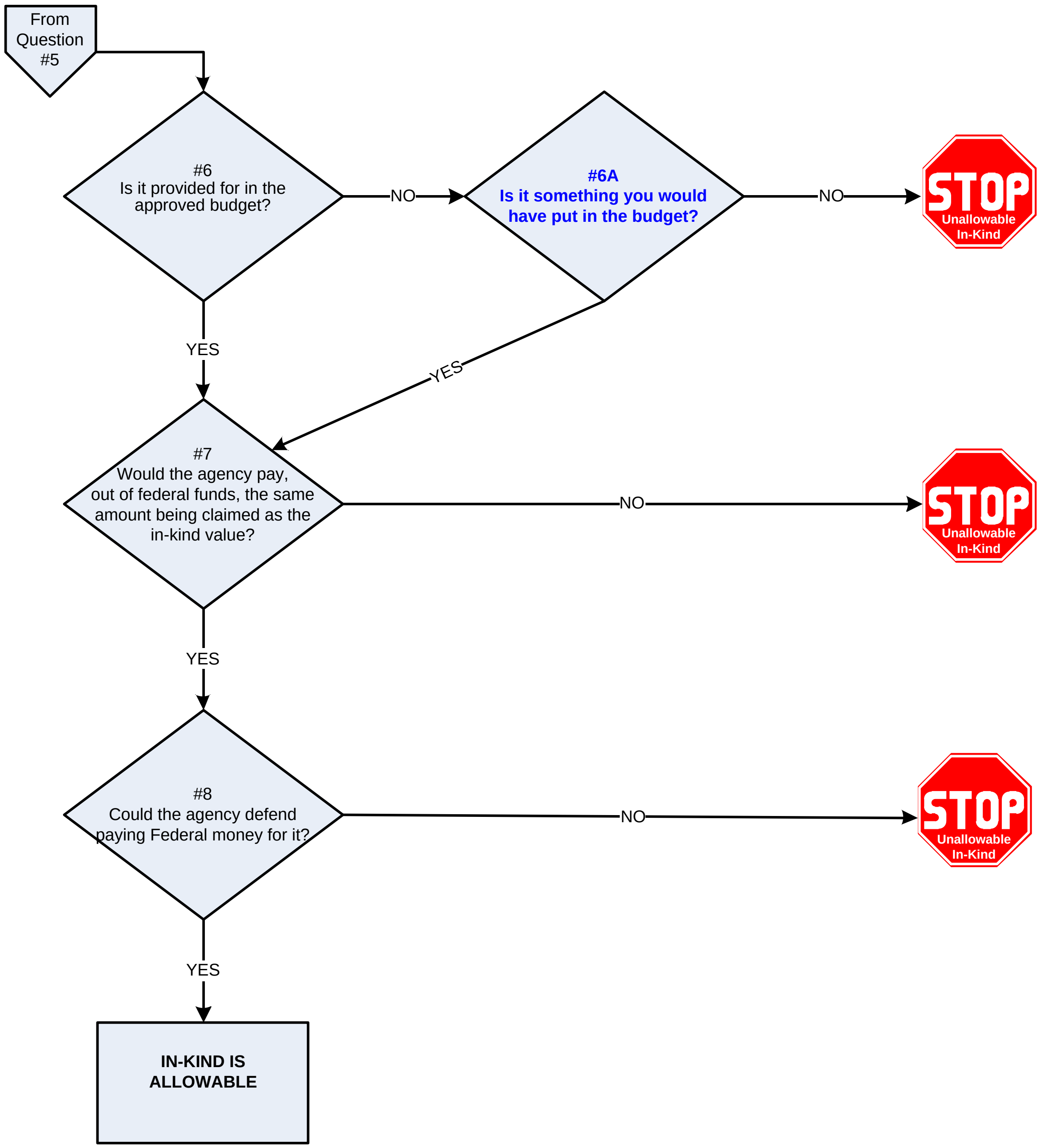
7. They conform to all provisions of federal administrative regulations, 2 CFR Part 200 Subpart D, Post Federal Awards Requirements.

8. In the case of donated space, (or donated use of space), the space is subject to an independent appraisal performed by a certified appraiser as defined by 2 CFR Part 200.306(i)I1) to establish its value.

The following flowchart should be used to determine the allowability of in-kind.

## In-kind Allowability Flowchart






*** 2 CFR Part 200** Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

****** Except where authorized by Federal statute to be used for cost sharing or matching:

Determinations have been made on a case-by-case basis on whether Federal funds from other programs are allowable match for an ACF program. These determinations are based on specific requirements of ACF programs and language in applicable statutes. Specifically:

1. USDA funds are of Federal origin and, therefore, cannot be counted as match.
2. Bureau of Indian Affairs - Indian Self-Determination and Education Assistance Act (P.L. 93-638, as amended). The Act authorizes the use of funds for matching purposes as long as the identified use is specifically related to the approved grant activities.
3. Title XX Social Services Block Grant funds are considered to be Federal funds and, therefore, may not be used as match for ACF programs.
4. Expenditure of funds from the Housing and Community Development Act of 1974, P.L. 93-383 may count as allowable match for a Head Start program for renovation of a building. The determination is dependent on whether or not the Head Start grant is included as part of the "Community Development Program," as required by the Housing and Community Development Act. (Grants Administration Manual, Section 3.05.408(b)(1-4))

## Valuation and Accounting Treatment

In-kind typically falls into one of the following categories:

- Cash
- Space, buildings, land, and equipment
- Volunteer time and services
- Supplies

The following sections discuss the valuation and accounting treatment for each category.

***Cash***

- SCHRA shall recognize cash contributions as in-kind income in the period in which they are spent on allowable program costs.
- Any discounts received on goods or services are recognized as in-kind only if such discounts are not available to the general public. Discounts taken as in-kind must be supported by a letter from the vendor stating that it is providing this discount in support of the program.

***Space, Buildings, Land, and Equipment***

*Buildings and Land*

If the purpose of the contribution is to assist the Organization in the acquisition of equipment, building, or land, the total value of the donated property may be claimed as matching with prior approval of the awarding agency.

If the purpose of the donation is to support activities that require the use of equipment, buildings, or land, depreciation may be claimed as matching, unless the awarding agency has approved using the full value as match.

Equipment, land, or buildings are valued at their fair market value as determined by an independent appraiser. Information on the date of donation and records from the appraisal will be maintained in a property file.

*Space*

- Will be valued at the fair rental value of comparable space as established by an independent appraisal of comparable space and facilities in a privately-owned building in the same locality.
- Information on the date of donation and records from the appraisal will be maintained in a property file.
- If less than an arms-length transaction, will be valued based in actual allowable costs to occupy the facility (e.g. repairs and maintenance, insurance, etc.) not to exceed fair market value.

***Volunteer Time and Services***

Volunteer services furnished by professional and technical personnel, consultants, and other skilled and unskilled labor will be included in in-kind if the services are an integral and necessary part of the program.

Volunteer services will be valued at rates consistent with those paid for similar work in the Organization. For skills not found in the Organization, rates will be consistent with those paid for similar work in our labor market. Rates should include gross hourly wages plus fringe benefits calculated based on fringe benefits received by employees in similar positions, or on agency average.

Volunteers must possess qualifications and perform work requiring those skills in order to be valued at greater than an unskilled labor rate.

SCHRA requires volunteers to document and account for their contributed time in a manner similar to the timekeeping system followed by employees. Each program that uses volunteers will provide the volunteers a sign-in sheet which collects the following information:

- Date service was performed
- Volunteer name and address
- Hours donated (time in and out)
- Service provided
- Signature of volunteer

The sign-in sheets will be delivered to the Accounting Department monthly so they can be tallied, valued, and recorded as in-kind in the accounting records.

***Supplies***

Donated supplies must be used in the program and shall be valued at fair market value at the time of donation. Supplies can be counted as match only if the program would have purchased such items with federal funds.

# GIFT ACCEPTANCE

## Overview of Gift Acceptance Policies

A gift/contribution is consideration given to the Organization for which the donor receives no direct benefit and requires nothing in exchange (it is nonreciprocal) other than assurance that the intent of the contribution will be honored by SCHRA. Two broad principles apply to all gifts given to the Organization:

1. A gift shall not be accepted that is not in the charitable interest of the donor, considering the donor's financial situation and philanthropic interests, as well as tax, legal, and other relevant factors.

2. A gift shall not be accepted unless there is a reasonable expectation that acceptance of the gift shall ultimately benefit SCHRA.

SCHRA will not accept any donations that imply endorsement of businesses, products or services. Donor businesses may not use SCHRA's name for promotion of any product or service.

## Categories of Gifts

Gifts to the Organization are classified into two categories, based on the level of risk associated with acceptance of the gift.

Gifts of **marginal risk** include the following:

- Cash and cash equivalents (e.g., certificates of deposit)
- Gifts of securities actively traded on a U.S. public market (e.g., publicly-traded stocks, mutual funds, corporate and government bonds, etc.)
- Personal property with a fair value of less than $5,000 (new or used)

Gifts of the preceding three categories shall be considered to be of marginal risk only if they are either unrestricted or restricted to one specific, existing SCHRA program.

Gifts of **greater-than-marginal risk** include the following:

- Any gift requiring the acceptance of a restriction that:
    - is not clearly identifiable with an existing program of SCHRA,
    - would require the addition or modification of an SCHRA program,
    - would not be consistent with the mission of SCHRA,
    - would not be consistent with SCHRA's tax-exempt purpose under IRC section 501(c)(3),
    - would require the reclassification of unrestricted net assets to temporarily restricted
    - would violate any federal, state, or local law or regulation, or
    - would result in excessive control to the donor, or anyone designated by the donor, over the subsequent use of the contributed asset

- Any gift from a donor involved in businesses or activities that may be deemed to be inconsistent with the mission of SCHRA
- Personal property with a fair value of $5,000 or more (new or used)
- Real property (either an outright gift of property or the donated use of such property)
- Non-publicly-traded securities (e.g., ownership interests in privately-held businesses, partnerships, etc.)
- Charitable remainder trusts
- Charitable lead trusts
- Conditional promises to give/pledges
- Unusual items or items of questionable value (including works of art, animals, historic artifacts, memorabilia, etc.)
- Life insurance
- Notification of the intent to give noncash assets through a bequest

## Gift Acceptance Procedures

Gifts of marginal risk may be accepted by the applicable Program Director without any further review and approval. Gifts of greater-than-marginal risk may be accepted only after review and approval of both the Director of Finance and Executive Director. This review and approval shall be documented on a Gift Acceptance form.

It is also the policy of SCHRA to liquidate all gifts of publicly-traded securities within ten days of receipt unless it is determined by the Director of Finance that holding the securities as an investment of the Organization would be fiscally prudent, appropriate, and consistent with the Organization’s investment policies.

# CONTRIBUTIONS ACCOUNTING

## Distinguishing Contributions from Exchange Transactions

SCHRA receives income in the form of contributions, revenue from exchange transactions, and income from activities with characteristics of both contributions and exchange transactions. SCHRA shall consider the following criteria, and any other relevant factors, in determining whether income will be accounted for as contribution income, exchange transaction revenue, or both:

1. SCHRA's intent in soliciting the asset, as stated in the accompanying materials.

2. The expressed intent of the entity providing resources to SCHRA (i.e., does the resource provider state that its intent is to support SCHRA's programs or that it anticipates specified benefits in exchange?).

3. Whether the method of delivery of the asset is specified by the resource provider (exchange transaction) or is at the discretion of SCHRA (contribution).

4. Whether payment received by SCHRA is determined by the resource provider (contribution) or is equal to the value of the assets/services provided by SCHRA, or the cost of those assets plus a markup (exchange transaction).

5. Whether there are provisions for penalties (due to nonperformance) beyond the amount of payment (exchange transaction) or whether penalties are limited to the delivery of assets already produced and return of unspent funds (contribution).

6. Whether assets are to be delivered by SCHRA to individuals or organizations other than the resource provider (contribution) or whether they are delivered directly to the resource provider or to individuals or organizations closely connected to the resource provider (exchange transaction).

## Donor Privacy

SCHRA respects the privacy of its donors and also recognizes that donors wish to be connected to the Organization. SCHRA uses donor information to notify them of information, plans and activities. Donor information is shared with staff, board members, volunteers and consultants on a "need-to-know" basis.

SCHRA does not share their donor list with any third party unless donor permission has been granted. Requests to remain anonymous will be honored.

## Recognition of Contribution Income (GAAP)

SCHRA shall recognize contribution income based on the following factors:

1. Unconditional contributions of assets (cash, property, etc.) shall be recognized as income upon receipt of the asset by the Organization.

2. Unconditional promises to contribute assets shall be recognized as income upon receipt of clear communication of the promise from the donor or the donor's legal representative (e.g., trustee, attorney, etc.). See additional guidelines in the next section.

3. Conditional contributions and conditional promises to give shall be recognized as income upon the satisfaction of the condition.

4. Contributed services shall be recognized as income only to the extent that the contributed services possess either one of the following characteristics:

   a. The service creates or enhances a non-financial asset (e.g., land, buildings, intangible assets, etc.).
   b. The service requires a specialized skill, it is provided by an individual possessing that skill, and the service is one that would typically need to be purchased if it had not been contributed to the organization.

All noncash contribution income received shall be recorded at fair value. (See policy below.)

Contribution income shall be classified as unrestricted, temporarily restricted, or permanently restricted in accordance with the definitions and guidelines described earlier.

## Valuation of Noncash Contributions

As stated in the preceding section, all noncash contributions of assets shall be recorded at their fair value as of the date of the gift. Fair values used in accounting for donated assets shall be determined by the Organization, not by the donor, although in some cases a value may have been provided by a donor. (See subsequent policies associated with IRS Form 8283.)

The determination of the fair value of donated assets shall be determined as follows:

1. For contributions of personal property, fair value shall be determined by the Purchasing Officer, using appropriate public records (price lists for new assets, other guides for used assets) subject to the review and approval of the Director of Finance – such valuation documented using a standard form.

2. For contributions of real property, fair value shall be determined by an appraisal performed by an independent appraiser hired by SCHRA (not an appraiser hired by the donor).

3. For contributions of all other assets, fair value shall be determined by the Director of Finance.

For contributed services that meet the previously described criteria for recording, the fair value of the services shall be determined by multiplying the hours worked by each volunteer, as documented on the Organization's Volunteer Time Sheet, by an applicable hourly rate. The applicable hourly rate shall be determined by the Program Director and Bookkeeper and shall generally be equal to an estimate of an hourly wage rate typically charged by external contractors possessing the skills provided by the volunteer.

All determinations of hourly rates used to value contributed services shall be reviewed, documented, and approved by the Director of Finance.

## Unconditional Promises to Give

- Unconditional promises to give shall be recorded as assets and increases in temporarily restricted net assets (contribution income) in the period that SCHRA receives communication of the promise.

- Unconditional promises to give that are to be collected within one year shall be recorded at their face value, less any reserve for uncollectible promises, as estimated by management.

- Unconditional promises to give that are collectible over time periods in excess of one year shall be recorded at their discounted net present value.

- Accretion of discount on such promises to give shall be recorded as contribution income in each period leading up to the due date of the promise to give. The interest rate that shall be used in calculating net present values of unconditional promises to give is the risk-free rate of return available to SCHRA at the time the Organization receives a promise from a donor, considering the dollar amount of the promise and the time period of the promise (e.g., for promises of less than $100,000, the Organization shall generally use the interest rate applicable to certificates of deposit for the same approximate duration available from its bank).

- When the final time or use restriction associated with a contributed asset has been met, a reclassification between temporarily restricted and unrestricted net assets shall be recorded.

## Conditional Promises to Give

The Organization shall not record an asset or contribution income for any conditional promise to give. However, the Organization shall maintain a record of such conditional promises to give and monitor these gifts for purposes of identifying when the condition associated with each such promise has been satisfied. As noted below, this schedule shall also be used in connection with preparing the Organization's footnote disclosures associated with contributions.

## Receipt of Donations

Upon receipt, all monetary donations will be processed according to the Cash Receipts policies contained in this manual. Information on restriction of gifts shall be communicated to the Fiscal Department so the gift can be recorded and governed according to the wishes of the donor. After funds are deposited, check copies, cash receipts, source of the gift, intended use and any other information included with the gift is delivered to the Fiscal Department. The Fiscal Department will acknowledge gifts within 3 business days of receipt. Please see the following section on Receipts.

The accounting system and the donor database must be reconciled to each other at least monthly.

## Receipts and Disclosures

SCHRA and its donors are subject to certain disclosure and reporting requirements imposed under the Internal Revenue Code and the underlying regulations. To comply with those rules, SCHRA shall adhere to the following guidelines with respect to contributions received by the Organization.

The Accounting Department shall provide a receipt to the donor for every separate contribution received. All receipts shall include the following information:

1. The amount of cash received and/or a description (but not an assessment of the value) of any noncash property received.

2. A statement of whether SCHRA provided any goods or services to the donor in consideration, in whole or in part, for any of the cash or property received.

3. If any goods or services were provided to the donor by SCHRA, a description and good faith estimate of the value of those goods or services.

All estimates of the fair market value of goods or services provided by SCHRA shall be prepared by the Accounting Department.

SCHRA complies with all current federal and state rules regarding solicitation and collection of charitable contributions, whether specifically addressed in this manual or not, as well as all future revisions to those rules.

## IRS Form 8283, Noncash Charitable Contributions

In certain instances, SCHRA may be requested to sign a Form 8283 (section b, Part IV) by a donor who has made a material contribution (over $5,000) of noncash assets to the Organization. The signature of an organization official on Form 8283 signifies an acknowledgment of the description of the donated asset and the date of the gift. It does NOT represent any level of certification of, or agreement to, the valuation of the gift that has been assigned by the donor or the donor's appraiser, but it does serve to inform SCHRA of the value intended to be deducted by the donor, which is useful in connection with the subsequent filing of Form 8282. (See the next section for the policies regarding Form 8282.)

Any Form 8283 presented by a donor for signature by SCHRA shall be reviewed, along with the donated asset and any relevant documentation pertaining to the asset's description and condition, by the Director of Finance, who shall have final responsibility for agreeing or disagreeing with the donor's description of the asset and for signing the Form 8283.

The Director of Finance shall retain a copy of any Form 8283 that has been signed and shall forward a copy of each Form 8283 to the Assistant Director of Finance for subsequent tracking of the donated asset. (See related policy below.)

## IRS Form 8282, Donee Information Return

When SCHRA subsequently sells assets that have been contributed to it, the filing of a Form 8282 may be required. Among the exceptions from filing Form 8282 are subsequent sales of assets contributed to the Organization more than three years before the sale, and sales of assets that when contributed had a fair value of $5,000 or less, as evidenced by the Form 8283 presented to the Organization by the donor at the time of the gift.

Form 8282 is not required with respect to donated assets that are consumed or distributed in fulfillment of the Organization's tax-exempt mission.

Responsibility for tracking donated assets and determining whether filing Form 8282 is required is assigned to Assistant Director of Finance. It is the policy of SCHRA to file such forms in a timely manner (within 125 days of the sale). Upon completion of a Form 8282 by the Assistant Director of Finance, the form shall be reviewed and signed by the Director of Finance. Delivery of the form to IRS shall be done by mail, performed by the Assistant Director of Finance.

A Form 8282 shall also be prepared and filed if SCHRA transfers a donated asset to another charitable nonprofit organization (subject to the same exceptions as described above). In such cases, the Form 8282 shall be filed with IRS within 125 days of the transfer and a copy of the Form 8282 shall be provided to the successor nonprofit organization within 15 days of filing the Form 8282 with the IRS, along with a copy of the original Form 8283 received from the donor.

## Disclosures of Promises to Give

As stated earlier, SCHRA shall record an asset and an increase in net assets for unconditional promises to give. In addition, in connection with its annual financial statements, SCHRA shall prepare a schedule of unconditional promises to give that discloses the annual amounts to be collected in each of the next five fiscal years, and a total amount due thereafter, less the amount representing interest as a result of discounting long-term promises to give to net present value.

In connection with conditional promises to give, which shall not be recorded on the financial statements, SCHRA shall nonetheless prepare a similar schedule of future payments for disclosure in the Organization's annual financial statements.

## Fund-Raising Events

The Organization shall maintain a subsidiary record that tracks each special fund-raising event sponsored by the Organization. The Accounting Technician I shall be responsible for maintaining this subsidiary record, with assistance from the Assistant Director of Finance. The following information shall be tracked on an event-by-event basis for purposes of possible disclosure in the Organization's annual Form 990 information return with the IRS:

1. Description and location of the event (including an indication of whether any type of gaming activities took place in connection with the event).

2. Total gross proceeds received in connection with the event.

3. Portion of the proceeds considered to be a contribution (equal to the amount received less the fair value of any benefits provided to donors).

4. Total costs of the event.

5. Portion of the costs attributable to direct donor benefits (i.e., the cost of any benefits provided to donors, such as the cost of green fees or a meal provided to attendees at a fund-raiser).

6. Portion of the total costs associated with:

   a. Rent or facility costs
   b. Cash prizes, if any
   c. Noncash prizes, if any
   d. Food and beverages
   e. Entertainment
   f. Fees paid to (or retained by) an outside fund-raiser

7. The percentage of the overall labor effort involved in the event that was contributed by volunteers (this schedule should show total hours associated with paid employees/contractors and total hours associated with volunteer efforts).

8. The names and addresses of any outside fund-raiser used in connection with the event.

9. An indication of whether any outside fund-raiser ever took custody, even temporarily, of funds raised for SCHRA in connection with any fund-raising event.

In addition to the preceding information, if any fund-raising activities of SCHRA include gaming (e.g., bingo, pull tabs, or any other type of gaming), the Organization shall maintain records of the following:

1. Total compensated and total uncompensated (volunteer) labor hours associated with each event.

2. The name and address of the person or company responsible for running the Organization's gaming activities, as well as a copy of their license to conduct gaming activities.

3. Documentation indicating the percentage of gaming activity operated in the Organization's facility vs. an outside facility.

4. If the Organization utilizes a third party to operate gaming activities, a record shall be kept of the total proceeds of the gaming activity and the amount retained by the third-party operator as its compensation.

If the Organization engages in, or plans to engage in, gaming activities, the Director of Finance shall first research and obtain any and all required licenses or permits.

In addition, for any fund-raising or gaming activity operated by a third party, where the third party collects or maintains custody of funds paid by attendees, the Organization shall first gain an understanding of the internal controls of the third party, including the third party's processes for receiving and securing funds and whether individuals employed by the third party are bonded. The Director of Finance shall conduct or arrange for this internal control evaluation.

## State Registrations

It is the policy of SCHRA to register in each state in which the organization's fund-raising activities would result in a requirement to register. Determination of state-by-state registration requirements shall be with the Director of Finance, who may consult outside advisors in making such determinations.

Once registered, the Director of Finance shall ensure that subsequent periodic filing requirements are met. The Director of Finance may delegate the preparation of such periodic state filings to the Assistant Director of Finance, subject to the review and approval of the Director of Finance.

## Credit Card Donations

For donations or purchases made by credit card through the Organization's website, the following procedures will be followed:

1. Charges will be processed by an outsourced service provider.
2. The service provider will send daily reports to the Development Department listing each amount charged for a donation or an item purchased and the contact information of the donor/purchaser.
3. The Development Department will send a copy of the notice to the Accounting Department to be used to reconcile the bank statement.

Recording of the revenue will be done daily into the Organizations donor database and then into the accounting system with a journal voucher.

# BILLING/INVOICING POLICIES

## Overview

The Organization's primary sources of revenue are:

- Reimbursement grants – Billed monthly, or as funders require, based on allowed, incurred expenses.
- Fee-for-service income – Billed according to contract requirements based on number of units of services provided.
- Private grants – funds are usually received once funding is approved. Financial expenditure reports, if required, are submitted as required by funding sources.
- Donations/Contributions – may be solicited or unsolicited.

Other lesser sources of income such as transportation fees, meal charges, or child care fees will be collected and recorded when the services are provided.

## Responsibilities for Billing and Collection

SCHRA's Accounting Department is responsible for the invoicing of funding sources and the collection of outstanding receivables. (Note: Cash receipts, credit memo, and collection policies will be discussed in subsequent sections.)

## Billing and Financial Reporting

SCHRA strives to provide management, staff, and funding sources with timely and accurate financial reports applicable to federal awards. These reports include monthly and cumulative expenditures, a project budget, and a balance remaining column.

SCHRA shall prepare and submit financial reports as specified by the financial reporting clause of each grant or contract award document. Preparation of these reports shall be the responsibility of the Program Bookkeeper, subject to review and approval by Director of Finance.

The following policies shall apply to the preparation and submission of billings to federal agencies under awards made to SCHRA:

1. The Organization will request reimbursement after expenditures have been incurred, unless an award specifies another method.

2. SCHRA will strive to minimize the time between receipt and disbursement of grant funds by issuing payments within 24 business hours of receipt of such funds.

3. Each award normally specifies a particular billing cycle. Therefore, a schedule is established for each grant and contract to ensure that reimbursement is made on a timely basis along with any other reporting that is required in addition to the financial reports.

4. Requests for reimbursement of award expenditures will use the actual amounts as posted to the general ledger as the source for all invoice amounts.

5. All financial reports required by each federal award will be prepared and filed on a timely basis. To the extent SCHRA's year-end audit results in adjustments to amounts previously reported to federal agencies, revised reports shall be prepared and filed in accordance with the terms of each federal award.

At the time invoices (requests for reimbursement) are prepared, revenue and accounts receivable shall be recorded in the accounting records of SCHRA by the Accountant Technician or Assistant Director of Finance.

If a federal award authorizes the payment of cash advances to SCHRA, the Director of Finance may require that a request for such an advance be made. Upon receipt of a cash advance from a federal agency, SCHRA shall reflect a liability equal to the advance. As part of the monthly closeout and invoicing process, the liability shall be reduced, and revenue recognized, in an amount equal to the allowable costs incurred for that period.

## Accounts Receivable Entry Policies

Individuals independent of the cash receipts function shall post customer invoices, credit adjustments, and other adjustments to the accounts receivable subsidiary ledger.

## Classification of Income and Net Assets

All income received by SCHRA is classified as "unrestricted," with the exception of the following:

1. Grants and other awards received from government agencies or other grantors, which are classified as temporarily restricted.

2. Special endowments received from donors requesting that these funds be permanently restricted for specific purposes.

3. Income earned from endowment funds (e.g., interest and dividends, gains and losses) in connection with endowments where the donor has explicitly stated that earnings on an endowment be temporarily restricted for specific purposes.

From time to time, SCHRA may raise other forms of contribution income which carry stipulations that the Organization utilize the funds for a specific purpose or within a specified time period identified by the donor of the funds. When this form of contribution income is received, SCHRA shall classify this income as Temporarily Restricted income.

As with all Temporarily Restricted net assets, when the restriction associated with a contribution has been met (due to the passing of time or the use of the resource for the purpose designated by the donor), SCHRA will reclassify the related net assets from "Temporarily Restricted" to "Unrestricted" in its Statement of Financial Position and reflect this reclassification as an activity in its Statement of Activities.

From time to time, the SCHRA Board of Directors may determine that it is appropriate to set funds aside for specific projects. Such funds shall be classified as “unrestricted,” labeled “Board-Designated,” and reported as a separate component of unrestricted net assets.

# CASH RECEIPTS

## Overview

Cash (including checks payable to the Organization) is the most liquid asset an organization has. Therefore, it is the objective of SCHRA to establish and follow the strongest possible internal controls in this area.

## Processing of Checks and Cash Received in the Mail

The following procedures will be followed:

- Cash receipts are received in a central location, rather than at remote sites, to ensure that cash received is appropriately directed, recorded, and deposited on a timely basis.
- Mail is opened and a listing of cash/checks received shall be prepared in an open area, in the presence of other employees.
- The individual preparing the daily list of receipts shall be someone that is not involved in the accounts receivable or accounts payable process.
- A deposit slip is prepared from the cash/checks received and compared to the daily receipts listing for discrepancies.
- Deposits are prepared and taken to the bank by an individual other than the employee who prepared the daily cash receipts listing.

## Endorsement of Checks

All checks received that are payable to the Organization shall immediately be restrictively endorsed by the individual who prepares the daily receipts listing. The restrictive endorsement shall be a stamp that includes the following information:

1. For Deposit Only
2. SCHRA
3. The bank name
4. The bank account number of SCHRA

## Timeliness of Bank Deposits

Bank deposits will be made on a daily basis. In no event shall deposits be made less frequently than weekly. Undeposited checks and cash shall be maintained in a locked box and kept in a secure area until deposited. Such cash will not be used as petty cash or to make change.

## Reconciliation of Deposits

On a periodic basis, the Director of Finance, who does not prepare the initial cash receipts listing or bank deposit, shall reconcile the listings of receipts to bank deposits on the monthly bank statement. Any discrepancies shall be immediately investigated.

## Control Grid - Revenue and Cash Receipts

SCHRA strives to maintain adequate segregation of duties in its income and cash receipts functions. The following table illustrates how responsibilities have been assigned. In this table, personnel are identified as follows:

A. Accounting Technician I
B. Accounting Technician II
C. Assistant Director of Finance
D. Director of Finance
E. Payroll Technician

| | A | B | C | D | E |
|---|---|---|---|---|---|
| Produces invoice to bill customer/funder | X | X | X | | |
| Enters invoice into A/R system | X | X | | | |
| Initials receipt of funds (cash or checks) | | | X | | |
| Restrictively endorses checks | | | | | |
| Initials receipt of credit card payments | | | | | X |
| Prepares initial record of funds collected | | X | | | |
| Prepares deposit slip | X | X | | | |
| Takes deposit slip to bank | X | X | | | |
| Processes credit card payments | | | | | |
| Enters payments into A/R system | X | | | | |
| Reconciles log of collections w/ A/R posting | | | X | | |
| Authorizes credits or other adjustments | | | X | X | |
| Posts credits/adjustments to A/R system | | | X | | |
| Authorizes write-off of bad debts | | | | X | |
| Posts bad debt write-offs to A/R system | | | X | | |
| Prepares periodic customer statements | | | | | |
| Reconciles A/R with general ledger | | | X | | |
| Reconciles bank statement | | | X | | X |
| Reviews A/R aging | | | X | | |
| Performs follow-up calls on old A/R | X | X | | | |

# GRANTS RECEIVABLE MANAGEMENT

## Monitoring and Recognition

SCHRA records grants receivable and income as it is earned and billed during the grant year. The Program Bookkeeper is responsible for monitoring budget-to-actual expenditures throughout the grant year, and will meet monthly with the Program Director to discuss grant fiscal results.

# ACCOUNTS RECEIVABLE MANAGEMENT

## Monitoring and Reconciliations

On a regular basis, the Accounting Department will review a detailed accounts receivable report (showing aged, outstanding invoices by customer) in Orion. The Director of Finance will review any discrepancies and ensure that all differences are immediately investigated and resolved.

## Credits and Other Adjustments to Accounts Receivable

From time to time, credits against accounts receivable from transactions other than payments and bad debts will occur. Examples of other credits include returned products and adjustments for billing errors. An employee who is independent of the cash receipts function will process credits and adjustments to Accounts Receivable, and all credits shall be authorized by the Director of Finance.

## Accounts Receivable Write-Off Authorization Procedures

All available means of collecting accounts receivable will be exhausted before write-off procedures are initiated. Write-offs are initiated by the department associated with the amount to be written off, in conjunction with the Accounting Department. If an account receivable is deemed uncollectible, the following approvals are required before the write-off is processed:

| Amount | Authorized in writing by |
|---|---|
| Less than $500 | Assistant Director of Finance |
| $500 or more | Director of Finance |

Once a write-off has been processed, appropriate individuals in the originating department will be advised to ensure that further credit is not granted and the master list of bad accounts is updated. Customers listed as poor credit risks will be extended future credit only if the back debt is paid and the customer is no longer deemed a collection problem.

If write-off procedures have been initiated, the following accounting treatment applies:

1. Current year invoices that are written off will either be charged against an appropriate revenue or revenue adjustment account, or against the original account credited.
2. Invoices written off that are dated prior to the current year will be written off against net assets.

# POLICIES ASSOCIATED WITH EXPENDITURES AND DISBURSEMENTS

# PURCHASING POLICIES AND PROCEDURES

**Please refer to the Agency's procurement and purchasing policies for additional information.**

## Overview

**THE POLICIES DESCRIBED IN THIS SECTION APPLY TO ALL PURCHASES MADE BY SCHRA.**

SCHRA requires the practice of ethical, responsible, and reasonable procedures related to purchasing, agreements and contracts, and related forms of commitment. The policies in this section describe the principles and procedures that all staff shall adhere to in the completion of their designated responsibilities.

The goal of these procurement policies is to ensure that materials and services are obtained in an effective manner and in compliance with the provisions of applicable federal statutes and grant requirements.

## Responsibility for Purchasing

All department heads or their designees shall have the authority to initiate purchases on behalf of their department, within the guidelines described here. Department directors shall inform the Accounting Department of all individuals that may initiate purchases or prepare purchase orders. The Accounting Department shall maintain a current list of all authorized purchasers.

The Accounting Department shall be responsible for processing purchase orders. The Director of Finance has approval authority over all purchases and contractual commitments, and shall make the final determination on any proposed purchases where budgetary or other conditions may result in denial.

## Code of Conduct in Purchasing (2 CFR Part 200.318 (c)(1))

Ethical conduct in managing the Organization's purchasing activities is absolutely essential. Staff must always be mindful that they represent the Board of Directors and share a professional trust with other staff and the general membership.

- Staff shall discourage the offer of, and decline, individual gifts or gratuities of value in any way that might influence the purchase of supplies, equipment, and/or services.
- Staff shall notify their immediate supervisor if they are offered such gifts.
- No officer, board member, employee, or agent shall participate in the selection or administration of a contractor if a real or apparent conflict of interest would be involved. Such a conflict would arise if an officer, board member, employee or agent, or any member of his or her immediate family, his or her spouse or partner, or an organization that employs or is about to employ any of the parties indicated herein, has a financial or other interest in the vendor selected.
- Officers, board members, employees, and agents shall neither solicit nor accept gratuities, favors, or anything of monetary value from vendors or parties to sub-agreements.

- Unsolicited gifts with a value of $25 or less may be accepted with the approval of the Executive Director.

## Competition (2 CFR Part 200.319)

In order to promote open and full competition, purchasers will:

- Be alert to any internal potential conflicts of interest.
- Be alert to any noncompetitive practices among contractors that may restrict, eliminate, or restrain trade.
- Not permit contractors who develop specifications, requirements, or proposals to bid on such procurements.
- Award contracts to bidders whose product or service is most advantageous in terms of price, quality, and other factors.
- Issue solicitations that clearly set forth all requirements to be evaluated.
- Reserve the right to reject any and all bids when it is in the Organization's best interest.
- Not give preference to state or local geographical areas unless such preference is mandated by Federal statute. *(200.319(b))*
- *"*Name brand or equivalent" description may be used as a means to define the performance or requirements *(200.319(c)(1))*

## Nondiscrimination Policy

All vendors or contractors who are the recipients of Organization funds or who propose to perform any work or furnish any goods under agreements with SCHRA, shall agree to these important principles:

1. Contractors will not discriminate against any employee or applicant for employment because of race, religion, color, sexual orientation, or national origin, except where religion, sex, or national origin is a bona fide occupational qualification reasonably necessary to the normal operation of the contractors.

2. Contractors agree to post in conspicuous places, available to employees and applicants for employment, notices setting forth the provisions of this nondiscrimination clause. Notices, advertisements, and solicitations placed in accordance with federal law, rule, or regulation shall be deemed sufficient for meeting the intent of this section.

## Procurement Procedures

The following are SCHRA's procurement procedures:

1. SCHRA shall avoid purchasing items that are not necessary or duplicative for the performance of the activities required by a federal award. *(2 CFR Part 200.318(d))*

2. Where appropriate, an analysis shall be made of lease and purchase alternatives to determine which would be the most economical and practical procurement for the federal government. *(2 CFR Part 200.318(d)).* This analysis should only be made when both lease and purchase alternatives are available to the program.

3. Purchasers are encouraged to enter into state and local inter-governmental or inter-entity agreements where appropriate for procurement of use of common or shared goods and services. *(2 CFR Part 200.318(e))*

4. Purchasers are encouraged to use Federal excess and surplus property in lieu of purchasing new equipment and property whenever such use is feasible and reduces project costs. *(2 CFR Part 200.318(f))*

5. Documentation of the cost and price analysis associated with each procurement decision in excess of the simplified acquisition threshold ($150,000) shall be retained in the procurement files pertaining to each federal award. *(2 CFR Part 200.323)*

6. All pre-qualified lists of persons, firms or products which are used in acquiring goods and services must be current and include enough qualified sources to ensure maximum open and full competition. *(2 CFR Part 200.319(d))*

7. SCHRA will maintain records sufficient to detail the history of procurement, including: *(2 CFR Part 200.318(i))*
    a. Rationale for the method of procurement;
    b. Selection of contract type;
    c. Contractor selection or rejection; and
    d. The basis for the contract price.

8. SCHRA shall make all procurement files available for inspection upon request by a federal awarding agency.

9. SCHRA shall not utilize the cost-plus-a-percentage-of-costs method of contracting. *(2 CFR Part 200.323(d))*

All staff members with the authority to approve purchases will receive a copy of and be familiar with 2 CFR Part 200.400 – 475, Cost Principles.

## Authorizations and Purchasing Limits

All completed purchase orders must be signed by the preparer and approved by the Program Director. The following table lists required approval levels and solicitation processes:

| Amount of Purchase | Required Approvals | Required Solicitation | Required Documentation |
|---|---|---|---|
| < $3,000 | Program Director | Evidence of solicitation not required but purchases should be distributed among qualified vendors | • Receipt approved by Program Director |

| Amount of Purchase | Required Approvals | Required Solicitation | Required Documentation |
|---|---|---|---|
| $3,500 ≤ $25,000 | • Program Director<br>• Purchasing Officer | 3 written bids (catalogue, Internet, written) | • Documentation of bids received<br>• How decision was made |
| $25,001 ≤ $40,000 | • Program Director<br>• Purchasing Officer<br>• Executive Director | 3 written bids (Request for Bids or Request for Proposals) | • Copy of RFB or RFP<br>• Proposal scoring grids including who participated in the scoring<br>• Proposal and contract of winning bid |
| > $40,000 | • Program Director<br>• Purchasing Officer<br>• Executive Director<br>• Board of Directors | 3 written bids (Request for Bids or Request for Proposals) | • Copy of RFB or RFP<br>• Proposal scoring grids including who participated in the scoring<br>• Proposal and contract of winning bidder |

The Executive Director is authorized to enter into any contract on behalf of SCHRA. This policy shall also apply to renewals of existing contracts.

## Approved Vendors

SCHRA encourages departments to develop lists of approved vendors that can be used throughout the year. The process to identify an approved vendor is as follows.

1. Develop a list of similar, commonly-purchased items that can be acquired from a single vendor. Examples are office supplies and classroom supplies.

2. Get cost estimates for the list in total, not for each item. Include shipping costs, if necessary.

3. Obtain 2 or 3 quotes, depending on the level of expected spending for the year

4. Compare the quotes.

5. The vendors with lowest prices, including shipping, will be approved for use during the year.

6. This process could result in multiple approved vendors if the prices are within 5% of each other.

This process should be repeated annually, with the approved list produced by January 15. Vendors may be added throughout the year, but all vendors will be reevaluated January 1.

## Use of Purchase Orders

SCHRA utilizes a purchase order/requisition system.  A properly completed purchase order or requisition shall be required for each purchase decision, with the exception of travel advances and expense reimbursements, which require the preparation of a separate form described elsewhere in this manual.  A properly completed purchase order shall contain the following information, at a minimum:

1. Specifications or statement of services required
2. Contractor name, address, point of contact and phone number
3. Source of funding (if applicable)
4. Delivery or performance schedules
5. Delivery, packing, and transportation requirements
6. Special conditions (if applicable)
7. Catalog number, page number, etc. (if applicable)
8. Net price per unit, less discount, if any
9. Total amount of order
10. Authorized signature
11. Date purchase order was prepared

Purchase orders shall be pre-numbered, kept in a secure area in the Accounting Department, and issued upon request from an authorized purchaser.

All purchase orders shall be recorded in a purchase order log.  At the end of each accounting period, an aged outstanding purchase order report shall be prepared and distributed to each purchasing representative and the Director of Finance.

## Required Solicitation of Quotations from Contractors

Solicitations for goods and services (requests for proposals or RFPs) should provide for all of the following:

1. A clear and accurate description of the technical requirements for the material, product, or service to be procured.  Descriptions shall not contain features which unduly restrict competition.  *(2 CFR Part 200.319(c)(1))*

2. Requirements which the bidder/offeror must fulfill and all other factors to be used in evaluating bids or proposals.  (See the next section entitled "Evaluation of Alternative Contractors" for required criteria.)  *(2 CFR Part 200.319(c)(2))*

3. Technical requirements in terms of functions to be performed or performance required, including the range of acceptable characteristics or minimum acceptable standards. *(2 CFR Part 200.319(c)(1))*

4. The specific features of "brand name or equal" descriptions that bidders are required to meet when appropriate. *(2 CFR Part 200.319(c)(1))*

5. A description of the format, if any, in which proposals must be submitted, including the name of the person to whom proposals should be sent.

6. The date by which proposals are due.

7. Required delivery or performance dates/schedules.

8. Clear indications of the quantity(ies) requested and unit(s) of measure.

## Extension of Due Dates and Receipt of Late Proposals

Solicitations should provide for sufficient time to permit the preparation and submission of offers before the specified due date. However, an extension may be granted if a prospective offeror so requests.

Contractor proposals are considered late if received after the due date and time specified in the solicitation. Late proposals shall be so marked on the outside of the envelope and retained, unopened, in the procurement folder. Contractors that submit late proposals shall be notified by email that their proposal was late and could not be considered for award.

## Evaluation of Alternative Contractors

Contractors shall be evaluated on a weighted scale that considers some or all of the following criteria as appropriate for the purchase:

1. Adequacy of the proposed methodology
2. Skill and experience of key personnel
3. Demonstrated experience
4. Other technical specifications designated by the department requesting proposals
5. Compliance with administrative requirements of the request for proposal (format, due date, etc.)
6. Contractor’s financial stability
7. Contractor’s demonstrated commitment to the nonprofit sector
8. Results of communications with references supplied by vendor
9. Ability/commitment to meeting time deadlines
10. Cost
11. Minority- or women-owned business status of vendor
12. Other criteria (to be specified by the department requesting proposal)

Not all of the preceding criteria may apply in each purchasing scenario. However, the department responsible for the purchase shall establish the relative importance of the appropriate criteria prior to requesting proposals and shall evaluate each proposal on the basis of the criteria and weighting that have been determined.

After a contractor has been selected and approved by the Purchasing Agent, the final selection shall be approved by others according to SCHRA's purchasing approval policies.

## Affirmative Consideration of Minority, Small Business, Women-Owned Businesses, and Labor Surplus Area Firms

*(2 CFR Part 200.321)*

Positive efforts shall be made by SCHRA to utilize small businesses, minority-owned firms, women's business enterprises, and labor surplus area firms whenever possible. Therefore, the following steps shall be taken:

1. Ensure that small business, minority-owned firms, women's business enterprises, and labor surplus area firms are used to the fullest extent practicable. *(2 CFR Part 200.321)*

2. Make information on forthcoming opportunities available and arrange time frames for purchases and contracts to encourage and facilitate participation by small business, minority-owned firms, women's business enterprises and labor surplus area firms. *(2 CFR Part 200.321(b)(4))*

3. Consider in the contract process whether firms competing for larger contracts tend to subcontract with small businesses, minority-owned firms, and women's business enterprises. *(2 CFR Part 200.321(b)6))*

4. Encourage contracting with consortiums of small businesses, minority-owned firms, women's business enterprises, and labor surplus area firms when a contract is too large for one of these firms to handle individually. *(2 CFR Part 200.321(b)(3))*

5. Use the services and assistance, as appropriate, of such organizations as the Small Business Administration and the Department of Commerce's Minority Business Development Agency in the minority-owned firms and women's business enterprises. *(2 CFR Part 200.321(b)(5))*

## Availability of Procurement Records (2 CFR Part 200.324(b))

SCHRA shall, on request, make available for the federal awarding agency, pre-award review and procurement documents, such as requests for proposals, when any of the following conditions apply:

- The process does not comply with the procurement standards in 2 CFR Part 200. *(2 CFR Part 200.324(b)(1))*
- The procurement is expected to exceed the federally-defined simplified acquisition threshold ($150,000) and is to be awarded without competition or only one bid is received. *(2 CFR Part 200.324(b)(2))*
- The procurement exceeds the simplified acquisition threshold and specifies a "name brand" product. *(2 CFR Part 200.324(b)(3))*
- The proposed award exceeds the federally-defined simplified acquisition threshold and is to be awarded to other than the apparent low bidder under a sealed-bid procurement. *(2 CFR Part 200.324(b)(4))*

- A proposed contract modification changes the scope of a contract or increases the contract amount by more than the amount of the federally-defined simplified acquisition threshold. *(2 CFR Part 200.324(b)(5))*

## Provisions Included in All Contracts (2 CFR Part 200 Appendix II)

SCHRA includes all of the following provisions, as applicable, in all contracts charged to federal awards (including small purchases) with vendors and subgrants to grantees:

1. **Contracts** for more than the simplified acquisition threshold currently set at $150,000, which is the inflation adjusted amount determined by the Civilian Agency Acquisition Council and the Defense Acquisition Regulations Council (Councils) as authorized by 41 U.S.C. 1908, must address administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as appropriate.

2. All contracts in excess of $10,000 must address termination for cause and for convenience by the non-Federal entity including the manner by which it will be effected and the basis for settlement.

3. **Equal Employment Opportunity:** All contracts shall contain a provision requiring compliance with E.O. 11246, “Equal Employment Opportunity,” as amended by E.O. 11375, “Amending Executive Order 11246 Relating to Equal Employment Opportunity,” and as supplemented by regulations at 41 CFR Part 60, “Office of Federal Contract Compliance Programs, Equal Employment Opportunity, Department of Labor.”

4. **Davis-Bacon Act, as amended (40 U.S.C. 276a to a-7):** When required by Federal program legislation, all construction contracts of more than $2,000 awarded by SCHRA and its subrecipients shall include a provision for compliance with the Davis-Bacon Act (40 U.S.C. 276a to a-7) and as supplemented by Department of Labor regulations (29 CFR part 5, “Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction”).

5. **Contract Work Hours and Safety Standards Act (40 U.S.C. 327-333):** Where applicable All contracts awarded by SCHRA in excess of $2,000 for construction contracts and in excess of $2,500 for other contracts that involve the employment of mechanics or laborers shall include a provision for compliance with Sections 102 and 107 of the Contract Works Hours and Safety Standards Act (40 U.S.C. 327-333), as supplemented by Department of Labor regulations (29 CFR part 5).

6. **Clean Air Act (42 U.S.C. 7401 et seq.) and the Federal Water Pollution Control Act (33 U.S.C. 1251 et seq.), as amended:** Contracts and subgrants of amounts in excess of $100,000 shall contain a provision that requires the recipient to agree to comply with all applicable standards, orders, or regulations issued pursuant to the Clean Air Act (42 U.S.C. 7401 et seq.) and the Federal Water Pollution Control Act, as amended (33 U.S.C. 1251 et seq.). Violations shall be reported to the federal awarding agency and the Regional Office of the Environmental Protection Agency (EPA).

7. **Mandatory** standards and policies relating to energy efficiency which are contained in the state energy conservation plan issued in compliance with the Energy Policy and Conservation Act (42 U.S.C. 6201).

8. **Byrd Anti-Lobbying Amendment (31 U.S.C. 1352):** For all contracts or subgrants of $100,000 or more, SCHRA shall obtain from the contractor or subgrantee a certification that it will not and has not used federal appropriated funds to pay any person or organization for influencing or attempting to influence an officer or employee of any agency, a member of Congress, officer or employee of Congress, or an employee of a member of Congress in connection with obtaining any federal contract, grant, or any other award covered by 31 U.S.C. 1352.

9. **Debarment and Suspension (E.O.s 12549 and 12689):** No contract shall be made to the parties listed on the General Services List of Parties Excluded from Federal Procurement or Nonprocurement Programs in accordance with E.O.'s 12549 and 12689, "Debarment and Suspension."

## Special Purchasing Conditions

*Emergencies:*
Where equipment, materials, parts, and/or services are needed, quotations will not be necessary if the health, welfare, safety, etc., of staff and protection of Organization property is involved. The reasons for such purchases will be documented in the procurement file.

*Single Distributor/Source:*
Sole source purchases contractors may be made when one or more of the following conditions apply:

- The item or service is only available from one source;
- The situation is an emergency and will not permit a delay resulting from competitive solicitation;
- The awarding agency expressly authorizes noncompetitive proposals in response to a written request; or
- After solicitation, competition is deemed inadequate (insufficient bidders).

Approval from the awarding agency may be required.

## Contractor Files and Required Documentation

The Accounting Department shall create a contractor folder for each new contractor from whom SCHRA purchases goods or services.

The Accounting Department or a Program Director shall request a Form W-9 to new contractors and request that the contractor complete and sign the W-9 (or provide equivalent, substitute information) and return it to the appropriate party. Completed, signed Forms W-9 or substitute documentation shall be filed in each contractor's folder. Contractors who do not comply with this request shall be issued a Form 1099 at the end of each calendar year in accordance with the policies described in the section of this manual on "Government Returns." See the section on "Payroll and Related Policies" for guidance on determining whether a vendor should be treated as an employee.

## Procurement Grievance Procedures

Any bidder may file a grievance with SCHRA following a competitive bidding process. Once a selection is made, bidders must be notified in writing of the results. The written communication emailed to bidders must also inform them that they may have a right to appeal the decision. Information on the organization's appeal procedures must be made available to all prospective contractors or subgrantees upon request, including the name and address of a contact person, and a deadline for filing the grievance. Grievances are limited to violations of federal laws or regulations, or failure of the Organization to follow its own procurement policies.

## Receipt and Acceptance of Goods

The Purchasing Department or designated individual shall inspect all goods received. Upon receipt of any item from a contractor, the following actions shall immediately be taken:

1. Review bill of lading for correct delivery point.
2. Verify the quantity of boxes/containers with the bill of lading.
3. Examine boxes/containers for exterior damage and note on the bill of lading any discrepancies (missing or damaged boxes/containers, etc.).
4. Sign and date the bill of lading.
5. Remove the packing slip from each box/container.
6. Compare the description and quantity of goods per the purchase order to the packing slip.
7. Examine goods for physical damage.
8. Count or weigh items, if appropriate, and record the counts on the purchase order.

This inspection must be performed in a timely manner to facilitate prompt return of goods and/or communication with contractors.

## Contract Administration

SCHRA is required to have policies and procedures on contract administration *(2 CFR Part 200.318(b)).* Therefore, all Purchasing Agent/Program Director will adhere to the following procedures.

1. Contract administration files shall be maintained:
    a. For each contract greater than $10,000 a separate file shall be maintained.
    b. For contracts less than $10,000, contract records may be combined in a single file by grant or other funding source.

2. Contract administration files shall contain:
    a. The required documentation specified in the authorizations and purchasing limits table for the original scope of work and for all amendments.
    b. Where the contract work is identified in the grant award or budget, the identification and scope of the work contained in the award or budget, and all approved changes.

3. Authorization of work:
    a. No work shall be authorized until the contract for the work has been approved and fully executed.
    b. No change in the work shall be authorized until an amendment to the contract for the work has been approved and fully executed, except as permitted for Special Purchasing Conditions.
    c. No amendment of a contract for work shall be executed until it has been approved and authorized as required in the Authorizations and Purchasing Limits table and, where required by the terms of the grant award or budget, approval by the funding source.

4. Conformance of work:
    a. For each grant award, based on the applicable laws, regulations and grant provisions, the Purchasing Agent/Program Director shall establish and maintain a system to reasonably assure contractor:
        i. Conformance with the terms, conditions, and specifications of the contract, and
        ii. Timely follow-up of all purchases to assure such conformance and adequate documentation.

5. The Purchasing Agent/Program Director will authorize payment of invoices to contracts after final approval of work products.

# CHARGING OF COSTS TO FEDERAL AWARDS

## Overview

SCHRA charges costs that are reasonable, allowable, and allocable to a federal award directly or indirectly. All unallowable costs shall be appropriately segregated from allowable costs in the general ledger in order to assure that unallowable costs are not charged to federal awards.

## Segregating Unallowable from Allowable Costs

The following steps shall be taken to identify and segregate costs that are allowable and unallowable with respect to each federal award:

1. The budget and grant or contract for each award shall be reviewed for costs specifically allowable or unallowable.

2. Program Directors and accounting personnel shall be familiar with the allowability of costs provisions 2 CFR Part 200.400 – 475, Cost Principles, particularly:

   a. The list of specifically unallowable costs found in 200.421 – 475, Selected Items of Cost, such as alcoholic beverages, bad debts, contributions, fines and penalties, etc.
   b. Those costs requiring advance approval from federal agencies in order to be allowable in accordance with 2 CFR Part 200.407, Prior Written Approval, such as participant support costs, equipment purchases, etc.

3. No costs shall be charged directly to any federal award until the cost has been determined to be allowable under the terms of the award and/or 2 CFR Part 200.400 – 475, Cost Principles.

4. For each federal award, an appropriate set of general ledger accounts (or account segments) shall be established in the chart of accounts to reflect the categories of allowable costs identified in the award or the award budget.

5. All items of miscellaneous income or credits, including the subsequent write-offs of uncashed checks, rebates, refunds, and similar items, shall be reflected for grant accounting purposes as reductions in allowable expenditures if the credit relates to charges that were originally charged to a federal award or to activity associated with a federal award. The reduction in expenditures shall be reflected in the year in which the credit is received (i.e., if the purchase that results in the credit took place in a prior period, the prior period shall not be amended for the credit).

## Criteria for Allowability

All costs must meet the following criteria from 2 CFR Part 200.402 – 406, Basic Considerations, in order to be treated as allowable direct or indirect costs under a federal award:

1. The cost must be "reasonable" for the performance of the award, considering the following factors:

    a. Whether the cost is of a type that is generally considered as being necessary for the operation of the Organization or the performance of the award.
    b. Restraints imposed by such factors as generally accepted sound business practices, arm's length bargaining, federal and state laws and regulations, and the terms and conditions of the award.
    c. Whether the individuals concerned acted with prudence in the circumstances.
    d. Consistency with established policies and procedures of the Organization, deviations from which could unjustifiably increase the costs of the award.

2. The cost must be "allocable" to an award by meeting one of the following criteria:

    a. The cost is incurred specifically for a federal award,
    b. The cost benefits both the federal award and other work and can be distributed in reasonable proportion to the benefits received, or
    c. The cost is necessary to the overall operation of the Organization, except where a direct relationship to any particular program or group of programs cannot be demonstrated.

3. The cost must conform to any limitations or exclusions of 2 CFR Part 200 Subpart E Cost Principles, or the federal award itself.

4. Treatment of costs must be consistent with policies and procedures that apply to both federally financed activities and other activities of the Organization.

5. Costs must be consistently treated over time.

6. The cost must be determined in accordance with generally accepted accounting principles (GAAP).

7. Costs may not be included as a cost of any other federally financed program in the current or prior periods.

8. The cost must be adequately documented.

## <u>Direct Costs</u>

Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal Award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy *(2 CFR Part 200.413(a)).* SCHRA identifies and charges these costs exclusively to each award or program.

Each invoice shall be coded with the appropriate account number reflecting which program received direct benefit from the expenditure. Invoices are approved by the appropriate Program Director and reviewed by the Program Bookkeeper.

Time sheets are also submitted on a regular basis, reflecting employees' work and which programs directly benefited from their effort. Time sheets shall serve as the basis for charging salaries directly to federal awards and nonfederal functions. See the Payroll section of this manual for detailed procedures.

Equipment purchased for exclusive use on a federal award and reimbursed by a federal agency shall be accounted for as a direct cost of that award (i.e., such equipment shall not be capitalized and depreciated for grant purposes, but will be capitalized and depreciated at year-end for financial statement purposes).

## <u>Indirect Cost Rate</u>

SCHRA maintains an annual indirect cost budget. Each year a new indirect cost budget is prepared and submitted to SCHRA’s cognizant agency for approval. The approved indirect cost rate is used when determining the overhead applied to each federal award and major function.

# ACCOUNTS PAYABLE MANAGEMENT

## Overview

SCHRA strives to maintain efficient business practices and good cost control.  A well-managed accounts payable function can assist in accomplishing this goal from the purchasing decision through payment and bank account reconciliation.  The following are general policies for accounts payable:

- Assets or expenses and the related liability are recorded by an individual who is not responsible for ordering and receiving.
- The amounts recorded are based on the contractor invoice for the related goods or services.
- The contractor invoice should be supported by an approved purchase order where required by Organization policy, and should be reviewed and approved by a prior to being processed for payment.
- Invoices and related general ledger account distribution codes are reviewed prior to posting to the subsidiary system.

The primary objective for accounts payable and cash disbursements is to ensure that:

- Disbursements are properly authorized.
- Invoices are processed in a timely manner.
- Contractor credit terms and operating cash are managed for maximum benefits.

## Recording of Accounts Payable

- All valid accounts payable transactions, properly supported with the required documentation, shall be recorded as accounts payable in a timely manner.
- Accounts payable are processed on a daily basis.  Information is entered into the system from approved invoices or disbursement vouchers with appropriate documentation attached.
- Only original invoices will be processed for payment unless duplicated copies have been verified as unpaid by researching the contractor records.
- Invoices received via email will be printed, date-stamped, and initialed by an accounting clerk.
- Any additional copies of the emailed invoice will be deleted. .
- No payments will be made from contractor statements unless statements are considered invoices for approved vendors. A notation will need to accompany statement.

## Accounts Payable Cutoff

For purposes of the preparation of the Organization's monthly financial statements, all contractor invoices that are received, approved, and supported with proper documentation by the fifth day of the following month shall be recorded as accounts payable as of the end of the immediately preceding month if the invoice pertains to goods or services delivered by month-end.

## Preparation of a Voucher Package

Prior to any accounts payable being submitted for payment, a package called a "voucher package" shall be assembled. Each voucher package shall contain the following documents:

1. Contractor invoice (or employee expense report)
2. Packing slip (where appropriate)
3. Receiving report (or other indication of receipt of merchandise and authorization of acceptance)
4. Purchase order as required by procurement policies
5. Any other supporting documentation deemed appropriate

## Processing of Voucher Packages

The following procedures shall be applied to each voucher package by the Purchasing Clerk:

1. Check the mathematical accuracy of the contractor invoice.
2. Compare the nature, quantity, and prices of all items ordered per the contractor invoice to the purchase order, packing slip, and receiving report.
3. Document the general ledger distribution, using the Organization's current chart of accounts.
4. Obtain the review and approval of the Program Director (or designee) associated with the goods or services purchased.

Upon receipt, each invoice shall be stamped "date received", and originals distributed to the appropriate personnel for approval via email. Unapproved invoices will be maintained in a file, matched with notice of approval, and processed for payment. The Purchasing Technician will follow up on unapproved invoices pending for longer than 1 week.

Approvals by Program Directors indicate their acknowledgment of satisfactory receipt of the goods or services invoiced, agreement with all terms appearing on the contractor invoice, agreement with general ledger account coding, and agreement to pay vendor in full. Approvals shall be documented with initials or signatures of the approving individual, and date of approval.

## Payment Discounts

To the extent practical, SCHRA takes advantage of all prompt payment discounts offered by contractor. When such discounts are available and all required documentation in support of payment is available, payments will be scheduled so as to take full advantage of the discounts.

## Employee Expense Reports

Reimbursements for travel expenses, business meals, or other approved costs will be made only upon the receipt of a properly approved and completed expense reimbursement form. (See further policies under "Travel and Business Entertainment.") All required receipts must be attached, and a brief description of the business purpose of the trip or meeting must be noted on the form. Expenses older than one month will not typically be reimbursed.

## Reconciliation of A/P Subsidiary Ledger to General Ledger

At the end of each monthly accounting period, the total amount due to vendors/contractors per the vendor's/contractor's monthly statement shall be reconciled to the total per the open purchase orders. All differences are investigated and adjustments are made as necessary. The reconciliation and the results of the investigation of differences are reviewed and approved by the Director of Finance.

Also on a monthly basis, the Purchasing Clerk shall perform the following procedures:

1. Check all statements received for unprocessed invoices.

2. Check the purchase order file for open purchase orders more than 30 days old and follow up.

## Management of Accounts Payable Contractor Master File

Upon the receipt of an invoice from a new contractor that is not already in SCHRA's Accounts Payable Contractor Master File, the Purchasing Clerk shall mail (or email) a Form W-9 and a request for completion of the Form W-9, including the vendor's full address and federal employer identification number.

For contractors that will be paid a total of $600 or less during the Organization's fiscal year, the contractor file data may be limited to the contractor name and address. However, for all contractors to be paid more than $600 during a fiscal year, the file shall include all of the following data:

- Contractor's legal name and any DBA name(s)
- Street address (payments may be mailed to a P.O. Box, but a street address must be in the file)
- Federal employer identification number
- Telephone number
- Fax number
- Contact name

Payments shall not be made to any contractor whose file does not comply with the preceding requirements.

On an annual basis, contractors that have not been utilized over the preceding 24-month period shall be purged (or made inactive) from the master contractor file. In addition, on an annual basis an internal audit shall be performed of the master contractor file and payments made to each contractor. This analysis, to be performed by the Purchasing Agent shall consist of the following procedures, at a minimum:

1. Cross-checking of contractors with matching street or P.O. Box addresses

2. Review of payment histories for signs of repeat invoice numbers or other indications of duplicate payments

Any unexplained deviations or irregularities noted in connection with the preceding internal audit procedures shall be reported to the chair of the Organization's Audit Committee.

# TRAVEL

## Travel Advances

Funds will be advanced for upcoming travel only upon receipt of a completed and properly approved request for travel advance. Travel advances are generally limited to per diems unless there is an extraordinary need for additional funds. Travel advances are to be used only for the purpose intended. Travel expenses are to be made in accordance with the Organization's travel policies as explained in this section.

Employees receiving travel advances are required to sign for the advance signifying their acknowledgment of, and agreement with, these policies. Employees receiving travel advances must submit an expense report within 10 business days of returning from travel.

## Employee and Director Business Travel

At the conclusion of a SCHRA business trip, an employee or member of the Board of Directors who has incurred business-related expenses should complete an expense report in accordance with the following policies:

1. Documentation must justify that participation of the traveler is necessary for the Federal award and costs are reasonable and consistent with SCHRA's travel policy. *(2 CFR Part 200.474(b)(1) and (2))*

2. Identify each separately incurred business expense (i.e., do not group all expenses associated with one trip together).

3. With the exception of tips, tolls, reimbursed mileage, and per diems, all business expenses must be supported with invoices/receipts.

4. SCHRA will reimburse employees at per diem rates established by the General Services Administration (GSA) for the location to which they travel. Therefore, meal receipts are not required except for business entertainment which is addressed in Point 9 below.
   a. It is the Organization's policy that payment for the first and last day of travel will be at 75% of the full per diem.

5. Contractor receipts/invoices must be submitted for all lodging and any expenditure other than meals.

6. For airfare, airline-issued receipts should be obtained. If a traveler fails to obtain a receipt, other evidence must be submitted indicating that a trip was taken and the amount paid (for example, a combination of an itinerary, a credit card receipt, and return trip boarding pass(es).
7. SCHRA requires employee to provide proof of current driver's license and proof the employee has adequate (as defined by SCHRA) automobile liability insurance before driving any vehicle on SCHRA business. It is the employee's responsibility to keep this information current and up to date in their personnel file by submitting updated documents as renewals occur. This information is to be provided to HR as well as the Property Officer.

8. Mileage is reimbursed to regular eligible employees at the prevailing rate for the State of Tennessee* for travel other than to and from employee's residence and regular work site and includes: * Rates may be reduced to adhere to grant fund availability.
    a. Travel from an employee's residence to a different meeting site (or returns) further than the regular work site, in which case only the additional mileage is reimbursed. If the mileage is less, no reimbursement will be made.
    b. Travel from the regular work site to a different site of official business and subsequent return to the regular work site is reimbursable for the mileage in both directions.

9. General ledger account coding must be identified for all expenditures.

10. For all meals and other business expenditures, the following must be clearly identified:
    a. Names, titles, organizations, and business relationships of all persons
    b. The business purpose of the meal or other business event (topics discussed, etc.)
    c. Meal receipts should be the actual, detailed receipt, not the credit card receipt. The credit card receipt may not provide enough detail.

11. All expense reports must be signed and dated by the employee.

12. All expense reports must be approved by the employee's supervisor.

13. Only one expense report form should be prepared for each trip.

An employee will not be reimbursed for expense reports not meeting the preceding criteria. If the expense report results in a balance due to SCHRA (as a result of receiving a travel advance greater than actual business expenditures), the employee must attach a check or sign a statement indicating authorization to settle the balance due through a payroll deduction. If the expense report results in a balance due to the employee, the employee will be reimbursed through the next payroll.

No further travel advances will be issued to any employee who has an outstanding balance due to SCHRA from previous business trips.

## Reasonableness of Travel Costs

SCHRA shall reimburse travelers only for those business-related costs that are reasonably incurred. Accordingly, the following guidelines shall apply:

1. Payment for suites and other upgraded rooms at hotels shall not be allowed unless required by a medical condition. Travelers should stay in standard rooms.

2. Ask hotels for any available discounts – nonprofit, government, or corporate rates.

3. When utilizing rental cars, travelers should rent midsize or smaller vehicles unless safety considerations require a larger vehicle. Rental of a vehicle larger than midsized must be approved by a supervisor. Share rental cars whenever possible.

4. Business-related long-distance telephone calls while away on business travel are permitted, but should be kept to a minimum. Expense reports should explain long-distance charges.

5. Whenever possible, travelers should utilize long-distance calling cards when placing calls while away on travel. Avoid using the hotel's long-distance service whenever possible. (Note: see the next section of cell phone policies.)

6. Reasonable tips for baggage handling shall be reimbursed. No receipts are required.

7. If required by the funding source, foreign travel charged to federal grants must be approved in writing by the funding source prior to travel.

## Special Rules Pertaining to Air Travel

The following additional rules apply to air travel:

1. Air travel should be at coach class or the lowest commercial discount fare at the time the ticket is purchased except when this fare would:
   a. Require circuitous routing,
   b. Require travel during unreasonable hours,
   c. Excessively prolong travel,
   d. Result in additional costs that would offset the transportation savings, or
   e. Offer accommodations not reasonably adequate for the traveler's medical needs.

2. First class air travel shall not be reimbursed unless there is a medical reason which must be documented and approved by a supervisor.

3. Memberships in airline flight clubs are not reimbursable.

4. Cost of flight insurance is not reimbursable.

5. At least two quotes from a travel agency and/or an airline website should be obtained and attached to the expense report.

6. Cost of upgrade certificates is not reimbursable.

7. The cost of baggage fees required by airlines to either check or carry-on luggage is allowable and reimbursable.

8. Cost of canceling and rebooking flights is not reimbursable, unless it can be documented that it was necessary or required for legitimate business reasons (such as changed meeting dates, etc.).

9. Travelers must identify and pay for all personal flights, even if such flights are incorporated into a flight schedule that serves business purposes (i.e., SCHRA will not reimburse for the personal legs of a trip).

10. Frequent flyer miles will accrue to the traveler, not the Organization.

## Temporary Dependent Care Costs (*2 CFR Part 200.474(c)*)

Temporary dependent care costs above and beyond regular dependent care that directly result from travel to conferences are allowable and reimbursable providing that:

1. The costs are a direct result of the individual's travel for the Federal award;

2. The costs are consistent with the non-Federal entity's documented travel policy for all entity travel; and

3. Are only temporary during the travel period.

## Spouse/Partner Travel

SCHRA does not reimburse any employee or board member for separate travel costs (air fare, etc.) associated with his or her spouse or partner. The cost of a shared hotel room need not be allocated between employee/director and spouse/partner for purposes of this policy.

# CELL PHONES

## Issuance of Corporate Cell Phones

SCHRA recognizes that certain job functions require that an employee be accessible when away from the office or during times outside scheduled working hours. For this reason, SCHRA will provide cell phones to select employees as a working condition fringe benefit. Supervisors of employees who travel frequently on Organization business may request a corporate cell phone for specific employees by contacting the Fiscal Department. SCHRA will include language in employment contracts, job descriptions, and personnel manuals documenting the business reasons for providing employees with cell phones.

While corporate-issued cell phones are intended for Organization-related business use, SCHRA recognizes that occasional personal use may occur. SCHRA employees should make every effort to keep personal use of company cell phones to a minimum (less than *10* minutes per day). Because such employer-provided cell phones are considered to be a working condition fringe benefit, the SCHRA employees' use of the cell phone for personal reasons may be treated as excludable from the employees' income as a de minimis fringe benefit. That is, the value of personal use of an organization-owned cell phone will not be taxable income to the employee.

## Cell Phone Plans

The Accounting Department will negotiate a master cell phone contract with a single contractor. All corporate-owned cell phones are to be acquired through the preapproved contractor. Exceptions to this policy may be made due to cell phone area coverage. Any exceptions must be approved by the employee's supervisor. Employees issued a corporate cell phone will estimate their usage needs and identify a plan that best accommodates those needs with the preapproved contractor.

Cell phone plan terms will initially be set based on the employee's anticipated needs.

The employee's supervisor will monitor usage and recommend adjustments to terms as needed to ensure that the employee is on the most efficient plan based on his or her needs. Initial cell phone plan terms and any subsequent changes in terms will be approved in advance by the Purchasing Agent.

Upon receiving the cell phone, the employee is required to sign a statement of receipt and acceptance of responsibility for corporate cell phones.

SCHRA requires the following review and approval procedures:

- Supervisors shall review and sign the monthly statement for cell phone holders they supervise and forward it to the Accounting Department.
- Supervisor signatures indicate that the usage is approved and that the calls were made in accordance with SCHRA policies.
- The Executive Director will review and approve all corporate cell phone statements monthly.
- Any fraudulent or other unauthorized usage shall be immediately pointed out to the Director of Finance for further investigation with the cell phone provider.

Cellphone holders shall report the loss of theft of a corporate cell phone immediately by notifying the Purchasing Agent as well as the Director of Finance.

## Revocation of Corporate Cell Phones

Failure to comply with any of these policies associated with the use of SCHRA's corporate cell phones shall be subject to possible revocation of corporate cell phone privileges. The Director of Finance, with the approval of the Executive Director, shall determine whether cell phones are to be revoked.

## Personal Cell Phones or Similar Devices at Work

Employees of SCHRA are asked to minimize the use of personal cell phones in the workplace

# CASH DISBURSEMENTS (CHECK-WRITING) POLICIES

## Check Preparation

SCHRA prints contractor checks and expense reimbursement checks on a daily basis. Checks shall be prepared by persons independent of those who initiate or approve expenditures, as well as those who are authorized check signers.

All contractor and expense reimbursement checks shall be produced in accordance with the following guidelines:

1. Expenditures must be supported in conformity with purchasing, accounts payable, and travel and business entertainment policies described in this manual.
2. Timing of disbursements should generally be made to take advantage of all early-payment discounts.
3. Generally, all contractors shall be paid within 30 days of submitting a proper invoice upon delivery of the requested goods or services.
4. Total cash requirements associated with each check run are monitored in conjunction with available cash balance in bank prior to the release of any checks.
5. All supporting documentation is attached to the corresponding check prior to forwarding the entire package to an authorized check signer.
6. Checks shall be utilized in numerical order and unused checks are stored in a locked safe in the accounting department.
7. Checks shall never be made payable to “bearer” or “cash.”
8. Checks shall never be signed prior to being prepared.
9. Upon the preparation of a check, contractor invoices and other supporting documentation shall immediately be canceled in order to prevent subsequent reuse.

## Check Signing

All checks require two signatures. The signatures are preprinted on the check. Each check requires initials of the Executive Director, Executive Secretary or Human Resource Director. No check shall be signed prior to the check being completed in its entirety (no signing of blank checks).

Checks shall be signed by an individual other than the one who approved the transaction for payment. The Director of Finance cannot sign checks.

Check signers should examine all original supporting documentation to ensure that each item has been properly reviewed prior to signing a check. Checks should not be signed if supporting documentation appears to be missing or there are any questions about a disbursement.

Equipment used to sign checks (plates, stamps, CD, etc.) will be kept in a locked drawer (safe). Access to the equipment shall be restricted to the Executive Director and other authorized check signers. The Purchasing Agent will request the equipment as needed. An authorized check signer will review check run and supporting documentation, and initial approval.

## Use of Positive Pay System

SCHRA utilizes a “Positive Pay” system with its financial institution for all checks drawn on the operating account. With this system, the Purchasing Clerk electronically communicates to the financial institution a list of check numbers, amounts, and payees in connection with each check run. The financial institution shall then notify the Director of Finance if any check is presented for payment that does not match the three characteristics for valid checks.

The Director of Finance or his or her designee shall be the only person authorized to communicate approvals of checks to the bank that have been flagged by the bank’s positive pay system.

## Mailing of Checks

After signature, checks are stuffed in envelopes with supporting payment stub if applicable. The receptionist then mails checks immediately. Checks shall not be mailed by or returned to the individuals or departments that authorized the expenditures.

## Voided Checks and Stop Payments

Checks may be voided due to processing errors by making proper notations in the check register and defacing the check by clearly marking it as “VOID.” All voided checks shall be retained to aid in preparation of bank reconciliations.

Stop payment orders may be made for checks lost in the mail or other valid reasons. Stop payments are processed by telephone instruction and written authorization to the bank by accounting personnel with this authority. A journal entry is made to record the stop payment and any related bank fees.

## Recordkeeping Associated with Independent Contractors

SCHRA shall obtain a completed Form W-9 or equivalent substitute documentation from all contractors to whom payments are made (see “Accounts Payable Management” policies). A record shall be maintained of all contractors to whom a Form 1099 is required to be issued at year-end. Payments to such contractors shall be accumulated over the course of a calendar year.

## Control Grid – Purchasing and Disbursements

SCHRA strives to maintain adequate segregation of duties in its purchasing and disbursements functions. The following table illustrates how responsibilities have been assigned. In this table personnel are identified as follows:

A. Program Directors
B. Purchasing Clerk
C. Director of Finance
D. Assistant Director of Finance
E. Payroll Technician
F. Accounting Technician
G. Executive Director
H. Receptionist

| Duty | A | B | C | D | E | F | G | H |
|---|---|---|---|---|---|---|---|---|
| Inputs data into vendor master file | | | | | | X | | |
| Obtains Form W-9 from new contractors | X | X | | | | X | | |
| Initiates purchases | X | X | | | | | | |
| Authorizes purchases | | X | X | | | | X | |
| Prepares purchase order/requisition | X | | | | | | | |
| Prepares request for proposal | | X | | | | | | |
| Administers collection of proposals | | X | | | | | | |
| Evaluates proposals | | X | | | | | | |
| Selects contractor | | X | | | | | | |
| Receives contractor invoice | | X | | | | | | |
| Approves contractor invoice | X | X | | | | | | |
| Assigns general ledger coding | | X | | | | | | |
| Inputs invoice into A/P system | | | | | | X | | |
| Selects A/P to be paid | | | | | | X | | |
| Runs A/P checks | | | | | | X | | |
| Reviews checks | | | | X | | | | |
| Signs checks | | | | | | | X | |
| Mails checks | | | | | | | | X |
| Maintains custody of unused checks | | | | | | X | | |
| Reconciles A/P to general ledger | | | | | | | | |
| Performs bank reconciliation | | | | X | X | | | |
| Reviews cancelled checks | | | X | X | | | | |
| Reviews bank reconciliations | | | X | | | | | |

## CREDIT CARDS/PURCHASING CARDS

The Agency currently has three (3) major credit cards assigned to the following: Executive Director (emergencies, registrations, business meal meetings (Costed to Agency Fund), operational expenses, and programmatic supplies), Executive Secretary (reservations, registrations,) and the Purchasing Officer (programmatic supplies.)

These people are personally responsible for these cards. The purposes notated within parentheses are strictly examples and not all inclusive.

The Agency utilizes several credit cards which are vendor specific (ex, Wal-Mart) for the purpose of purchasing programmatic supplies in a more timely and convenient manner. Due to the sensitive nature of credit cards which could lead to fraud and abuse specific controls are necessary to account for the card usage.

All such credit cards are in the custody of the Purchasing Officer, who maintains a usage log of such. These controls are as follows:

1. The designee requesting the use of these cards must present an approved purchase order before the card is released. Upon release, the designee will sign and date the usage log indicating receipt of such. The individual who signs for the card then becomes personally responsible for the card usage until it is properly returned to the Purchasing Officer.

2. After using the card and when returning same to the Purchasing department, a copy of the documentation supporting the purchase will be returned and attached to the purchase order. The usage log will then be signed and dated thereby releasing the designee from liability.

# PAYROLL AND RELATED POLICIES

## Classification of Workers as Independent Contractors or Employees

SCHRA considers all relevant facts and circumstances regarding the relationship between the Organization and the individual in making determinations about the classification of workers as independent contractors or employees. This determination is based on the degree of control and independence associated with the relationship between SCHRA and the individual. Facts that provide evidence of the degree of control and independence fall into three categories:

1. Behavioral control
2. Financial control
3. The type of relationship of the parties

The Organization's Director of Finance in consultation with the Human Resources Director shall make the final determination.

## Wage Comparability Study

SCHRA will perform wage comparability studies every three years to ensure the salary and wage structure is similar to other organizations of like size and employee base in our area. Please see the Organization's Human Resources policy manual for details.

## Review and Approval of Senior Management Compensation

In connection with the salaries and benefits of senior management (to include the Executive Director and Director of Finance), a triennial study shall involve a salary and benefits survey conducted by an independent organization. The analysis of senior management salaries and benefits shall be conducted under the direction of the Executive Committee of the Board of Directors. If an appropriate survey cannot be located, the Executive Committee shall consider utilizing a salary and benefits consulting specialist firm or conducting its own customized comparison with similar organizations.

Although the formal comparison with external data shall be performed once every three years, the Executive Committee shall document its consideration and authorization of the salaries and benefits of senior management on an annual basis, prior to the beginning of each fiscal year.

## Payroll Administration

SCHRA operates on a biweekly payroll. A personnel file is established and maintained for all employees with current documentation, as described throughout this section and more fully described in SCHRA's Employee Handbook.

The following forms, documents, and information shall be obtained and included in the personnel files of all new employees:

1. SCHRA Employment Application (and resume, if applicable)
2. Applicant references (work & personal)

3. Interview questions and notes
4. Form W-4 Employee Federal Withholding Certificate
5. Form W-4 State Withholding Certificate
6. Form I-9 Employment Eligibility Verification
7. Copy of driver's license
8. Copy of Social Security card issued by the Social Security Administration
9. Starting date and scheduled hours
10. Job title and starting salary
11. Authorization for direct deposit of paycheck, along with a voided check or deposit slip
12. Job description

For employees without a current, valid driver's license, acceptable alternative documents shall include:

1. U.S. Passport
2. Certificate of U.S. Citizenship (INS Form N-560 or N-561)
3. Voter's registration card
4. U.S. Military card
5. ID card issued by a federal, state, or local government, provided it contains a photo
6. School record or report card (for persons under age 18 only)

For employees without a Social Security card, acceptable alternative documents shall include:

1. U.S. Passport
2. Certificate of U.S. Citizenship (INS Form N-560 or N-561)
3. Original or certified copy of a birth certificate issued by a state, county, or municipal authority
4. Certificate of Birth Abroad issued by the Department of State (Form FS-545 or Form DS-1350)
5. U.S. Citizen ID Card (INS Form I-197)
6. Native American tribal document
7. ID Card for use of Resident Citizen in the United States (INS Form I-179)

Each employee payroll file shall also indicate whether the employee is exempt or non-exempt from the provisions of the Fair Labor Standards Act.

If required by specific grants, the employee payroll file must also include a pre-employment background check.

## Changes in Payroll Data

All of the following changes in payroll data are to be authorized in writing:

1. New hires
2. Terminations
3. Changes in salaries and pay rates
4. Voluntary payroll deductions
5. Changes in income tax withholding status
6. Court-ordered payroll deductions

New hires, terminations, and changes in salaries or pay rates shall be authorized in writing by the appropriate Program Director, the Human Resources Director, and the Director of Finance, as required by Organization policy.

Voluntary payroll deductions and changes in income tax withholding status shall be authorized in writing by the individual employee.

Documentation of all changes in payroll data shall be maintained in each employee's personnel file.

## Payroll Taxes

The Accounting Department is responsible for ensuring all required tax forms are properly completed and submitted, and that all required taxes are withheld and paid. The Accounting Department may utilize the services of an outside payroll service center for the processing of payroll, as determined by the Director of Finance.

SCHRA will request an updated Form W-4 from each employee in January of each year. If there are no changes from the prior year, employees are not required to provide a new W-4. Withholding of federal income taxes shall be based on the most current Form W-4 prepared by each employee.

## Personnel Activity Reports

SCHRA follows the requirements in *2 CFR Part 200.430(i), Standards for Documentation of Personnel Expenses*, as well as requirements in specific grants.

Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

1. Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;

2. Be incorporated into the official records of the Organization;

3. Reasonably reflect the total activity for which the employee is compensated;

4. Encompass both federally assisted and all other activities compensated by the Organization on an integrated basis;

5. Comply with the established accounting policies and practices of Organization; and

6. Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect cost activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

## Preparation of Timecards

Timecards shall be prepared in accordance with the following guidelines:

1. Each timecard shall reflect all hours worked during the pay period (time actually spent on the job performing assigned duties), whether compensated or not.
2. Timecards shall be processed in house by the Payroll Technician using Orion
3. Errors will be correcting by sending email to managing supervisor. Managing supervisor will approve the change and the Payroll Technician will correct the error.
4. Employees shall identify and record hours worked based on the nature of the work performed.
5. Compensated absences (vacation, holiday, sick leave, etc.) should be clearly identified as such.
6. Timecards shall be submitted by the employee.

After preparation, Program Directors or their designees shall approve timecards prior to submission to the Accounting Department.

An employee who is on leave, traveling, or is ill on the day that timecards are due may telephone or email timecard information (actual time worked and the appropriate classifications) to his or her supervisor (or designated alternate). The employee must initial a timecard submitted in this manner immediately upon his or her return to the office. Timecards submitted in this manner shall bear the notation, "Time reported by telephone or email by (employee) to (supervisor or designated alternate)." The timecard shall be signed by the supervisor or the designated alternate.

## Processing of Timecards

The Payroll Technician will process the timecards, then uploads payroll to the software vendor THO.

The Payroll Technician may not change or correct timecards without indication from employee or approval from direct supervisor. When errors are noted, if a corrected and approved timecard is not resubmitted in time to the Payroll Clerk, the employee may not receive a paycheck until the next pay period.

Tampering with, altering, or falsifying time records, recording time on another employee's time record, or willfully violating any other timecard policy or procedure may result in disciplinary action, up to and including discharge.

## Review of Payroll

Upon production of all payroll reports and checks or return of payroll reports and checks from the payroll service center, the Director of Finance reviews payroll prior to its distribution to employees. The Director of Finance shall sign and date the payroll register indicating approval of the payroll.

## Distribution of Payroll

Check stubs for electronic deposits are available to employees by way of email. Check stubs for electronic deposits are emailed to each employee with an email address. Employees with no email address will have the check stubs for electronic deposits mailed to them.

## Internal Audit of Payroll Data

SCHRA will conduct an annual internal audit of certain payroll data. This internal audit shall be performed by the Organization's Director of Finance. The purpose of this internal audit is to determine the integrity of the Organization's payroll records. The internal audit shall include the following procedures:

1. Tracing a sample of salaries, withholdings, deductions, and direct deposit information to supporting documentation in each selected employee's payroll and/or personnel file.
2. Tracing a sample of new hires and departures to personnel files, including verification of first and last pay dates.
3. Cross-checking the payroll master files for employees with identical addresses, social security numbers, or direct deposit bank account information.

Any unexplained deviations found as a result of these internal audit procedures shall be reported to the chair of the Budget, State/Local Appropriations, & Audit Committee.

## Control Grid – Payroll and Human Resources

SCHRA strives to maintain adequate segregation of duties in its payroll and human resources functions. The following table illustrates how responsibilities have been assigned. In this table, personnel are identified as follows:

A. Human Resources Manager
B. Director of Finance
C. Assistant Director of Finance
D. Payroll Technician
E. Program Director
F. Executive Director
G. Board of Directors
H. Receptionist
I. Employees

| Duty | A | B | C | D | E | F | G | H | I |
|---|---|---|---|---|---|---|---|---|---|
| Authorizes new hires | X | | | | X | X | | | |
| Authorizes salary adjustments | X | X | | | X | X | | | |
| Authorizes terminations | X | | | | X | X | X | | |
| Sets up new employee in P/R system | X | | | | | | | | |
| Enters salary adjustments to P/R system | X | | | X | | | | | |
| Enters direct deposit info. in P/R system | | | | X | | | | | |
| Deletes terminated employees from P/R | | | | X | | | | | |
| Reviews changes to payroll master file | X | | | X | | | | | |
| Approves timecards | | | | | X | | | | |
| Enters timecards | | | | | | | | | X |
| Reviews input of timecard data | | | | X | X | | | | |
| Reviews distribution of time | X | | | X | X | | | | |
| Reviews payroll register | | X | X | | | | | | |
| Prints checks (or paystubs) | | | | X | | | | | |
| Signs payroll checks | | | | | | X | | | |
| Distributes checks (paystubs) | | | | | | | | X | |
| Has access to unused payroll checks | | | X | X | | | | | |
| Prints annual W-2 forms | | | | X | | | | | |
| Reviews annual W-2 forms | | X | X | | | | | | |
| Distributes annual W-2 forms | | | | X | | | | | |

# POLICIES PERTAINING TO SPECIFIC ASSET ACCOUNTS

# CASH AND CASH MANAGEMENT

## Cash Accounts

***General Checking Account (operating account):***

The primary operating account provides for routine business check disbursements. All cash and credit card deposits are made to this account.

Cash transfers are done on an as-needed basis to cover disbursements. Excess funds in this account are transferred into short-term investments or higher interest-bearing cash equivalents.

In addition, all advances of federal funds shall be deposited in an interest-bearing account and interest earned in excess of $500 shall be returned to the Federal Payment Management System (PMS). Interest earned on such funds will be allocated to federal awards based on the percentage of funds received during the month for each award.

***Payroll Account:***

The payroll account is separate from the operating account. The payroll account is a zero-balance account. As such, only the amount needed to cover each payroll is transferred into this account from the operating account, based on the amount calculated or communicated by the outside payroll service center.

Transfers from the operating account into the payroll account are initiated by the Director of Finance and or Assistant Director of Finance. SCHRA writes a manual check and deposits into the payroll account for every payroll period.

***Savings Account:***

The Organization also maintains an interest-bearing savings account. Any funds in excess of two months' anticipated cash flow needs held in the operating checking account shall be transferred into the Organization's savings account. Transfers to or from the savings account shall be initiated by the Director of Finance.

## Authorized Signers

The following SCHRA personnel are authorized to sign checks drawn on the general operating and payroll accounts:

Executive Director
HR Director
Board Member

Director of Finance will promptly notify the Organization's financial institutions of changes in authorized signatures upon the departure of any authorized signer. Refer to the section titled "Check Signing" for procedures.

## Bank Reconciliations

Bank account statements are received each month and forwarded unopened to the Director of Finance. The Director of Finance shall open the statement and review its contents for unusual or unexplained items, such as unusual endorsements on checks, indications of alterations to checks, etc. (This review must be performed in a timely manner so that reconciliation of the bank account is not delayed.) Unusual or unexplained items shall be reported immediately to the Budget, State/Local Appropriations, & Audit Committee.

After this review is complete, the entire bank statement is forwarded to the Accounting Technician/Payroll Techician who prepares reconciliation between the bank balance and general ledger balance. The bank reconciliation process will be completed within 10 business days of receipt of each bank statement.

The reconciliation process shall involve an inspection of the fronts and backs of cancelled checks returned with the bank statement. The purpose of this inspection is to identify signs of forgery, altered or substitute checks, unusual endorsements, or other signs of fraudulent activity. If the Organization's financial institution does not return original cancelled checks or paper copies thereof, the person preparing the monthly bank reconciliation shall view electronic copies of cancelled checks provided by the financial institution via Internet access to the Institution's website when necessary if there is a discrepancy.

All bank reconciliations, including any adjusting journal entries resulting from preparing bank reconciliations, are reviewed and approved by the Director of Finance on a monthly basis.

Bank reconciliations and copies of resulting journal entries are filed in the current year's accounting files.

## Cash Flow Management

The Director of Finance monitors cash flow needs on a weekly basis to eliminate idle funds and to ensure that payment obligations can be met. Cash transfers between accounts are performed on an as-needed basis.

SCHRA adheres to the requirements of its grants which prohibit loaning funds between programs; therefore, cash management and reporting is performed at the program level as well as for the Organization as a whole.

## Stale Checks

SCHRA will write off checks of $1,000 or less that are more than 6 months old that have not cleared the Organization's bank. For uncashed checks that are more than 6 months old, contact will be made with the payee to resolve the issue.

All stale checks that are written off within the same fiscal year as they were written shall be credited to the same expense or asset account that was debited when the check was written or the expenditure incurred. For stale checks written off in fiscal years subsequent to the year in which the check was written, the credit shall be to miscellaneous income.

SCHRA will also comply with the Tennessee laws regarding unclaimed property. Accordingly, if uncashed checks are subject to a state reporting and transfer requirement, the Organization shall file all appropriate forms and remit unclaimed property to the appropriate jurisdiction.

## Petty Cash

SCHRA will provide imprest funds for valid, minor office expenditures (not for travel or employee advances), and to periodically replenish these funds up to its authorized balance of $200. The Payroll Technician is responsible for ensuring that the petty cash fund is locked at all times.

All disbursements from the petty cash fund must be accompanied by a completed and approved petty cash voucher. Receipts are required for all disbursements from petty cash.

The Payroll Technician shall prepare a reconciliation of the petty cash account on a periodic basis. Petty cash reconciliations are subject to review by the Director of Finance, who may also perform periodic surprise cash counts and reconciliations.

## Wire Transfers

The Director of Finance and the Assistant Director of Finance shall be the only SCHRA employees authorized to transact wire transfers from SCHRA bank accounts. To prevent anyone other than the Director of Finance and the Assistant Director of Finance from transacting wire transfers, a system shall be employed that requires the use of pass codes and the calculation of a test-key for each wire transfer. Pass codes, issued only to the Director of Finance and Executive Director, are assigned by the bank and are changed periodically.

Confirmations of all wire transfers are delivered to the Assistant Director of Finance.

# PREPAID EXPENSES

## Accounting Treatment

SCHRA treats payments of expenses that have a time-sensitive future benefit as prepaid expenses and will amortize these items over the corresponding time period.

Prepaid expenses with future benefits that expire within one year from the date of the financial statements shall be classified as current assets. Prepaid expenses that benefit future periods beyond one year from the financial statement date shall be classified as noncurrent assets.

## Procedures

As part of the account coding process performed during the processing of accounts payable, all incoming vendor invoices shall be reviewed for the existence of time-sensitive future benefits. If future benefits are identified, the payment shall be coded to a prepaid expense account code.

The Accounting Department shall maintain a schedule of all prepaid expenses. The schedule shall indicate the amount and date paid, the period covered by the prepayment, the purpose of the prepayment, and the monthly amortization. This schedule shall be reconciled to the general ledger balance as part of the monthly closeout process.

# PROPERTY AND EQUIPMENT

## Capitalization Policy

Physical assets acquired with unit costs in excess of $5,000 are capitalized as property and equipment on the Organization's financial statements.  Items with unit costs below this threshold shall be expensed in the year purchased.

If an awarding agency requires a lower amount for equipment, SCHRA will adhere to that dollar amount only for that program or contract.

Capitalized property and equipment additions are accounted for at their historical cost and all such assets, except land, are subject to depreciation over their estimated useful lives, as described later.

Capitalized assets will be reported as expensed for grants if they were so budgeted in the grant application.  However, for the Organization's financial statements, these assets will be capitalized and depreciated according to these policies.

## Contributed Assets

Assets with fair market values in excess of $5,000 (per unit) that are contributed to SCHRA shall be capitalized as fixed assets on the financial statements.  Contributed items with market values below this threshold shall be expensed in the year contributed.

Capitalized contributed assets are accounted for at their market value at the time of donation and all such assets, except land and certain works of art and historical treasures, are subject to depreciation over their estimated useful lives, as described later.

## Equipment and Furniture Purchased with Federal Funds (2 CFR Part 200.313)

SCHRA may occasionally purchase equipment and furniture that will be used exclusively on a program funded by a federal agency.  In addition to those policies on Asset Management described earlier, equipment and furniture charged to federal awards will be subject to certain additional policies as described below.

For purposes of federal award accounting and administration, *equipment* shall include all assets with a unit cost equal to the lesser of $5,000 or the capitalization threshold utilized by SCHRA, described under Asset Management.

All purchases of *equipment* with federal funds shall be approved, in advance and in writing, by the federal awarding agency.  In addition, the following policies shall apply regarding equipment purchased and charged to federal awards:

1. Adequate insurance coverage will be maintained with respect to equipment and furniture charged to federal awards.

2. For equipment (or residual inventories of supplies) with a remaining per unit fair market value of $5,000 or less at the conclusion of the award, SCHRA shall retain the equipment without any requirement for notifying the federal agency.

3. If the remaining per unit fair market value is $5,000 or more, SCHRA shall gain a written understanding with the federal agency regarding disposition of the equipment. This understanding may involve returning the equipment to the federal agency, keeping the equipment and compensating the federal agency, or selling the equipment and remitting the proceeds, less allowable selling costs not to exceed $500, to the federal agency. *(2 CFR Part 200.313(e))*

4. The Grant Manager shall determine whether a specific award with a federal agency includes additional equipment requirements or thresholds and requirements that differ from those described above.

5. A physical inventory of all equipment purchased with federal funds shall be performed annually by an employee who is not responsible for ordering or approving the purchase of these assets. The results of the physical inventory shall be reconciled to the accounting records of and federal reports filed by SCHRA.

## Establishment and Maintenance of a Fixed Asset Listing

All capitalized property and equipment shall be recorded in a property log. This log shall include the following information with respect to each asset: *(2 CFR part 200.313(d)(1))*

1. Date of acquisition
2. Cost
3. Description (including color, model, and serial number or other identification number)
4. Source of the funds used to purchase the equipment, including the federal award number, if applicable
5. Whether the title vests in the Organization or the federal government
6. Information to calculate the federal share of the cost of the equipment, if applicable
7. Location, use and condition
8. Depreciation method
9. Estimated useful life
10. Ultimate disposition data including the date of disposal and sale price

A physical inventory of all assets capitalized under the preceding policies will be taken on an annual basis by SCHRA. This physical inventory shall be reconciled to the property log and adjustments made as necessary. All adjustments resulting from this reconciliation will be approved by the Director of Finance.

## Receipt of Newly Purchased Equipment and Furniture

At the time of arrival, all newly purchased equipment and furniture shall be examined for obvious physical damage.  If an asset appears damaged or is not in working order, it shall be returned to the contractor immediately.

In addition, descriptions and quantities of assets per the packing slip or bill of lading shall be compared to the assets delivered.  Discrepancies should be resolved with the contractor immediately.

## Depreciation and Useful Lives

All capitalized assets are maintained in the special property and equipment account group and are not included as an operating expense.  Property and equipment are depreciated over their estimated useful lives using the straight-line method.

In the year of acquisition, depreciation is recorded based on the number of months the asset is in service, counting the month of acquisition as a full month (Example:  an asset purchased on the fifteenth day of the fifth month shall have eight full months of depreciation (eight-twelfths of one year) recorded for that year.)

Estimated useful lives of capitalized assets shall be determined by the Accounting Department in conjunction with the department or employee that shall utilize the asset.  The following is a list of the estimated useful lives of each category of fixed asset for depreciation purposes:

| | |
|---|---|
| Furniture and fixtures | Up to 10 years |
| General office equipment | 5 years |
| Computer hardware and peripherals (which exceed the capitalization threshold) | 3–5 years |
| Computer software | 2–3 years |
| Leased assets | Life of lease |
| Leasehold improvements | Remaining lease term |

For accounting and interim financial reporting purposes, depreciation expense will be recorded on a monthly basis.

## Changes in Estimated Useful Lives

If it becomes apparent that the useful life of a particular capitalized asset will be less than the life originally established, an adjustment to the estimated useful life shall be made.  All such changes in estimated useful lives of capitalized assets must be approved by the Director of Finance.

When a change in estimated useful life is made, the new life is used for purposes of calculating annual depreciation expense.  In the year in which the change in estimate is made, the cumulative effect of the change shall be reflected as depreciation expense in the Organization's statement of activities.

For example, if in the fourth year of an asset's life, it is determined that the asset will last five years instead of the original estimate of seven years, depreciation expense for that year shall be equal to the difference between 4/5 of the asset's basis (accumulated depreciation at the end of year four) and 3/7 of the asset's basis (accumulated depreciation at the beginning of the year).

## Repairs of Property and Equipment

Expenditures to repair capitalized assets shall be expensed as incurred if the repairs do not materially add to the value of the property or materially prolong the estimated useful life of the property.

Expenditures to repair capitalized assets shall be capitalized if the repairs increase the value of property, prolong its estimated useful life, or adapt it to a new or different use. Such capitalized repair costs shall be depreciated over the remaining estimated useful life of the property. If the repairs significantly extend the estimated useful life of the property, the original cost of the property shall also be depreciated over its new, extended useful life.

## Dispositions of Property and Equipment

If equipment is sold, scrapped, donated, or stolen, adjustments need to be made to the fixed asset listing and property log. If money is received for the asset, then the difference between the amount received and the "book value" (purchase price less depreciation) of the asset will be recorded as a loss (if the money received is less than the book value) or a gain (if the money received is more than the book value).

## Write-Offs of Property and Equipment

The Property Committee approves the disposal of all capitalized fixed assets that may be worn-out or obsolete. Property that is discovered to be missing or stolen will be reported immediately to the Director of Finance. If not located, this property will be written off the books with the proper notation specifying the reason.

# LEASES

## Classification of Leases

SCHRA classifies all leases in which the Organization is a lessee as either capital or operating leases. SCHRA shall utilize the criteria described in Statement of Financial Accounting Standards No. 13 in determining whether a lease is capital or operating in nature. Under those criteria, a lease shall be treated as a capital lease if, at the time of entering into the lease, any of the following factors are present:

1. The lease transfers ownership to SCHRA at the end of the lease term.

2. The lease contains a bargain purchase option.

3. The lease term is equal to 75% or more of the estimated economic life of the leased property.

4. The present value of the minimum lease payments is 90% or more of the fair value of the leased property (using, as the interest rate, the lesser of SCHRA's incremental borrowing rate or, if known, the lessor's implicit rate).

All leases that do not possess any of the four preceding characteristics shall be treated as operating leases. In addition, all leases that are immaterial in nature shall be accounted for as operating leases.

## Reasonableness of Leases

SCHRA assesses the value of leases according to the requirements of 2 CFR Part 200.465, Rental Costs of Real Property and Equipment, considering the following factors;

- The rate is reasonable when compared to similar property in the same area;
- The rate of any alternatives; and
- The type, life expectancy, condition, and value of the property leased.

Rental arrangements will be reviewed every <u>3 to 5</u> years to determine if circumstances have changed and other options are available.

## Accounting for Leases

All leases that are classified as operating leases and immaterial capital leases shall be accounted for as expenses in the period in which the lease payment is due. For leases with firm commitments for lease payments that vary over the term of the lease (i.e., a lease with fixed annual increases that are determinable upon signing the lease), the amount that SCHRA shall recognize as monthly lease expense shall equal the average monthly lease payment over the entire term of the lease. Differences between the average monthly payment and the actual monthly payment shall be accounted for as an asset or liability.

All leases that are classified as capital leases shall be treated as fixed asset additions. As such, upon the inception of a capital lease, SCHRA shall record a capitalized asset and a liability under the lease, based on the net present value of the minimum lease payments (or the fair value of the leased asset, if it is less than the present value of the lease payments). Periodic lease payments shall be allocated between a reduction in the lease obligation and interest expense. The capitalized asset recorded under a capital lease shall be depreciated over the term of the lease, using the straight-line method of depreciation.

SCHRA shall also maintain a control list of all operating and capital leases. This list shall include all relevant lease terms, including a schedule of future annual lease payments obligations.

## Changes in Lease Terms

As described in earlier policies, leasehold improvements and deferred rent incentives are amortized over the initial lease term. If such lease term is changed prior to the expiration of the initial lease term, SCHRA will revise amortization to reflect the remaining lease term as of the effective date of the lease modification.

# SOFTWARE ACQUISITION AND DEVELOPMENT COSTS

## Costs to Be Capitalized

Certain costs incurred in connection with the acquisition or development of internal-use software shall be capitalized and reported as an asset of the Organization. The costs that shall be capitalized are those that are in excess of the Organization's capitalization threshold (explained earlier) and that meet any one of the following criteria:

1. External direct costs (i.e., amounts paid to vendors) of materials and services for developing or obtaining internal-use software ("developing" to include design, coding, installation, and testing).

2. Internal payroll and related benefit costs for employees who are directly associated with, and who devote time to, an internal-use software project (i.e., the same types of software development costs described above).

3. Interest costs incurred in developing software.

4. Costs associated with upgrades and enhancements when it is probable that these expenditures will result in additional functionality.

Costs that are capitalized in connection with the preceding policy shall be included as assets on the Organization's property and equipment listing, and shall be amortized over an estimated useful life in accordance with the previously stated policies on depreciation and amortization.

## Costs to Be Expensed As Incurred

Many costs associated with acquiring or developing internal-use software are to be expensed as incurred, rather than capitalized, including:

1. External and internal costs incurred in the preliminary project phases, such as costs associated with making decisions to allocate resources to the project, determining performance requirements and specifications, and reviewing and selecting vendors and consultants.

2. Research and development costs.

3. General and administrative costs.

4. Data conversion.

5. Training costs.

6. Internal maintenance costs.

## ASSET IMPAIRMENTS

Long-lived assets of the Organization include personal property and equipment, land, buildings, intangible assets, and other noncurrent assets. In connection with long-lived assets, the organization shall record an impairment loss when the carrying amount (book value, net of any accumulated depreciation or amortization) is both:

1. Not recoverable (through sale, etc.); and

2. In excess of the asset's fair value.

Long-lived assets shall be tested for impairment whenever events or changes in circumstances indicate that an asset's carrying value may be impaired. Examples of such events or circumstances that the organization shall consider include:

1. A significant decrease in the market price of a long-lived asset.

2. A significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition.

3. A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset, including an adverse action by a regulator.

4. An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset.

5. A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that indicates continuing losses associated with the use of a long-lived asset.

6. A current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

If the organization records an impairment loss in connection with a long-lived asset subject to depreciation or amortization, the reduced basis resulting from recording the loss shall be used as a new basis for calculating future periods' depreciation or amortization.

# POLICIES PERTAINING TO LIABILITY AND NET ASSET ACCOUNTS

## ACCRUED LIABILITIES

### Identification of Liabilities

The Accounting Department shall establish a list of commonly incurred expenses that may have to be accrued at the end of an accounting period. Some of the expenses that shall be accrued by SCHRA at the end of an accounting period are:

- Salaries and wages
- Payroll taxes
- Paid leave (see policy below)
- Rent
- Interest on notes payable

In addition, SCHRA shall record a liability for deferred revenue (revenue received but not yet earned) in accordance with the revenue recognition policies described elsewhere in this manual. Adjustments to deferred revenue accounts shall be made monthly.

### Accrued Leave

Personnel policies permit employees to carry forward up to 30 days times an employee’s regular scheduled day of unused leave from year to year. Such unused leave is payable to an employee upon termination of employment.

Accordingly, SCHRA records a liability for accrued leave to which employees are entitled. The total liability at the end of an accounting period shall equal the total earned but unused hours of leave, up to a maximum of 30 days, multiplied by each employee’s current hourly pay rate.

Leave that does not “vest” with employees (i.e., leave that is not paid to employees if unused at the time of termination of employment), such as sick leave, shall not be accrued as a liability.

# NOTES PAYABLE

## General Policy

SCHRA requires that all notes payable be approved by the Board of Directors and signed by the Executive Director.

## Recordkeeping

SCHRA maintains a schedule of all notes payable, mortgage obligations, lines of credit, and other financing arrangements. This schedule shall be based on the underlying loan documents and shall include all of the following information:

1. Name and address of lender
2. Date of agreement or renewal/extension
3. Total amount of debt or available credit
4. Amounts and dates borrowed
5. Description of collateral, if any
6. Interest rate
7. Repayment terms
8. Maturity date
9. Address to which payments should be sent
10. Contact person at lender

## Accounting and Classification

An amortization schedule shall be maintained for each note payable. Based upon the amortization schedule, the principal portion of payments due with the next year shall be classified as a current liability in the statement of financial position. The principal portion of payments due beyond one year shall be classified as a long-term/noncurrent liability in the statement of financial position.

Demand notes and any other notes without established repayment dates shall always be classified as current liabilities.

Unpaid interest expense shall be accrued as a liability at the end of each accounting period.

A detailed record of all principal and interest payments made over the entire term shall be maintained with respect to each note payable. Periodically, the amounts reflected as current and long-term notes payable per the general ledger shall be reconciled to these payment schedules and the amortization schedules, if any, provided by the lender. All differences shall be investigated.

## Non-Interest-Bearing Notes Payable

As a charitable organization, SCHRA may, from time to time, receive notes payable that do not require the payment of interest, or that require the payment of a below-market rate of interest for the type of obligation involved. In such cases, SCHRA will record contribution income for any unpaid interest.

For demand loans, recording of interest expense and contribution income shall be performed at the end of each accounting period, based on the outstanding principal balance of the loan during that period, multiplied by the difference between a normal interest rate for that type of loan and the rate, if any, that is required to be paid.  Determination of the appropriate interest rate shall be performed by the Director of Finance.

For loans with fixed maturities or payment dates, the note payable shall be recorded at the present value of the future principal payments, using as a discount rate equal to the difference between a normal interest rate for that type of loan and the rate, if any, required to be paid.  The difference between the cash proceeds of the note and the present value shall be recorded as temporarily restricted contribution income in the period the loan is made.  Thereafter, interest expense shall be recorded in each accounting period using the effective interest method, with the corresponding credit entry increasing the note payable account to reflect the amount(s) that shall be repaid.

# NET ASSETS

## Classification of Net Assets

Net assets of the Organization shall be classified based upon the existence or absence of donor-imposed restrictions as follows:

**Unrestricted Net Assets** – Net assets that are not subject to donor-imposed stipulations.

**Temporarily Restricted Net Assets** – Net assets subject to donor-imposed stipulations that may or will be satisfied through the actions of the Organization and/or the passage of time.

**Permanently Restricted Net Assets –** Net assets subject to donor-imposed stipulations that the Organization permanently maintain certain contributed assets. Generally, donors of such assets permit the Organization to use all or part of the income earned from permanently restricted net assets for general operations or for specific purposes. Permanent restrictions do not pass with the expiration of time, nor can they be removed through the Organization's actions.

Net assets accumulated that are not subject to donor-imposed restrictions, but which the Board of Directors of the Organization has earmarked for specific uses, shall be segregated in the accounting records as "board-designated" funds within the unrestricted category of net assets.

Restrictions may be associated with either a time period (e.g., a particular future time period) or a purpose (e.g., specific programs). A purpose stipulation will be considered a restriction only if it is more specific than the broad limits resulting from the nature of the Organization, the environment in which it operates, and the purposes specified in SCHRA's Articles of Incorporation and Bylaws.

## Reclassifications from Restricted to Unrestricted Net Assets

The Organization shall report in its statement of activities a reclassification from restricted to unrestricted net assets if any of the following events occur:

1. Fulfillment of the purpose for which the net assets were restricted (e.g., spending restricted funds for the stipulated purpose)

2. Expiration of time restrictions imposed by donors

3. Death of an annuity beneficiary

4. Withdrawal by the donor (or by a court) of a time or purpose restriction

If a donor stipulates multiple restrictions (such as a purpose and a time restriction), reclassifications from temporarily restricted to unrestricted net assets shall be reported only upon the satisfaction of the final remaining restriction.

## Reclassifications from Unrestricted to Restricted Net Assets

If the Organization accepts and receives a restricted contribution from a donor who further stipulates that the Organization set aside a portion of its unrestricted net assets for that same purpose, the Organization shall report in its statement of activities a reclassification of net assets from unrestricted to temporarily or permanently restricted, based on the specific nature of the restriction. (See the preceding Gift Acceptance policy for procedures for determining whether to accept a gift that requires reclassification of net assets from unrestricted to temporarily restricted.)

## Disclosures

The Organization discloses in a footnote to the financial statements the different types of temporary and permanent restrictions associated with the Organization's net assets as of the end of each fiscal year.

# POLICIES ASSOCIATED WITH FINANCIAL AND TAX REPORTING

# FINANCIAL STATEMENTS

## Standard Financial Statements of the Organization

Preparing financial statements and communicating key financial information is a necessary and critical accounting function. Financial statements are management tools used in making decisions, in monitoring the achievement of financial objectives, and as a standard method for providing information to interested parties external to the Organization. Financial statements may reflect year-to-year historical comparisons or current year budget-to-actual comparisons.

The basic financial statements that are maintained on an organization-wide basis shall include:

1. **Statement of Financial Position –** Reflects assets, liabilities, and net assets of the Organization and classifies assets and liabilities as current or noncurrent/long-term and net assets by category (unrestricted, temporarily restricted, and/or permanently restricted.)

2. **Statement of Activities** – Presents support, revenues, expenses, and other changes in net assets of the Organization, by category of net asset (unrestricted, temporarily restricted, and permanently restricted), including reclassifications between categories of net assets.

3. **Statement of Cash Flows** – Reports the cash inflows and outflows of the Organization in three categories: operating activities, investing activities, and financing activities.

4. **Statement of Functional Expenses** – Presents the expenses of the Organization in a natural or objective format and by function (i.e., which program or supporting service was served).

## Frequency of Preparation

The objective of the Accounting Department is to prepare accurate financial statements in accordance with generally accepted accounting principles and distribute them in a timely and cost-effective manner. In meeting this responsibility, the following policies shall apply:

A standard set of financial statements described in the preceding section shall be produced on a monthly basis by the $10^{th}$ of each month. The standard set of financial statements described in the preceding section shall be supplemented by the following schedules:

1. Individual statements of activities on a departmental and functional basis (and/or program/grant basis)

2. Comparisons of actual year-to-date revenues and expenses with year-to-date budgeted amounts

The monthly set of financial statements shall be prepared on the accrual method of accounting, including all receivables, accounts payable received by the $5^{th}$ of the month, and actual depreciation expense.

## Review and Distribution

All financial statements and supporting schedules shall be reviewed and approved by the Director of Finance prior to being issued by the Accounting Department.

After approval by the Director of Finance, a complete set of monthly financial statements, including the supplemental schedules described above, shall be distributed to the following individuals:

- The Budget, State/Local Appropriations & Audit Committee and the full Board of Directors (receives every other month)
- Executive Director
- Program Directors

Financial statements may include an additional supplemental schedule prepared or compiled by the Director of Finance. The purpose of this schedule is to provide known explanations for material budget variances in accordance with SCHRA's budget monitoring policies described later in this manual (under the *Financial Management Policies* section).

## Monthly Distribution

On a monthly basis, the Board of Directors will be provided with summary program and/or grant financial information.

## Annual Financial Statements

On an annual basis, the Organization shall prepare, under the direction of the Director of Finance, a complete set of GAAP financial statements, including footnotes addressing all disclosures required by GAAP. These financial statements shall be presented to SCHRA's independent auditors at the beginning of their annual audit as the draft statements from which they will conduct their audit.

A formal presentation of the Organization's annual audited financial statements shall be provided by the Independent Auditor to the full Board of Directors at the Organization's Annual Meeting. See separate policies regarding the annual audit under "Financial Management Policies."

## Trend Analysis

On an annual basis, in connection with the preparation of the preceding financial statements, the Director of Finance shall prepare a five-year revenue and expense report in order to facilitate the analysis of financial trends experienced by the Organization. This report shall also include a five-year comparison of certain key operating ratios, based on the Organization's annual financial statements. This report shall be submitted to the Executive Director, the Budget, State/Local Appropriations & Audit Committee no later than 90 days after year-end.

# GOVERNMENT RETURNS

## Overview

To legitimately conduct business, SCHRA must be aware of its tax and information return filing obligations and comply with all such requirements of federal, state, and local jurisdictions. Filing requirements of SCHRA include, but are not limited to, filing annual information returns with IRS, state charitable solicitation reports, property tax returns, income tax returns, sales tax returns, information returns for retirement plans, annual reporting of compensation paid, and payroll tax withholding tax returns.

## Filing of Returns

The Director of Finance shall be responsible for identifying all filing requirements and ensuring that SCHRA is in compliance with all such requirements. The Organization will file complete and accurate returns with all authorities and make all efforts to avoid filing misleading, inaccurate, or incomplete returns.

Filings made by SCHRA include, but are not limited to, the following returns:

1. **Form 990** – Annual information return of tax-exempt organizations, filed with IRS. Form 990 for SCHRA is due on the fifteenth day of the fifth month following year-end. An automatic 3-month extension of time to file Form 990 may be obtained filing Form 8868. Upon expiration of the first 3-month extension, a second 3-month extension may be requested using Form 8868.

2. **Form 990-T** – Annual tax return to report SCHRA's unrelated trade or business activities (if any), filed with IRS. Form 990-T is due on the fifteenth day of the fifth month following year-end. An automatic 6-month extension of time to file Form 990-T may be obtained by filing Form 8868.

3. **Form 5500** – Annual return for SCHRA's employee benefit plans. Form 5500 is due on the last day of the seventh month after the end of the plan year, but a 2½-month extension of time to file may be requested using Form 5558.

4. **Personal Property Tax Return** – Filed with the State of TN to report personal property and officers of the corporation.

5. **W-2s and 1099s –** Annual report of employee and non-employee compensation, based on calendar-year compensation, on the cash basis. These information returns are due to employees and independent contractors by January 31 and to the federal government by February 28. Generally, Form 1099 is required only if the organization has provided more than $600 in compensation to an independent contractor during the calendar year.

6. **Form 940** – Annual federal unemployment tax return filed with IRS, for all employers other than charitable organizations exempt from FUTA (but not necessarily state unemployment tax) under IRC section 501(c)(3), due January 31.

7. **Form 941 –** Quarterly payroll tax return filed with IRS to report wages paid to employees and federal payroll taxes. Form 941 is due by the end of the month following the end of each quarter, or 10 days later if all payroll tax deposits have been made in a timely manner during the quarter.

SCHRA's fiscal and tax year-end is June 30th. All annual tax and information returns of SCHRA (Form 990, Form 990-T) are filed on the accrual basis of reporting.

Federal and all applicable state payroll tax returns are prepared by the Organization's external Payroll Administrator.

SCHRA complies with all state payroll tax requirements by withholding and remitting payroll taxes to the state of residency of each SCHRA employee.

## Review of Form 990 by Board of Directors

A draft of SCHRA's annual Form 990 information return shall be reviewed and approved by the Board of Directors and the Budget, State/Local Appropriations & Audit Committee, prior to being filed with the IRS. This review and approval shall be documented with the signature of the Board Chair or Budget, State/Local Appropriations & Audit Committee.

## Public Access to Information Returns

Under regulations that became effective in 1999, SCHRA is subject to federal requirements to make the following forms "widely available" to all members of the general public:

1. The three most recent annual information returns (Form 990 and Form 990-T, if applicable) excluding the list of significant donors (Schedule B) that is attached to the Form 990, but including the accompanying Schedule A.

2. SCHRA's original application for recognition of its tax-exempt status (Form 1023 or Form 1024), filed with IRS, and all accompanying schedules and attachments.

SCHRA adheres to the following guidelines in order to comply with the preceding public disclosure requirements:

1. Anyone appearing in person at the offices of SCHRA during normal working hours making a request to inspect the forms will be granted access to a file copy of the forms. The Director of Finance shall be responsible for maintaining this copy of each form and for making it available to all requesters.

   SCHRA shall comply with the federal requirements to make its forms widely available by posting all required forms on the Organization's website and referring all requesters to this website within 7 days of receipt of any request for copies. In addition to making its returns widely available on its website, SCHRA will also permit visual inspections of its returns to anyone personally appearing at the Organization's offices during normal working hours and making such a request.

# TRANSACTIONS WITH INTERESTED PERSONS

## Identification of Interested Persons

In connection with complying with requirements of the Internal Revenue Code and the Form 990 information return, the Organization shall identify all individuals and entities qualifying as *interested persons* as defined by the IRS:

1. All current officers, directors, trustees, and key employees (individuals required to be listed on the Form 990)

2. All former officers, directors, trustees, and key employees

3. Substantial contributors (a person required to be listed on Schedule B of the Form 990)

4. Family members of any individual listed in 1, 2, or 3, defined as spouses, ancestors, brothers, sisters, children, grandchildren, great-grandchildren, and spouses of brothers, sisters, children, grandchildren, and great-grandchildren.

5. A 35% controlled entity of any of the persons listed in 1, 2, or 3

6. A donor or donor advisor to a donor-advised fund

7. An investment advisor of a sponsoring organization.

## Record of Transactions with Interested Persons

The Organization shall maintain a record of all transactions and balances with interested persons for each fiscal year for purposes of disclosure on the Form 990. This record shall be reviewed and approved by the Director of Finance and provided to the Form 990 preparer.

# FINANCIAL MANAGEMENT POLICIES

## BUDGETING

### Overview

Budgeting is an integral part of managing any organization in that it is concerned with the translation of organizational goals and objectives into financial terms. A budget should be designed and prepared to direct the most efficient and prudent use of the organization's financial and human resources. A budget is a management commitment of a plan for present and future organizational activities that will ensure survival. It provides an opportunity to examine the composition and viability of the organization's programs and activities simultaneously in light of the available resources.

Budgets are also prepared for funding sources, and each grant manager must be aware of budget modification requirements. Awarding agencies may or may not require approval for changes in line items. SCHRA will document and follow all such requirements.

### Preparation and Adoption

SCHRA will prepare an annual budget on the accrual basis of accounting. The Director of Finance gathers proposed Organization-wide budget information from all Department Directors and others with budgetary responsibilities and prepares the first draft of the budget. Budgets proposed and submitted by each department should be accompanied by a narrative explanation of the sources and uses of funds and should explain all material fluctuations in budgeted amounts from prior years.

After appropriate revisions and a compilation of all department budgets by the Director of Finance, a draft of the Organization-wide budget, as well as individual department budgets, is presented to the Executive Director for discussion, revision, and initial approval.

The revised draft is then submitted to the Finance Committee, and finally to the entire Board of Directors for adoption.

It is the policy of SCHRA to adopt a final budget at least 30 days before the beginning of the Organization’s fiscal year when applicable. The purpose of adopting a final budget at this time is to allow adequate time for the Accounting Department to input the budget into the accounting system and establish appropriate accounting and reporting procedures (including any necessary modifications to the chart of accounts) to ensure proper classification of activities and comparison of budget versus actual once the year begins.

Budgets for programs that are not on the Organization’s fiscal year will be prepared in accordance with awarding agency requirements.

### Monitoring Performance

SCHRA monitors its financial performance by comparing and analyzing actual results with budgeted results. This function shall be accomplished in conjunction with the monthly financial reporting process described earlier.

On a monthly basis, financial reports comparing actual year-to-date revenues and expenses with budgeted year-to-date amounts shall be produced by the Accounting Department and distributed to each employee with budgetary responsibilities.

In addition, Program Directors shall submit performance (non-financial) reports every other month to the Executive Director, the Director of Finance, and the Board of Directors.

## Budget and Program Revisions

SCHRA will request prior approval from federal awarding agencies for any of the following program or budget revisions: *(2 CFR Part 200.308)*

1. Change in the scope or objective of the project or program, even if there is no associated budget revision requiring prior written approval.

2. Change in a key person (Project Director, etc.) specified in the application or award document.

3. Disengagement for more than three months, or a 25% reduction in time devoted to the project, by the approved Project Director or principal investigator.

4. The need for additional federal funding.

5. The inclusion, unless waived by the federal awarding agency, of costs that require prior approval in accordance with 2 CFR Part 200.407, Prior written approval.

6. The transfer of funds allotted for participant support costs to other categories of expense.

7. Unless described in the application and funded in the approved awards, the subaward, transfer, or contracting out of any work under an award. (However, this provision does not apply to purchases of supplies, materials, equipment, or general support services.)

8. Changes in the amount of the approved cost-sharing or matching provided by the Organization.

## Budget Modifications

After a budget has been approved by the Board of Directors and adopted by the Organization, reclassifications of budgeted expense amounts of less than $5,000 within a single department may be made by the Department Director, with approval from the Director of Finance.

Reclassifications in excess of $10,000 and any budget modification resulting in an increase in budgeted expenses or decrease in budgeted revenues shall be made only with approval of the Finance Committee or full Board of Directors.

# ANNUAL AUDIT

## Role of the Independent Auditor

SCHRA will arrange for an annual audit of the Organization's financial statements to be conducted by an independent accounting firm.  The independent accounting firm selected by the Board of Directors will be required to communicate directly with the Organization's Finance Committee upon the completion of their audit.  In addition, members of the Budget, State/Local Appropriations, & Audit Committee and Executive Committee are authorized to initiate communication directly with the independent accounting firm.

Audited financial statements, including the auditor's opinion thereon, will be submitted and presented to the Board of Directors by the independent accounting firm at the Organization's Annual Meeting, after the financial statements have been reviewed and approved by the Budget, State/Local Appropriations, & Audit Committee .

## Auditor Independence

SCHRA may from time to time request the independent auditor to provide services outside the scope of the annual audit and Form 990 preparation.  In connection with these non-audit services, it is imperative that the independent auditor remain independent in fact and in appearance in order to continue serving the Organization as its auditor.

Generally, in order to remain independent with respect to the audit, the Organization's auditors should not provide non-audit services that involve performing management functions or making management decisions nor should they provide non-audit services in situations where the non-audit services are significant/material to the subject matter of the audits (or where they would be auditing their own work in connection with the annual audit).

Therefore, it is the Organization's policy to evaluate any non-audit service requested from the independent auditor for possible impairments to the firm's independence, and to not permit the performance of any services that would impair independence.  This evaluation shall be performed by the Director of Finance, who may consult the independent auditor or other external sources in making this determination.

In addition, for each non-audit service that is to be provided by the Organization's independent auditor, the Organization shall:

1. Designate a management level individual to be responsible and accountable for overseeing the non-audit service (to be determined by the Executive Director.

2. Establish and monitor performance of the non-audit service to ensure that it meets management's objectives (to be performed by the person designated in step 1).

3. Make any decisions that involve management functions related to the non-audit service and accept full responsibility for such decisions.

4. Evaluate the adequacy of the services performed and findings that result.

## How Often to Review the Selection of the Auditor

SCHRA shall review the selection of its independent auditor in the following circumstances:

1. Any time there is dissatisfaction with the service of the current firm.
2. When a fresh perspective and new ideas are desired.
3. Every 5 years to ensure competitive pricing and a high quality of service (this is not a requirement to change auditors every five years, but simply to reevaluate the selection).

## Selecting an Auditor

The selection of an accounting firm to conduct the annual audit is a task that should be taken very seriously. The following factors shall be considered by SCHRA in selecting an accounting firm:

1. The firm's reputation in the nonprofit community.
2. The depth of the firm's understanding of and experience with not-for-profit organizations and federal reporting requirements under 2 CFR Part 200.
3. The firm's demonstrated ability to provide the services requested in a timely manner.
4. The ability of firm personnel to communicate with Organization personnel in a professional and congenial manner.

If SCHRA decides to prepare and issue a written Request for Proposal (RFP) to be sent to prospective audit firms, the following information shall be included:

1. Period of services required
2. Type of contract to be awarded (fixed fee, cost basis, etc.)
3. Complete description of the services requested (audit, management letter, tax returns, etc.)
4. Identification of meetings requiring their attendance, such as staff or Board of Director meetings
5. Organization chart of SCHRA
6. Chart of account information
7. Financial information about the Organization
8. Copy of prior year reports (financial statements, management letters, etc.)
9. Identification of need to perform audit in accordance with 2 CFR Part 200.500 – 521 and the appropriate Compliance Supplements.
10. Other information considered appropriate
11. Description of proposal and format requirements
12. Due date of proposals
13. Overview of selection process (i.e., whether finalists will be interviewed, when a decision shall be made, etc.)
14. Identification of criteria for selection

Minimum Proposal Requirements from prospective CPA firms shall be:

1. Firm background
2. Biographical information (resumes) of key firm member who will serve SCHRA
3. Client references
4. Information about the firm's capabilities
5. Firm's approach to performing an audit
6. Copy of the firm's most recent quality/peer review report, including any accompanying letter of findings
7. Other resources available with the firm
8. Expected timing and completion of the audit
9. Expected delivery of reports
10. Cost estimate including estimated number of hours per staff member
11. Rate per hour for each auditor
12. Other information as appropriate

In order to narrow down the proposals to the top selections, the Director of Finance shall meet with the prospective engagement teams from each proposing firm to discuss their proposal. Copies of all proposals shall be forwarded to each member of the Budget, State/Local Appropriations, & Audit Committee. After the Director of Finance narrows down the field of prospective auditors to three firms, final interviews of each firm are conducted by the Budget, State/Local Appropriations, & Audit Committee, who makes the final recommendation to the Board of Directors for approval.

## Preparation for the Annual Audit

SCHRA shall be actively involved in planning for and assisting with the Organization's independent accounting firm in order to ensure a smooth and timely audit of its financial statements. In that regard, the Accounting Department shall provide assistance to the independent auditors in the following areas:

***Planning* –** The Director of Finance is responsible for delegating the assignments and responsibilities to accounting staff in preparation for the audit. The Director of Finance shall review the list of information requested by the auditors and assign responsibility for each item to the appropriate staff of SCHRA. The Director of Finance shall then schedule and direct status meetings in the weeks leading up to the audit in order to review the progress of staff in preparing for the audit.

The Director of Finance shall arrange and coordinate any and all meetings, interviews, telephone discussions, and conference calls requested by the auditor with SCHRA board members, audit or finance committee members, or employees of SCHRA to facilitate the auditor's work. Prior to any such meetings or discussions, the Director of Finance shall inform each Organization participant of the nature of the discussion or meeting and what, if any, preparations they should do prior to the meeting. The Director of Finance shall communicate to each SCHRA participant in such meetings or discussions the importance of being open, honest, and frank with the auditors with respect to any and all questions posed by the auditors.

***Involvement*** – Organization staff will do as much work as possible in order to assist the auditors and, therefore, reduce the cost of the audit.

***Interim Procedures* –** To facilitate the timely completion of the annual audit, the independent auditors may perform selected audit procedures prior to the Organization's year-end. By performing significant portions of audit work as of an interim date, the work required subsequent to year-end is reduced. Organization staff will provide requested schedules and documents to assist the auditors during any interim audit fieldwork.

Throughout the audit process, SCHRA will make every effort to provide schedules, documents, and information requested by the auditors in a timely manner.

## Concluding the Audit

Upon receipt of a draft of the audited financial statements of SCHRA from its independent auditor, the Director of Finance shall perform a detailed review of the draft, consisting of the following procedures:

1. Carefully read the entire report for typographical errors.
2. Trace and agree each number in the financial statements and accompanying footnotes to the accounting records and/or internal financial statements of SCHRA.
3. Review each footnote for accuracy and completeness.

Any questions or errors noted as part of this review shall be communicated to the independent auditor in a timely manner and resolved to the satisfaction of the Director of Finance.

It shall also be the responsibility of the Director of Finance to review and respond in writing to all management letters or other internal control and compliance report findings and recommendations made by the independent auditor.

In addition, the Single Audit Clearinghouse form shall be completed and a copy submitted to the Budget, State/Local Appropriations, & Audit Committee.

## Audit Adjustments

It is the policy of SCHRA to review all adjustments prepared by the independent auditor in connection with the annual audit, and, if in concurrence, record them in the general ledger.

The Organization may also receive a list of unadjusted differences (or passed audit adjustments) from the independent auditor in connection with the audit. If the Organization receives such a list, it shall be the responsibility of the Director of Finance to review them and determine whether or not to record them in the current year.

## Internal Control Deficiencies Noted During the Audit

In accordance with generally accepted auditing standards, at the conclusion of the audit the Organization's independent auditors may provide a written communication of internal control deficiencies noted in connection with their audit. Not all deficiencies in internal control are required to be reported by the auditor. Only the following two types of deficiencies are required to be communicated:

1. **Material weakness** – A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

2. **Significant deficiency** – A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The Organization's independent auditors are required to provide written communication to the Audit Committee of all significant deficiencies and material weaknesses (i.e., only those control deficiencies that rise to the level of materiality at which they qualify under the definitions provided above, in the opinion of the auditor).

It is the Organization's policy that all internal control deficiencies that are communicated by the auditor in writing shall be formally addressed by the Audit Committee, the Executive Director, and the Director of Finance. The Executive Director and the Director of Finance shall prepare a written response, which shall include a corrective action plan, to each internal control finding and such response shall be presented to the Audit Committee for its review and approval.

## Audit Committee Communications with the Auditors

In accordance with generally accepted auditing standards, in connection with and at the conclusion of each annual audit, the auditors are required to make certain communications directly to the Audit Committee. The Director of Finance shall facilitate all of these communications, arranging for face-to-face meetings, telephone or conference calls, or delivery of electronic or paper documents between auditor and Audit Committee members.

Some of the communications that SCHRA's auditors may have with the Organization's Audit Committee include:

1. Planning discussions prior to commencing the audit, such as by inquiring of audit committee members their perception of where the risk of material misstatements in the Organization's financial statements may be greatest, the various risks of fraud, and other inquiries.

2. Planning stage communications informing the audit committee of the planned scope and nature of certain audit procedures that the auditors plan to perform, to aid in the audit committee members having a thorough understanding of the audit.

3. Internal control deficiencies noted during the audit, communicated in writing at the conclusion of the audit.

4. Any material fraud detected by the auditor, or any fraud, regardless of materiality, involving senior management, noted at any time during the audit.

5. Significant problems or other issues that arose during the audit (e.g., disagreements with management and certain other items that the auditors may be required to report to the audit committee).

6. Audit adjustments made by the auditors as a result of their audit.

7. Certain audit differences noted by the auditors that they deemed not material enough to warrant making an adjustment for.

Audit Committee members should be aware of these communications and engage in active discussions with the auditors whenever it is considered appropriate in the fulfillment of these or their other duties.

# INSURANCE

## Overview

It is fiscally prudent to have an active risk management program that includes a comprehensive insurance package. This will ensure the viability and continued operations of SCHRA.

SCHRA maintains adequate insurance against general liability, as well as coverage for buildings, contents, computers, fine arts, equipment, machinery, and other items of value.

## Coverage Guidelines

As a guideline, SCHRA will arrange for the following types and levels of insurance as a minimum:

| Type of Coverage | Amount of Coverage |
|---|---|
| Comprehensive Liability | $1,000,000 |
| Umbrella Liability | $1,000,000–$10,000,000 |
| Automobiles for Employees, Volunteers, or Escorts | $1,000,000 |
| Employee dishonesty/bonding | $1,000,000 for all accounting department employees and the Executive Director |
| Fire and Water Damage | Coverage for all items with acquisition cost greater than $1,000 |
| Directors and Officers | $1,000,000 (with an appropriate deductible level) |
| Theft | Coverage for all items with acquisition cost greater than $1,000 |
| Workers' Compensation | To the extent required by law (or contractual obligations of the Organization) |

SCHRA shall maintain a detailed listing of all insurance policies in effect. This listing shall include the following information, at a minimum:

1. Description (type of insurance)
2. Agent and insurance company, including all contact information
3. Coverage and deductibles
4. Premium amounts and frequency of payment
5. Policy effective dates
6. Date(s) premiums paid and check numbers

## Insurance Definitions

***Workers' Compensation and Employer's Liability***

Contractors are required to comply with applicable federal and state workers' compensation and occupational disease statutes. If occupational diseases are not compensated under those statutes, they shall be covered under the employer's liability insurance policy, except when contract operations are so commingled that it would not be practical to require this coverage.

***Fidelity Bond***

For all personnel handling cash or preparing or signing checks, SCHRA shall obtain insurance that provides coverage in a blanket fidelity bond. The specific needs of the Organization will determine the dollar limit of this coverage.

***Comprehensive Liability***

This type of coverage may include directors, officers, and employee general liability insurance, buildings, contents, computers, fine arts, boilers, and machinery.

# RECORD RETENTION

## Record Retention Policy

SCHRA retains records as required by law and destroys them when appropriate. All files, both hard copy and electronic shall be labeled with topic, year (if applicable), and destruction date. Electronic copies shall be saved in appropriate folders on the network storage device. Hard copies should be stored in file cabinets or archived in the storage area. Archived hard copy files shall be stored in water and animal proof containers.

The destruction of records must be approved by the Director of Finance and logged into the Organization's Destroyed Records Log. Review and purging of files may take place on an ongoing basis, but must occur at least once per year, and must follow the minimum retention requirements outlined below.

The destruction of any documents containing social security numbers or any other "consumer data" as defined under federal laws and regulations shall be done via shredding using an approved shredding service provider.

The formal records retention policy of SCHRA is as follows:

| Record | Retention |
|---|---|
| Audit reports | Permanent |
| Correspondence – Legal and important matters | Permanent |
| Deeds, mortgages, and bills of sales | Permanent |
| Financial statements – Year-end | Permanent |
| General ledgers/year-end trial balance | Permanent |
| Minute books of directors, bylaws, and charters | Permanent |
| Retirement and pension records | Permanent |
| Tax returns and worksheets, examination reports and other documents relating to tax filings | Permanent |
| Trademark registrations and copyrights | Permanent |
| | |
| Accident reports/claims (settled Cases) | 7 Years |
| Accounts payable ledgers and schedules | 7 Years |
| Accounts receivable ledgers and schedules | 7 Years |
| Contracts, mortgages, notes, and leases – expired | 7 Years |
| Garnishments | 7 Years |
| Insurance claims | 7 years |
| Inventories of products, materials, and supplies | 7 Years |
| Invoices (to customers, from vendors) | 7 Years |
| Notes receivable ledgers and schedules | 7 Years |
| Payroll records and summaries | 7 Years |
| Personnel records (terminated) | 7 Years |
| Property records (incl. depreciation schedules) | 7 years |
| Purchase orders | 7 Years |

| Record | Retention |
|---|---|
| Sales records | 7 Years |
| Subsidiary ledgers | 7 Years |
| Timecards/cards | 7 Years |
| Withholding tax statements | 7 Years |
| | |
| Bank statement & reconciliations | 3 Years |
| Chart of accounts | 3 years |
| Employment applications | 3 Years |
| Insurance policies (expired) | 3 Years |
| Internal audit reports | 3 Years |
| Internal reports | 3 Years |
| Petty cash vouchers | 3 Years |
| | |
| Correspondence – General | 2 Years |

## **Exception for Investigations**

In connection with any ongoing or anticipated investigation into allegations of violations of federal laws or regulations, provisions of government awards, or violations of the Organization's Code of Conduct, the following exceptions are made to the preceding scheduled retention and/or destruction of records:

1. All records related to the subject of the investigation or allegation shall be exempt from any scheduled record destruction.

2. The term "records" shall also apply to any electronically stored record (e.g., documents stored on computers, email messages, etc.), which shall also be protected from destruction.