



LOS ANGELES COUNTY PROBATION DEPARTMENT

CONTRACT MONITORING OFFICE

JUVENILE JUSTICE CRIME PREVENTION ACT (JJCPA) CONTRACT MONITORING MANUAL

2008

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LOS ANGELES COUNTY PROBATION DEPARTMENT

Subject: CONTRACT MONITORING OFFICE MANUAL INTRODUCTION AND OVERVIEW	Section Number: CMOM-100
	Effective Date: July 31, 2007
	Approved By: Dave Leone, Quality Assurance Services Bureau Chief

101 INTRODUCTION

Background information on the Juvenile Justice Crime Prevention Act

In 2000, then State Senator Adam Schiff and then Assembly member Tony Cardenas introduced a landmark legislation to provide equal funding for juvenile justice prevention as is provided for the suppression of crime. The Schiff-Cardenas Crime Prevention Act of 2000 was signed on September 7, 2000. This bill allocated funding to counties on a per capita basis to be spent on prevention and intervention of juvenile crimes. In 2001, a senate bill extended the funding and changed the program's name to the Juvenile Justice Crime Prevention Act (JJCPA).

On November 7, 2002, the Board of Supervisors approved a formal governance and member structure for this funding. The Juvenile Justice Coordinating Council (JJCC) was formed to discuss programs funded under JJCPA and other similar programs and make recommendations. The JJCC was formed in an effort to provide a forum where counties had a stable funding source for juvenile programs that have been proven effective in reducing crime among at-risk and young offenders.

102 CONTRACT MONITORING OVERVIEW

The monitoring of a contract determines the success of a contract. A contract may be very well written, include all the necessary legal clauses and have a detailed Statement of Work (SOW) with performance requirements. However, without someone monitoring the contractor's compliance, there is a potential that the contract will be unsuccessful.

Monitoring is a regular process of evaluating contractor performance and verifying the compliance with the terms and conditions of the contract. To properly monitor a contract, a contract monitor must know the requirements of that contract. A comprehensive review of a contract is a necessary step to understanding what the requirements are. The SOW defines the scope of work to be performed by the contractor, including performance indicators and standards.

The Contract Monitoring Office currently monitors forty JJCPA contracts. These contracts include Employment, Home Based, Home Based Gender Specific, Gender in the Community and Gang Intervention. On a quarterly

INTRODUCTION AND OVERVIEW

basis, the Contract Monitoring Office conducts program and fiscal reviews. Administrative reviews are conducted twice a year.

Program Review

This type of review evaluates contractor's compliance in the delivering of agreed upon services as stated in the SOW. In addition to conducting the program reviews, contract monitors are required to meet with the contractor's program manager to obtain an overview of the program and discuss any relevant issues pertaining to the contract. Furthermore, contract monitors conduct site visits and interviews with minors and parents participating in the program to ensure delivery of services.

Fiscal Review

This type of review evaluates the contractor's compliance with the fiscal requirements of the contract. This includes reviewing contractor's invoices for timeliness, completeness and accuracy. Contract monitors are also required to ensure that funds allocated are properly used and consistent with the contract.

Administrative Review

This type of review evaluates the contractor's compliance with the terms and conditions of the contract. This includes understanding the hierarchical structure, functions, bylaws and regulations applicable to the contractor's operations.

INTRODUCTION AND OVERVIEW

The following table details the different JJCPA contracts that the Contract Monitoring Office is currently monitoring:

Contract Monitoring Office				
List of Juvenile Justice Crime Prevention Act Contracts				
	Service Type	Contract Number	Community Based Organization	Cluster
1	Employment	PROB 640-06-112	Goodwill Southern California	1
2	Employment	PROB 640-04-117	Goodwill Southern California	5
3	Employment	PROB 640-06-111	Goodwill Southern California	5
4	Employment	PROB 640-04-114	Jewish Vocational Services	3
5	Employment	PROB 640-04-120	Jewish Vocational Services	3
6	Employment	PROB 640-04-113	Masada Homes	4
7	Employment	PROB 640-04-118	Soledad Enrichment Action, Inc	2
8	Employment	PROB 640-04-121	Soledad Enrichment Action, Inc	1
9	Employment	PROB 640-06-110	Soledad Enrichment Action, Inc.	2
10	Employment	PROB 640-04-119	Special Services for Groups	4
11	Gang Intervention	PROB 0077	Art Share Los Angeles	1
12	Gang Intervention	PROB 0078	Art Share Los Angeles	1
13	Gang Intervention	PROB 0073	Asian American Drug Abuse Prevention	2
14	Gang Intervention	PROB 74660	Asian Youth Center	5
15	Gang Intervention	PROB 0072	Communities in Schools	3
16	Gang Intervention	PROB 74659	Communities in Schools	5
17	Gang Intervention	PROB 0082	Helpline Youth Counseling	4
18	Gang Intervention	PROB 0081	Helpline Youth Counseling	4
19	Gang Intervention	PROB 0080	Stop the Violence	2
20	Gang Intervention	PROB 0083	United Community Action Network	5
21	Gender Community	PROB 640-05-021	Girls Club of Los Angeles	2
22	Gender Community	PROB 640-05-023	Helpline Youth Counseling	4
23	Gender Community	PROB 640-05-020	Inter-Agency Drug Abuse Recovery Program	1
24	Gender Community	PROB 640-05-022	Inter-Agency Drug Abuse Recovery Program	3
25	Gender Community	PROB 640-05-024	The David and Margaret Home, Inc.	5
26	Gender Home Based	PROB 640-05-012	Asian American Drug Abuse Prevention	2
27	Gender Home Based	PROB 640-05-014	Asian Youth Center	5
28	Gender Home Based	PROB 640-05-015	Communities in Schools	3
29	Gender Home Based	PROB 640-05-011	Star View Children and Family Services	1
30	Gender Home Based	PROB 640-05-013	Star View Children and Family Services	4
31	Home Based	PROB 640-05-007	Asian Youth Center	5
32	Home Based	PROB 640-06-108	Asian Youth Center	5
33	Home Based	PROB 640-05-009	Communities in Schools	3
34	Home Based	PROB 640-05-001	Inter-Agency Drug Abuse Recovery Program	1
35	Home Based	PROB 640-05-004	Inter-Agency Drug Abuse Recovery Program	2
36	Home Based	PROB 640-05-005	Inter-Agency Drug Abuse Recovery Program	3
37	Home Based	PROB 640-05-002	Soledad Enrichment Action, Inc	1
38	Home Based	PROB 640-06-107	Soledad Enrichment Action, Inc	2
39	Home Based	PROB 640-06-109	Star View Children and Family Services	4
40	Home Based	PROB 640-05-010	Star View Children and Family Services	4

LOS ANGELES COUNTY PROBATION DEPARTMENT

Subject: CONTRACT MONITORING OFFICE MANUAL TASKS AND STANDARDS	Section Number: CMOM-200
	Effective Date: July 31, 2007
	Approved By: Dave Leone, Quality Assurance Services Bureau Chief

EMPLOYEE LAST NAME	FIRST	MIDDLE	EMPLOYEE #
FUNCTIONAL ROLE: CONTRACT MONITOR		UNIT: CONTRACT MONITORING	
POSITION/DUTIES & RESPONSIBILITIES		STANDARDS/CRITERIA	
<p>A contract monitor will be a member of a team of two monitors assigned to monitor contracts within a specific geographic Cluster (Supervisory District).</p> <p>Each contract monitor is assigned between 4 to 5 contracts. Monitors are to verify contractors compliance with the administrative and service requirements of the contract according to the Statement of Work (SOW), including ensuring that funds allocated are properly utilized.</p>		<p>Each contract monitor is required to be thoroughly knowledgeable of all contracts assigned to their specific geographic cluster.</p>	
<p>Each contract monitor will conduct reviews in accordance with the guidelines of the Contract Monitoring Manual and supervisor's recommendations.</p> <p>Program reviews should be complete and accurate to provide proper support for findings and/or discrepancies to demonstrate the nature and scope of the reviewed work.</p> <p>Each contract monitor will ensure each respective contractor maintain accurate and complete financial records of its activities and operations relating to the specific contract by obtaining copies of contractor(s) invoices from the Fiscal section.</p> <p>Follow instructions in the Contract Monitoring Instrument and as needed implement them with constructive ideas.</p> <p>Review all work prior to submission in order to ensure completeness and to minimize need for corrections.</p> <p>Complete assignments within the instructed timeframes.</p> <p>The unit supervisor will review each audit files to verify the contract monitor has accurately documented their audits .</p>		<p>On a quarterly basis each contract monitor must review the requirements of the contract(s) to ensure each deliverable is being provided according to the Statement of Work (SOW).</p> <p>The monitor must be able to identify areas of weakness or potential improvement through the quarterly programmatic reviews. The information in the program review documentation should be restricted to matters that are materially important and relevant to the objectives of the assignment.</p> <p>The monitor must be able to reconcile services provided and billed and account for any discrepancies recorded against the billing.</p> <p>The monitoring instruments should be neat, concise, organized and in conformance with the unit standards.</p> <p>Each monitor must budget their time to effectively meet deadlines reviewing required contracts.</p> <p>All assignments will be turned into the unit supervisors on a quarterly basis for their review.</p>	

CMU Tasks & Standards Employee's Signature: _____ Date: _____

TASKS AND STANDARDS

Contract monitors will meet independently with Community-Based Organizations (CBO's) and their staff, including probation staff responsible for the oversight of all the contracts.	<p>The monitor must understand the hierarchical structure, functions, bylaws, and regulations applicable to the contractor's operations.</p> <p>Each contract monitor will conduct themselves in a professional manner at all times when conducting business on behalf of the Los Angeles County Probation Department.</p> <p>Monitor will provide technical assistance as needed to contractors and their employees to ensure contractual compliance.</p> <p>Provide in-house support to new probation staff such as, Cluster Managers, Deputy Probation Officers (DPO's), and new staff within the unit.</p>
<p>Contract monitors will ensure that all contracts with a transportation component, have the required licenses, insurance, and vehicle maintenance records to transport minors. This information is to be documented in the contract review file as part of the required Administrative Review.</p> <p>The unit supervisor will review audit files to verify the contract monitor has collected all supporting documents to ensure the contractor is in compliance with the transportation component.</p>	<p>Monitor will request from the contractor(s), copies of all proper transportation documentation and records on file to ensure compliance with regards to the transportation requirements.</p> <p>The transportation review will be neat, concise, organized and in conformance with the unit standards.</p>
<p>Contract monitors are required to monitor a minimum of 4 contracts per year, which requires the following areas:</p> <ul style="list-style-type: none"> Complete 4 program reviews per contract Complete 1 administrative review per contract Complete 1 follow-up administrative review (6 months later) per contract Complete 4 program memos per contract Complete 4 site visits per contract Complete 8 standard questionnaire forms with minors/parents participating in the program (minimum of 2 per quarter) Complete 4 fiscal reviews (reconcile to billing) 	<p>Contract monitors will have a file for each contract that documents all the different sections that are monitored for the Fiscal Year (FY).</p> <p>Each contract file will have the following sections:</p> <ul style="list-style-type: none"> Contract Information Section Contract & Modifications Section Administrative Review Section <ul style="list-style-type: none"> Initial Review Follow-Up Review PROGRAM REVIEW SECTION Case File <ul style="list-style-type: none"> Case Notes Identify Completion/Non Completion of Client PROGRAM MEMOS SECTION <ul style="list-style-type: none"> Note any changes/problems with overall program or concerns of contractor QUESTIONNAIRE SECTION <ul style="list-style-type: none"> Complete standard questionnaires regarding program and effectiveness given to the client Fiscal Review Section <ul style="list-style-type: none"> Reconcile deliverables to actual billings to ensure funds are being properly allocated according to approved budget Transportation Review Section <ul style="list-style-type: none"> Initial Review Follow-Up Review <p>This will be conducted in accordance with the guidelines of the Contract Monitoring Manual and supervisor's recommendations.</p>
Complete 2 transportation reviews (every 6 months) per contract	

LOS ANGELES COUNTY PROBATION DEPARTMENT

Subject: CONTRACT MONITORING OFFICE MANUAL ADMINISTRATIVE REVIEWS	Section Number: CMOM-300
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	Approved By: Dave Leone, Quality Assurance Services Bureau Chief

301 INTRODUCTION

Contract monitors are required to conduct administrative reviews on all JJCPA contracts. Administrative reviews evaluate the contractor's compliance with the terms and conditions of the contract. This includes understanding the hierarchical structure, functions, bylaws and regulations applicable to the contractor's operations. Administrative reviews are conducted twice a year. The first review is comprehensive and the second review is a follow-up to the original review.

302 ENTRANCE CONFERENCE LETTERS

Prior to conducting an administrative review, a contract monitor is required to schedule an appointment with the contractor. Once the appointment date has been confirmed with the contractor, the contract monitor must fax the entrance conference letter to the agency with the agreed upon date and time of the review. The letter should include an attachment that lists all the required documents to conduct the administrative review (Refer to Section 700 Exhibit 1).

303 ADMINISTRATIVE REVIEW-REQUIRED DOCUMENTS

In order to ensure compliance with the administrative requirements of the contract; a contract monitor is required to obtain and review the documents described below.

Letter 501C-3 Tax Exempt Status

This is a tax law provision granting exemption from income taxes to non-profit organizations. This exemption does not cover other federal taxes such as employment taxes. The contract monitor must obtain a copy of the contractor's 501 (C) (3) tax exempt letter and file in the respective file.

Articles of Incorporation and Bylaws

This is a formal document prepared by individuals that wish to establish a corporation in the United States. The documents must be filed with the authorities in the state in which the corporation wishes to reside. Rules governing the company's internal management are set forth in its bylaws.

ADMINISTRATIVE REVIEWS

The contract monitor must review Articles of Incorporation and Bylaws to determine that they appropriately reference the contracted agency and file them in the respective file.

List of Board of Directors

The contract monitor must obtain a list of the board of directors. He or she must review the membership list to verify that it contains the names and addresses of all board members and identifies all board officers. It should then be filed in the respective file.

The contract monitor must also verify that the board membership complies with the agency's bylaws (number of members, officers, etc).

Organizational Chart

The contract monitor must verify that the most recent organizational chart is in the contract file along with a list of whom the Los Angeles County Probation Department would contact if an issue regarding the contract were to arise.

Board Meeting Minutes

The contract monitor must obtain a copy of the last three board meeting minutes and read the minutes carefully for any potential liabilities to the organization.

Licenses

The contract monitor must verify that the contractor maintains appropriate and current licenses, permits, certifications, registrations and accreditations (e.g., state license, state certification and business license).

Certificates of Insurance

The contract monitor must use the Insurance Requirement Worksheet to document all insurance requirements (Refer to Section 700 Exhibit 2).

The contract monitor must verify that the certificates or other documentation of insurance coverage specifically identifies the contract number(s) and contains the express condition that the county be given written notice by registered mail at least 30 days in advance of any modification or termination of the insurance coverage. He or she must also verify that the certificate of insurance names the County of Los Angeles as the additional insured.

The contract monitor must verify that the contractor has a current certificate of insurance for comprehensive general liability, and that the policy covers all contract-required conditions and amounts as stated in the contract.

ADMINISTRATIVE REVIEWS

The contractor must have a current certificate of insurance for all owned, non-owned and hired vehicles in the contract file. The combined single limit per occurrence must be at least the amount required by contract. The contractor must also have a current coverage for professional liability in the certificate of insurance.

The contract monitor must verify that the contractor has a current certificate of Worker's Compensation Insurance. He or she is required to notify the contract manager/analyst of any non-compliance of insurance. Failure of the contractor to provide adequate coverage puts the County at financial risk. If the contractor has a subcontractor, the contract monitor must review the contract for any subcontracting insurance requirements.

Contractor's Procedures for Receiving, Investigating, and Responding to Complaints

The contract monitor must ensure that the contractor has a written policy and procedures for receiving, investigating and responding to complaints.

Subcontract Agreements

The contract monitor must obtain copies of subcontract agreements and ensure approval from the Department.

Quarterly Payroll Taxes

The contract monitor must request copies of the Employer's Quarterly Federal Tax Return (Form 941) and the State Quarterly Wage Withholding Report (Form DE-6). He or she must also obtain copies of cancelled checks or bank statements to verify electronic fund transfers for the payment of payroll taxes for the quarter(s) in review.

The contract monitor must also review the agency payroll register to verify the federal and state tax liability and traced the amounts to the cancelled checks or the electronic wire transfers by reviewing the bank statements for that period. The total amount should agree to the tax liability for the quarter.

Personnel Requirements

The contract monitor must obtain a list of all employees assigned to work under the contract and use the Personnel Worksheet to document and verify the following (Refer to Section 700 Exhibit 3):

- List employee names, job titles and start dates.
- I-9 Form – This is required in each employee's file to verify employment eligibility in the United States.

ADMINISTRATIVE REVIEWS

- Background Clearance – Each employee file must have a letter from the probation Department with the notice of background clearance.
- Qualification – In this section of the Personnel Worksheet, list the employee's level of education or certifications in a special field.
- Confidentiality of Criminal Offender Record Information (CORI) – This form is to ensure the department's confidentiality policy regarding criminal record information is adhered to. A signed copy must be in each employee's file.
- Employee's Acknowledgment of Employer Form – This form states that the employee is an employee of the contractor and is not an employee of Los Angeles County. It also acknowledges that the employee does not have and will not acquire any rights or benefits of any kind from the County of Los Angeles. A signed copy must be in each employee's file.
- Driver's License – Driver's license information is required if applicable to the contract.
- Safely Surrendered Baby Law – All employees must be informed about and receive a copy of the Safe Surrender fact sheet available at www.babysafela.org.
- Jury Service Ordinance – A copy of the written policy from the contractor that provides its employees on annual basis, no less than five days of regular pay for actual jury services must be obtained. The contractor can be exempt from the ordinance only under the following conditions:
 - The contractor has ten or fewer employees during the contract period.
 - The contractor has annual gross revenues in the preceding twelve months which, if added to the annual amount of the contract awarded, are less than \$500,000.
 - The contractor is not an affiliate or subsidiary of a business dominant in its field of operation.

304 DOCUMENTING THE ADMINISTRATIVE REVIEW

Once a Contract Monitor has collected and reviewed all the documents for the administrative review, he or she is required to use the Administrative Evaluation Checklist (Refer to Section 700 Exhibit 4) to assign a file page number to each document related. For example, follow the preceding format:

ADMINISTRATIVE REVIEWS

- A-1 Entrance Conference Letter
- A-2 Copy of the IRS letter 501 C-3 Tax Exempt Status
- A-3 Articles of Incorporation
- A-4 List of Board of Directors
- A-5 Organizational Chart Last three (3) most recent board meeting minutes
- A-6 Certificates of Insurance

The Administrative Evaluation Checklist must also include the contract monitor's initials, the date the review was conducted and any comments if applicable. In addition to the checklist, contract monitors are required to prepare a summary of the review in a memo format (Refer to Section 700 Exhibit 5).

305 FINDINGS LETTERS

If the contractor is not in compliance with all the administrative requirements, a preliminary findings letter will be sent to the contractor. The preliminary findings letter should identify the documents that were not made available during the review. It should also state that the contractor has two weeks to respond to the findings. If the contractor does not comply with the findings, a subsequent findings letter will be issued. All findings letters require the approval of the unit supervisor.

LOS ANGELES COUNTY PROBATION DEPARTMENT

Subject: CONTRACT MONITORING OFFICE MANUAL PROGRAM REVIEWS	Section Number: CMOM-400
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401 INTRODUCTION

A contract monitor is assigned to a team of two within a specific geographic area and will be required to understand all requirements of the contracts assigned to his or her cluster. On a quarterly basis, contract monitors are required to conduct program reviews for all Juvenile Justice Crime Prevention Act (JJCPA) contracts such as Employment, Home Based, Home Based Gender Specific, Gender in the Community and Gang Intervention.

The objective of the program reviews is to ensure services are provided in accordance with the statement of work of all contracts. Contract monitors monitor all contract components and compile program statistics based on the contractor's documented evidence of services. They use a monitoring instrument that tracks each billable service unit. In conjunction with the program reviews, contract monitors are required to meet with program managers, interview minors and parents participating in the programs and conduct site visits to observe delivery of services.

402 ENTRANCE CONFERENCE LETTERS

Prior to conducting a program review, a contract monitor is required to schedule an appointment with the contractor. Once the appointment date has been confirmed with the contractor, fax the entrance conference letter to the agency with the agreed upon date and time of the review and the period the review will cover. In addition, the contract monitor must request that all case files are available for those minors participating in the program, obtain a schedule of services if applicable and a list of the minors participating in the program (Refer to Section 700 Exhibit 6).

403 REVIEW OF EMPLOYMENT SERVICES CONTRACTS

The contractor is required to provide employment services to targeted probation youth, 17-18 years old, within a service area. In some instances, the Probation Department may refer 16 year-old youths. The services are intended to increase job readiness and job placement/retention with an aim towards increasing youth employment that can lead to successful career paths. The contractor is required to provide the employment services on a fee for service basis under the following employment modules:

- Module 1 – Individualized Assessment and Employment Eligibility Support Services

PROGRAM REVIEWS

- Module 2 – Job Readiness Training and Full Time Job Placement
- Module 3 – Vocational Training and Full Time Job Placement
- Module 4 – Employment Retention Services

In order to conduct a program review, a contact monitor will use the Employment Monitoring Instrument (Refer to Section 700 Exhibit 7) to ensure that the contractor is in compliance with the contract. The contract monitor is required to take the following actions detailed below:

Module 1 – Individualized Assessment and Employment Eligibility Support Services

The contract monitor must verify that contractor has received an approved referral form from the Central Processing Team (CPT) (Refer to Section 700 Exhibit 8).

He or she must also verify that contractor has conducted and completed an assessment for all program participants using an assessment instrument within seven business days of receipt of the referral. At a minimum, the assessment instrument needs to identify the participant's traits, strengths/weaknesses as they relate to employability, skills, and interest (Refer to Section 700 Exhibit 9).

The contract monitor must ensure that all participants have a case file with documentation of services provided under this module. At a minimum, case files shall include the following:

- Referral form
- Assessment
- Work/Vocational case plan
- Progress notes
- Sign-in sheets
- Work permit
- Copy of valid identification
- Copy of social security card

PROGRAM REVIEWS

The contractor is only eligible for payment when he or she submits, via fax, the Assessment Tool used to evaluate the minor to the CPT within five business day of completion of the assessment.

Module 2 – Job Readiness Training and Full Time Job Placement

Based on the assessment conducted under Module 1, the CPT will make the determination to refer the minor to either Module 2 or 3 but not both (Refer to Section 700 Exhibit 10).

For services under Module 2, the contract monitor must ensure that the contractor has received an approved referral form from the CPT. Under Module 2, the contractor is required to provide Job Readiness Training and the contract monitor is required to verify the following:

The contractor must provide a minimum of nine two-hour workshops and the curriculum must include the following topics:

- Application and resume writing
- Job interview and practice/technique
- Orientation/life skills
- Job search techniques
- Grooming and proper work habits
- Good citizenship
- Work ethics
- Anger management as it pertains to authority and the work environment
- Self control in the workplace
- Problem solving
- Appropriate workplace attitude
- Gender-specific life skills training and problem solving training that relates to female issues in the workplace

The contract monitor must ensure that a copy of the certificate of completion for the nine two-hour workshops is placed in the case file, which allows the minor to be eligible for job placement (Refer to Section 700 Exhibit 11). The contractor is eligible for payment only when the certificate of completion is sent to the CPT with proof of job placement.

LOS ANGELES COUNTY PROBATION DEPARTMENT	CMOM-400
PROGRAM REVIEWS	

Module 3 – Vocational Training and Full Time Job Placement

Based on the assessment conducted under Module 1, the CPT will make the determination to refer the minor to either Module 2 or 3 but not both (Refer to Section 700 Exhibit 10). For services under Module 3, the contract monitor must ensure that the contractor has received an approved referral form from the CPT. Under Module 3, the contractor is required to provide Vocational Training and the contract monitor is required to verify the following:

The contract monitor must ensure that vocational training is at minimum of three to six months in length in areas such as, but not limited to, computer repair, auto repair, welding or certified nursing assistance.

He or she must also ensure that a copy of the certificate of completion is placed in the client case file, which allows the minor to be eligible for job placement. The contractor is eligible for payment only when a copy of the certificate of completion is sent to the CPT with proof of job placement.

Module 4 – Employment Retention Services

The contract monitor must verify that the contractor has received an approved referral form from the CPT indicating that the minor is eligible for employment retention services under Module 4. Employment retention services may be approved for maximum of six months after job placement (Refer to Section 700 Exhibit 12).

In order for the contractor to be compensated on a monthly basis for employment retention services, the contractor has to obtain a copy of the minor's payroll check or provide a signed document from their employer indicating proof of employment.

Instructions for Completing Monitoring Instrument

The contract monitor is required to use the Employment Monitoring Instrument (Refer to Section 700 Exhibit 7) to verify program requirements and document the billable service units for each module. He or she should refer to the exhibit in order to follow instructions on how to complete the instrument.

The contract monitor must ensure that the header information on the Monitoring Instrument includes the following:

PROGRAM REVIEWS

Contractor	Column	
Contractor Name	(1)	Information can be found in the Contract
Contract Type	(2)	
Contract Number	(3)	
Contract Amount	(4)	
Review Period	(5)	Based on which quarter you are auditing
Review Date	(6)	

Within the contract, the fees for services have been identified. The contract monitor should indicate the dollar amount for each module in the following area:

Contractor	Column	
Module 1	(7)	Information can be found in the Contract
Module 2	(8)	
Module 3	(9)	
Module 4	(10)	
Administrative	(11)	

When reviewing the case file for each individual participating in the program, the contract monitor will be required to obtain the following information:

Participant	Column	
Last Name	(12)	Can be found on the referral form received from the CPT Unit.
First Name	(13)	
Middle Name	(14)	
Date of Birth (DOB)	(15)	
PDJ	(16)	
Referral Date	(17)	Information can be found within the agencies client case file
Authorization Date	(18)	
Assessment Form	(19)	
Case Plan	(20)	Can be found on the referral form authorizing Module 2 or 3
Completion Date	(21)	

The contractor will then receive an additional authorization indicating which module has been approved to participate (2 or 3). For Module 2, the contract monitor will be required to verify that each participant has received a minimum of nine two-hour workshops for job readiness training. Each date of instruction should be noted and verified in the case file.

Module 2 – Job Readiness Training and Full Time Job Placement

PROGRAM REVIEWS

2 hr Sessions	Dates	Column	
Session 1	00/00/00	(22)	Information can be found within the agencies client case files
Session 2	00/00/00	(23)	
Session 3	00/00/00	(24)	
Session 4	00/00/00	(25)	
Session 5	00/00/00	(26)	
Session 6	00/00/00	(27)	
Session 7	00/00/00	(28)	
Session 8	00/00/00	(29)	
Session 9	00/00/00	(30)	Information can be found on the referral form authorizing Module 2 or 3
Completion	00/00/00	(31)	

Upon completion of the nine two-hour workshops for job readiness placement instructions, the contractor is required to provide a certificate of completion.

Module 3 – Vocational Training and Full Time Job Placement

The contractor will then receive an additional authorization indicating which module has been approved for participate (2 or 3). For Module 3, the contract monitor will be required to verify that each participant has received vocational training at minimum of three to six months in length in areas such as, but not limited to, computer repair, auto repair, welding, or certified nursing assistance.

Voc. Training	Column	
Agency	(32)	Information can be found within the agencies client case files
Type	(33)	
Sessions Completed	(34)	
Certificate of Completion	(35)	
Job Verification	(36)	
Completion Date	(37)	

Module 4 – Job Retention

The contract monitor must verify that the contractor has received an approved referral form from the CPT indicating that the minor is eligible for employment retention services under Module 4. Employment retention services may be approved for maximum of six months after job placement.

In order for the contractor to be compensated on a monthly basis for employment retention services, the contractor has to obtain a copy of the minor's payroll check or provide a signed document from their employer indicating proof of employment.

PROGRAM REVIEWS

<u>Job Retention</u>	<u>Column</u>	
Month 1	(38)	} Information can be found within the agencies client case files
Month 2	(39)	
Month 3	(40)	
Month 4	(41)	
Month 5	(42)	
Month 6	(43)	
Completion Date	(44)	

Employment Program Memos

In conjunction with the program review, the contract monitor is required to meet with the contractor's program manager to obtain an overview of the program and discuss any relevant issues pertaining to the contract. This includes the number of referrals, any barriers to delivering the services for the different modules, and the collaboration between the deputy probation officers (DPOs) and the contractor. This information will be prepared in detailed memo format based on the information obtained from the discussion with the program manager.

Employment Site Visits

Arrangements should be made with the program manager or case workers to schedule a site visit to observe the delivery of services. The purpose of the site visit is to ensure that the contractor is in compliance with the statement of work in the contract. The contract monitor will prepare a detailed memo discussing how many minors were in attendance, topics covered during the session, and any relevant observations made while conducting the visit.

Employment Interviews

In order to ensure delivery of service, the contract monitor is required to interview minors participating in the program. The Contract Monitoring Office has a standard questionnaire for these interviews. The minor's interview can be conducted while conducting the site visit or at the minor's school site when arranged with the case worker or the minor's deputy probation officer. Interviews can also be conducted over the phone (Refer to Section 700 Exhibit 23).

404 REVIEW OF HOME-BASED SERVICES CONTRACTS

The contractor is required to provide intensive family centered Home-Based services to a targeted population of high-risk youth, ages 14 -18, and their families within a service area. The services are intended to avert an ongoing escalation of criminal and delinquent behavior, promote school success, and strengthen the family unit. Parent Support and Youth Support services are provided on a fee for services basis at the participant's home.

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In order to conduct a program review, the contract monitor will use the Home-Based Monitoring Instrument to ensure that the contractor is in compliance with the contract. The contract monitor is required to verify the following:

The contract monitor must verify that the contractor has received an approved referral form from the Central Processing Team (Refer to Section 700 Exhibit 13).

He or she must verify that the contractor made contact with the referred minor and parent/guardian within five days of receiving the referral (Refer to Section 700 Exhibit 15).

The contract monitor must ensure that all participants in the program have a client case file which includes but is not limited to:

- Referral form
- Signed "Release of Information Form"
- Case Notes on the participant's progress or lack of progress at home, in school, and/or in the community
- Home contact sheets
- Copy of any risks, needs and case plan goals provided by the department
- Baseline Measure and Client Family Outcome (Refer to Section 700 Exhibits 16 and 18)

The contract monitor must ensure that the contractor maintains accurate and updated records on the services provided to the participants.

He or she must review each "Home Contact Sheet" in the minor's case file and document in the Home-Based Monitoring Instrument each individual date and the number of hours the contractor met with the minor and parent during the period in review (Refer to Section 700 Exhibit 17).

In the Home-Based Monitoring Instrument, the contract monitor must also document if the minor successfully completed the program. For those minors that did not complete the program, the reason why the minor was unable to complete the program must be stated. Reasons can include the minor was non-responsive, re-incarcerated, or a bench warrant was issued for the minor.

Completing Home-Based Monitoring Instrument

The contract monitor is required to use the Home-Based Monitoring Instrument (refer to Section 700 Exhibit 13) to verify program requirements

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and document the billable service units for each session conducted at the home. Refer to the exhibit in order to follow the instructions on how to complete the instrument.

The contract monitor must ensure that the Header Information on each monitoring instrument includes the following:

Contractor	Column	
Agency	(1)	This information can be found in the Contract
Services	(2)	
Contract Number	(3)	
Contract Amount	(4)	
Review Period	(5)	Based on which quarter you are auditing
Review Date	(6)	

Within the contract, the fees for services have been identified. The dollar amount must be indicated for each category for the following area:

Contractor	Column	
Service	(7)	This information can be found in the Contract
Training	(8)	
Administrative	(9)	

When reviewing the case file for each individual participating in the Home-Based services program, the contract monitor will be required to obtain the following information:

Participant	Column	
Last Name	(10)	This information can be found on the referral form received from the CPT Unit.
First Name	(11)	
Middle Name	(12)	
Date of Birth (DOB)	(13)	
PDJ	(14)	
Referral Date	(15)	

When entering the data for Parent Support and Youth Support services, the contract monitor must include the date and number of hours for each category. The following information on each monitoring instrument must include the following:

	Column	
Start Date	(16)	This information can be found within the agencies client case file
Intake Date	(17)	
Release Consent	(18)	
Parent Support	(19)	This information can be found within the Home Contact Sheet
Youth Support	(20)	

The contract monitor must ensure that the following information is indicated on the monitoring instruments:

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	Column	
Completion Date	(21)	This information can be found within the agencies client case files
Case Plan on File	(22)	
Baseline Measure Date	(23)	→ Base Line Form
Client/Family Outcomes Date	(24)	→ Client Outcome Form
Total number of hours	(25)	→ Formula in Worksheet
General Comments	(26)	→ Comments by Contract Monitor

Home-Based Program Memos

In conjunction with the program review, the contract monitor is required to meet with the contractor's program manager to obtain an overview of the program and discuss any relevant issues pertaining to the contract. This includes the number of referrals, any barriers to delivery of services, or collaboration between the deputy probation officers and the contractor. This will be prepared in detailed memo format based on the information obtained from the discussion with the program manager.

Home-Based Site Visits

The contract monitor is not required to conduct a site visit for this program because the services are provided at the minors' home.

Home-Based Interviews

In order to ensure delivery of service, the contract monitor is required to interview minors and parents participating in the program. The Contract Monitoring Office has standard questionnaires for these interviews (Refer to Section 700 Exhibit 23). The minor's interview can be conducted at the minor's school site when arranged with the case worker or the minor's deputy probation officer. Interviews can also be conducted over the phone.

405 REVIEW OF HOME-BASED GENDER SPECIFIC CONTRACTS

The contractor is required to provide intensive family centered Home-Based gender specific services to a targeted population of high-risk female youth, ages 14 -18, and their families within a service area. The services are intended to avert an ongoing escalation of criminal and delinquent behavior, promote school success, and strengthen the family unit. Parent Support and Female Youth Support services are provided on a fee for services basis at the participant's home.

In order to conduct the program review, the contract monitor will use the Gender Specific Home-Based Monitoring Instrument (Refer to Section 700 Exhibit 14) to ensure that the contractor is in compliance with the contract. The contract monitor is required to verify the following:

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The contract monitor must verify that contractor has received an approved referral form from the Central Processing Team (Refer to Section 700 Exhibit 13).

He or she must also verify that the contractor made contact with the referred minor and parent/guardian within five days of receiving the referral.

The contract monitor must ensure that all female participants in the program have a client case file which includes but is not limited to:

- Referral form
- Signed "Release of Information Form"
- Case Notes on the participant's progress or lack of progress at home, in school, and/or in the community
- Home contact sheets
- Copy of any risks, needs and case plan goals provided by the department
- Baseline Measure and Client Family Outcome (Refer to Section 700 Exhibits 16 and 18)

The contract monitor must also ensure that the contractor maintains accurate and updated records on the services that the participant received.

He or she must review each "Home Contact Sheet" in the minor's case file and document in the Home- Based Gender Specific Monitoring Instrument each individual date and the number of hours the contractor met with the minor and parent during the period in review (Refer to Section 700 Exhibit 17).

In the Home-Based Monitoring Instrument, the contract monitor must also document if the minor successfully completed the program. For those minors that did not complete the program, the reason why the minor was unable to complete the program must be stated. Reasons can include the minor was non-responsive, re-incarcerated, or a bench warrant was issued for the minor.

Home-Based Gender Monitoring Instrument Instructions

The contract monitor is required to use the Home-Based Gender Monitoring Instrument (Refer to Section 700 Exhibit 14) to verify program requirements and document the billable service units for each session conducted at the home. Refer to the exhibit in order to follow instructions on how to complete the instrument.

The contract monitor must ensure that the Header Information on each monitoring instrument includes the following:

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Contractor	Column	
Agency	(1)	This information can be found in the Contract
Services	(2)	
Contract Number	(3)	
Contract Amount	(4)	
Review Period	(5)	Based on which quarter you are auditing
Review Date	(6)	

Within the contract, the fees for services have been identified. The dollar amount should be indicated for each category for the following area:

Contractor	Column	
Service	(7)	This information can be found in the Contract
Training	(8)	
Administrative	(9)	

When reviewing the case file for each individual participating in the Home-Based Gender Specific services program, the contract monitor will be required to obtain the following information:

Participant	Column	
Last Name	(10)	This information can be found on the referral form received from the CPT Unit.
First Name	(11)	
Middle Name	(12)	
Date of Birth (DOB)	(13)	
PDJ	(14)	
Referral Date	(15)	

When entering the data for Parent Support and Youth Support services, the contract monitor must include the date and number of hours for each category. He or she must ensure that the following information on each monitoring instrument includes the following:

	Column	
Start Date	(16)	This information can be found within the agencies client case file
Intake Date	(17)	
Release Consent	(18)	
Parent Support	(19)	This information can be found within the Home Contact Sheet
Youth Support	(20)	

The contract monitor must ensure that the following information is indicated on the monitoring instruments:

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	Column	
Completion Date	(21)	This information can be found within the agencies client case files
Case Plan on File	(22)	
Baseline Measure Date	(23)	Base Line Form
Client/Family Outcomes Date	(24)	Client Outcome Form
Total number of hours	(25)	Formula in Worksheet
General Comments	(26)	Comments by Contract Monitor

Home-Based Gender Program Memos

In conjunction with the program review, the contract monitor is required to meet with the contractor's program manager to obtain an overview of the program and discuss any relevant issues pertaining to the contract. This includes the number of referrals, any barriers to delivery of services, or collaboration between the deputy probation officers and the contractor. This will be prepared in detailed memo format based on the information obtained from the discussion with the program manager.

Home-Based Gender Site Visits

The contract monitor is not required to conduct site visit for this program because the services are provided at the minor's home.

Home-Based Gender Interviews

In order to ensure delivery of service, the contract monitor is required to interview minors and parents participating in the program. The Contract Monitoring Office has standard questionnaires for these interviews (Refer to Section 700 Exhibit 23). The minor's interview can be conducted at the minor's school site when arranged with the case worker or the minor's deputy probation officer. Interviews can also be conducted over the phone.

406 REVIEW OF GENDER IN THE COMMUNITY CONTRACTS

The contractor is required to provide gender specific, intensive family centered, community based services to a targeted population of at risk and probation female youth, ages 12-18 and their families within a service area. The services are intended to avert an ongoing escalation of criminal and delinquent behavior, promote school success, and strengthen the family unit. The services are provided in the community where the participants reside.

The contractor is required to provide the following community based services on a fee for services basis:

- Parent orientation/support workshops
- Mentoring activities
- Empowerment workshops

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- Mother and daughter activities

In order to conduct the program review, the contract monitor will use the Gender in the Community Monitoring Instrument (Refer to Section 700 Exhibit 19) to ensure that the contractor is in compliance with the contract. The contract monitor is required to verify the following:

The contract monitor must verify that contractor has received an approved referral form from the Central Processing Team (Refer to Section 700 Exhibit 20).

He or she must verify that the contractor made contact with the referred minor and parent/guardian within five days of receiving the referral.

The contract monitor must ensure that all female participants in the program have a case file which includes but is not limited to:

- Referral form
- Signed "Release of Information Form"
- Case Notes that reflects documentation on the participant's attendance and progress in the specific activities
- Copy of any risks, needs and case plan goals provided by the department

The contract monitor must also ensure that the contractor maintains accurate and updated records on the services provided to the participants.

Gender in the Community Monitoring Instrument Instructions

The contract monitor is required to use Gender in the Community Monitoring Instrument (Refer to Section 700 Exhibit 19) to verify program requirements and document the billable service units for each session conducted at the home. Refer to the exhibit in order to follow instructions on how to complete the instrument.

The contract monitor must ensure that the Header Information on each monitoring instrument includes the following:

Contractor	Column	
Agency	(1)	} This information can be found in the Contract
Services	(2)	
Contract Number	(3)	
Contract Amount	(4)	

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Review Period	(5)	} Based on which quarter you are auditing
Date of Review	(6)	

Within the contract, the fees for services have been identified. The dollar amount must be indicated for each category. Under this contract, the contractor bills the Department per workshop and not per minor attending the workshops.

Contractor	Column	
Service	(7)	} This information can be found in the Contract
Training	(8)	
Administrative	(9)	

When reviewing the case file for each individual participating in the Gender in the Community services program, the contract monitor will be required to obtain the following information:

Participant	Column	
Last Name	(10)	} This information can be found on the referral form received from the CPT Unit.
First Name	(11)	
Middle Name	(12)	
Date of Birth (DOB)	(13)	
PDJ	(14)	
Referral Date	(15)	

When entering the data for parent orientation, mentoring activities, empowerment workshops, mother/daughter activities, and pre-test scores, the contract monitor must include the date and number of hours for each category.

	Column	
Initial Date of Parent Orientation	(16)	} This information can be found within the agencies client case file and workshops sign in sheets
Date and hours of service	(17)	
Initial Date for Mentoring Activities	(18)	
Date and hours of service	(19)	
Initial Date for Empowerment	(20)	
Date and hours of service	(21)	
Initial Date for Mother/Daughter	(22)	
Date and hours of service	(23)	
Pre-Test Score	(24)	

The contract monitor must ensure that the following information is indicated on the monitoring instruments:

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	Column	
Completion Date	(21)	This information can be found within the agencies client case files
Pre-Test Score	(22)	
Case Plan	(23)	
Release Consent	(24)	
Total number of hours	(25)	
General Comments	(26)	Comments by Contract Monitor

Gender in the Community Program Memos

In conjunction with the program review, the contract monitor needs to meet with the program manager to obtain an overview of the program and discuss any relevant issues pertaining to the contract such as the number of referrals, any barriers delivering the services, and levels of collaboration between the deputy probation officers and the agency. Prepare a detailed memo based on the information obtained from the discussion with the program manager.

Gender in the Community Site Visits

Arrangements can be made with the program manager or case workers to conduct a site visit to observe delivery of services. The purpose of the site visit is to ensure that the contractor is in compliance with the statement of work in the contract. Prepare a detailed memo discussing how many minors were in attendance, topics covered during the session, and any relevant observations made while conducting the visit.

Gender in the Community Interviews

In order to ensure delivery of service, the Contract Monitoring Office has a standard questionnaire for the interviews (Refer to Section 700 Exhibit 23). The contract monitor needs to interview minors participating in the program. The interviews can be conducted while conducting the site visit, over the phone, or at the minor's school site. Conducting interviews at the minor's school site can be arranged with the case worker or the minor's deputy probation officer. Interviews can also be conducted over the phone.

407 REVIEW OF GANG INTERVENTION CONTRACTS

The contractor is required to provide gang intervention services within a service area. The services should include counseling services as stipulated by the deputy probation officer in the case plan or referral form (Refer to Section 700 Exhibit 22). The counseling can be individual, group, or family depending upon the initial assessment by the counseling professional. The counseling services should be provided as follows:

- A minimum of six sessions per case
- A minimum of two sessions per month

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- A minimum of one hour per session

The contract monitor must ensure that the contractor generates a case file for all participants in the program. The case file should include the referral form, sign in sheets, and case notes on the participant's progress.

Gang Intervention Monitoring Instrument Instructions

The contract monitor is required to use the Gang Intervention Monitoring Instrument (Refer to Section 700 Exhibit 21) to document the service provided under the contract. Refer to the exhibit in order to follow instructions on how to complete the instrument.

The contract monitor must ensure that the Header Information on each monitoring instrument includes the following:

Contractor	Column	
Cluster	(1)	→ This information is determined by which cluster the Contract Monitor is assigned
Contractor Name	(2)	} Information can be found in the Contract
Subcontractor	(3)	
Contract Number	(4)	
Program	(5)	
Contract Period	(6)	} Based on which quarter you are auditing
Review Period	(7)	
Name of Reviewer	(8)	
Date of Review	(9)	

The contract monitor must ensure that all participants in the program have a case file, which includes the referral form, sign in sheets, and case notes on the participant's progress. In addition, case files should also include the number of hours each client has participated in counseling sessions and what type of counseling the client had.

	Column	
Clients Name	(10)	→ Information can be found within the agencies client case file
Previous Quarter Carryover Hours	(11)	→ Obtain information from previous qtr review
Service for Week Ending (Last Friday of ea month)	(12)	→ Information can be found within the agencies client case file
Subtotal for Quarter	(13)	} Formula in worksheet
Total for all Quarter	(14)	
Total Quarters + Carryover Hrs	(15)	
% Completed	(16)	
% Of Compliance	(17)	} Comments by Contract Monitor
General Comments	(18)	

Gang Intervention Program Memos

In conjunction with the program review, the contract monitor needs to meet with the program manager to obtain an overview of the program and discuss any relevant issues pertaining to the contract such as the number of referrals, any barriers delivering the services, and levels of collaboration between the

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deputy probation officers and the agency. The contract monitor is required to prepare a detailed memo based on the information obtained from the discussion with the program manager.

Gang Intervention Site Visits

Arrangements can be made with the program manager or case workers to conduct a site visit to observe delivery of services. The purpose of the site visit is to ensure that the contractor is in compliance with the statement of work in the contract. Prepare a detailed memo discussing how many minors were in attendance, topics covered during the session, and any relevant observations made while conducting the visit.

Gang Intervention Interviews

In order to ensure delivery of service, the contract monitor is required to interview minors participating in the program. The Contract Monitoring Office has standard questionnaires for these interviews (Refer to Section 700 Exhibit 23). The interviews can be conducted while conducting the site visit, over the phone, or at the minor's school site. Interviews conducted at the minor's school site can be arranged with the case worker or the minor's deputy probation officer.

Gang Intervention Transportation Services

The contractor is required to provide transportation services to the minors participating in the program. Contract monitors are required to conduct transportation reviews twice a year to ensure that the contractors are in compliance with the transportation requirements outlined in the contract.

The following documents need to be requested from the contractor:

- Current vehicle registration for all vehicles used to transport
- Receipts of maintenance for each vehicle
- Copies of the driver's licenses for individuals transporting the minors

If the contractor is using a commercial vehicle to transport the minors, a Class B Drivers License is required. The requirement is based on the definition of what is considered a commercial vehicle by the California Department of Motor Vehicles and the California Highway Patrol.

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*The California Department of Motor Vehicles has defined a commercial motor vehicle as a vehicle designed or used for either the transportation of persons for compensation or property and “is any vehicle (bus, farm labor vehicle, general public paratransit vehicle, etc.) designed; used, or maintained to carry more than 10 passengers including the driver, for hire or profit, **or is used by any nonprofit organization or group.**”*

California Highway Patrol’s definition of capacity is not the number of passengers being transported but the vehicle manufacturer’s “capacity” specifications. Vehicles that are altered by eliminating extra seats do not change the manufactures design of the vehicle.

If necessary, the contract monitor should access the Internet to research the manufacturer’s capacity of the vehicle to determine if someone with a “Class B” driver’s license must drive this type of vehicle. Once all the necessary documentation is collected, prepare a detailed memo stating that the contractor is in compliance with the transportation requirements. If he or she is not in compliance, a findings letter should be sent to the contractor.

408 BILLING SUBSTANTIATION

As part of the program reviews for Employment, Home-Based, Home-Based Gender Specific, and Gender in the Community contracts, the contract monitor is required to substantiate that the units of services billed to the department agreed to the units of services verified during each program review. The contract monitor is required to obtain copies of the invoices submitted to the department and can contact Fiscal Services to arrange an appointment to do so.

When reconciling the units of services for Gender in the Community contracts, contract monitors must keep in my mind that services provided under these contracts are billed to the department per workshop and not per individual minor participating in the program.

Gang Intervention contracts are cost reimbursement contracts. Section 500 of this manual details information on how to conduct a fiscal review for these types of contracts.

If there are any discrepancies in the number of units billed to the department with the number of units verified during the program reviews, the contract monitor must contact the contractor to obtain an explanation or to obtain additional documentation to clarify the discrepancies. If discrepancies cannot be resolved, refer to Section 410 of this manual below. It explains the process of issuing a finding letter to the contractors.

409 EXIT LETTERS

If the contractor is in compliance with the statement of work and there were no discrepancies in the number of sessions billed to the department, an exit letter

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will be sent to the contractor to officially inform of his or her compliance with the contract.

410 FINDINGS LETTERS

If the contractor is not in compliance with the statement of work and/or there were discrepancies in the number of sessions billed to the department with the number of sessions verified during the reviews, a preliminary findings letter will be sent to the contractor. The preliminary findings letter should identify and quantify the discrepancies. It should also state that the contractor has two weeks to respond to the findings. If the discrepancies are resolved, no further action is required. If the contractor does not comply or provide back up documentation to resolve the findings, a subsequent findings letter will be issued. All findings letters require the approval of the unit supervisor.

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Subject: CONTRACT MONITORING OFFICE MANUAL FISCAL REVIEWS	Section Number: CMOM-500
	Effective Date: July 31, 2007
	Approved By: Dave Leone, Quality Assurance Services Bureau Chief

501 INTRODUCTION

The following procedure has been established to guide in the completion of fiscal reviews within the Contract Monitoring Office for the Juvenile Justice Crime Prevention Act Program (JJCPA). Within the JJCPA monitoring unit, fiscal reviews are only conducted for contracts that are cost reimbursement. Currently, the only JJCPA program that requires a fiscal review is the gang intervention program.

502 PURPOSE OF THE FISCAL REVIEW

The fiscal review serves as permanent documentation that an examination of a contractor's original documentation to support reimbursement has occurred and that the contractor's request for payment has been duly substantiated. The fiscal review is conducted to cross check billing substantiation submitted by the contractor to support his or her request for payment or reimbursement for services rendered to minors that have been referred for services by School-Based Probation Officers of the Intensive Gang Supervision Program (IGSP).

Upon receipt of an approved contract, the assigned contract monitor is issued a copy that includes the contractor's projected budget for the term of the contract. It is imperative for the contract monitor to become aware of the projected budget. A crucial responsibility of the contract monitor is to monitor the current and the projected use of allocated funds to ensure their availability for the duration of the contract year.

Another key function of the contract monitor in the fiscal review process is to provide a closer examination of original documentation maintained by the contractor to support reimbursement.

After conducting a fiscal review, contract monitors are required to communicate any identified discrepancies or other pertinent information discovered during their review to their immediate supervisor, their assigned cluster manager, and the designated Fiscal Services staff assigned to review reimbursement invoices. This must be done prior to approval and subsequent payment.

On a quarterly basis, the JJCPA supervisor assigns fiscal reviews. The assigned contract monitor is required to perform a fiscal review for each quarter during a contract's term.

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Contractors are required to submit requests for reimbursement within thirty days after the completion of each calendar month's financial activities. There are exceptions to this requirement. The contract monitor can conduct fiscal reviews after partnering contractors have submitted the required invoices and the warrant checks have been subsequently issued and redeemed.

503 ENTRANCE CONFERENCE LETTERS

Prior to conducting a fiscal review, the contract monitor is required to schedule an appointment with the contractor to conduct the review. Once the appointment date has been confirmed with the contractor, the contract monitor must fax the entrance conference letter to the agency with the agreed upon date and time of the review. The letter should include an attachment listing all the required documents to conduct the fiscal review (Refer to Section 700 Exhibit 24).

504 PROCEDURES FOR FISCAL REVIEW

Prior to the review, the contract monitor is required to ensure that his or her fiscal worksheets are formatted correctly to decrease the amount of time the contract monitor spends with the contractor.

On the day of the review, the contract monitor should arrive on time. He or she must explain the review procedures, collect the requested documents and then proceed to the area where the audit will be conducted.

The fiscal review consists of three major areas; Cash Disbursements, Cash Receipts and Payroll.

Completing Cash Disbursements Worksheet

When completing the Cash Disbursements worksheet (Refer to Section 700 Exhibit 25), the steps detailed below must be taken.

The contract monitor must ensure that the Header information on the Cash Disbursement worksheet includes the following:

- Contractor name
- Contract type and contract number (example: Gang Intervention #12345)
- Contract period
- Contract amount
- Review period

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- Date of the review
- Contract monitor's name

Using the information provided by the contractor, the contract monitor must use the Cash Disbursements worksheet to list all of the direct and indirect expenses being billed for each individual month. While doing so, he or she must ensure that all of the expenses are lined up on the line corresponding to the correct item in the approved budget column.

Once all expenses have been listed, the contract monitor must ensure that the Full Time Employee (FTE) percentages are consistent with the approved budget.

Using the recorded budget in the first column on the worksheet, the contract monitor must ensure that the rate of expense is in accordance with approved budget.

He or she must also ensure that only approved budgeted items appear on the submitted cash disbursement worksheet submitted by the contractor.

A contractor's indirect expenses cannot exceed 15 percent of the total budget. The monthly indirect expenses may exceed 15 percent of the monthly invoice amount, but the percentage should be monitored to ensure that the overall indirect expenditures don't exceed the allotted 15 percent.

The contract monitor must ensure that the itemized indirect expenses are in accordance with the department's established policy on the classification of indirect expenses.

The contract monitor must review original bills for the invoices submitted to the Probation Department to ensure both their authenticity and that the correct amount of the invoice has been recorded on the contractor's general ledger that was subsequently reported.

He or she must ensure that the percentages of submitted invoices have been correctly calculated and that all amounts are in accordance with the established percentages.

The contract monitor must also verify payment of submitted invoices by indicating the method of payment, all recorded check numbers, etc. he or she must randomly select at least three invoices to sample billed expenses. This is to be accomplished by indicating the method of payment through cross checking the billed expenses with either a cancelled check or an authentic Internet payment receipt. The contract monitor must specify the date of clearance from the provided bank statements and note any additional information on the bottom of the worksheet.

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Completing Cash Receipts Worksheet

On the Cash Receipts worksheet (Refer to Section 700 Exhibit 26), the contract monitor must indicate the following:

- In the first column, indicate month of reimbursement.
- In the second column, indicate the invoice number from the Department Payment Voucher.
- In the third column, indicate how much the contractor submitted to the department for reimbursement.
- In the fourth column, indicate the actual amount paid to the contractor for reimbursement of services. This amount will not include any deductions for disallowed costs resulting from the review conducted by the Probation Department's Fiscal Services section.
- In the fifth column, record the warrant number for the issued reimbursement.

At the bottom of the above listed columns, the contract monitor must ensure that a detailed explanation for each disallowed cost is clearly specified. The contractor should have been issued a letter along with the reimbursement indicating why any amounts were disallowed. Typical reasons for disallowances include, but are not limited to, employees having not cleared the department's background check prior to the contractor requesting funds for the new employee's salary, miscalculations of various items submitted for reimbursements, and items not being reimbursable under the contract agreement.

Completing Payroll Worksheet

On the Payroll worksheet (Refer to Section 700 Exhibit 27), the contract monitor must record the following:

- The name, payroll title, and budgeted amount of any employee in which the contractor has billed the Department for salary reimbursement in the payroll worksheet
- Using the contractor's provided payroll register, the monthly gross salary paid to each claimed employee
- Each employee's monthly gross salary that was billed to department

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- Using the approved budget, the FTE percentage of each employee's salary; the amount claimed to the department is the correct FTE percentage according to the approved budget
- Reviewed budget variance to determine material discrepancies
- The contractor's payroll register check number for each employee claimed

505 BILLING DISCREPANCIES

When the contract monitor discovers a discrepancy during the audit, he or she is required to meet with the contractor to clarify the matter and to ascertain the contractor's understanding of the occurrence. The matter should be fully addressed at the time of the review. Upon completion of the on-sight review, any issues discovered should also be verbally addressed with the contractor's Executive Director and/or the contractor's fiscal manager prior to constructing a formal findings letter.

If the contractor offers an acceptable explanation for the identified discrepancies, the contract monitor will send an exit letter to both the contractor and the assigned cluster manager indicating the contractor's compliance with the established contract.

All unresolved discrepancies should be reiterated in written form and forwarded to both the contractor's Executive Director and the assigned cluster manager. The contractor must be given two weeks to respond to the outlined discrepancies in writing.

If the contractor fails to offer an acceptable explanation for the identified discrepancy or discrepancies, a findings letter will be sent to the contractor indicating his or her lack of compliance with the existing contract along with the amount owed to the Probation Department. Arrangements to reimburse the department for funds resulting from invoice discrepancies are coordinated with the department's Fiscal Services section.

LOS ANGELES COUNTY PROBATION DEPARTMENT

Subject: CONTRACT MONITORING OFFICE MANUAL FILE ORGANIZATION	Section Number: CMOM-600
	Effective Date: July 31, 2007
	Approved By: Dave Leone, Quality Assurance Services Bureau Chief

601 CONTRACT MONITORING FILES FORMAT INTRODUCTION

One of the Contract Monitoring Office's objectives is to have a standard format for all audit files.

When developing the contract monitoring files, a contract monitor is required to use a letter size pressboard three part file. Each contract should have a separate file for each fiscal year that should follow the preceding format:

Contractor Information Form – First Section Left Side of File

This section of the file should include the Contractor's Information Form and the Site Visit Forms.

The Contractor Information Form details the contractor's information, including the contractor's name, contract number, address, phone and fax number, executive director's name, program manager's name, and subcontractor name(s) if applicable (Refer to Section 700 Exhibit 28).

The Site Visit Form is used to document all contacts/visits with the contractor. The contract monitor is required to submit these forms with the time cards on the 15th and the 30th of the month (Refer Section 700 Exhibit 29).

Copy of Contract and Contract Modifications – First Section Right Side of File

This section of the file should include a copy of the contract with all subsequent modifications made to the contract.

Administrative Reviews – Second Section Left Side of File

This section of the file should include the Administrative Verification Form and the two administrative reviews conducted during the fiscal year.

The Administrative Review Verification Form is used by the supervisor to sign off on the completion of the initial and the semi-annual administrative review. It is also used to verify that all required documents are in the file (Refer to Section 700 Exhibit 30).

For the two administrative reviews conducted during the fiscal year, the below detailed sequence should be tabbed and filed as follows:

FILE ORGANIZATION

1. Administrative Memo
2. Administrative Evaluation Checklist
3. Entrance Conference Letter
4. Required Administrative Documents
5. Findings Letter (if applicable)
6. Corrective Action Plan (if applicable)
7. Exit Letter

Transportation Review – Second Section Right Side of File

This section of the file should include the Transportation Verification Form and the two transportation reviews conducted during the fiscal year.

The Transportation Review Verification Form is used by the supervisor to sign off on the completion of the initial and semi-annual transportation review. It is also used to verify that all required documents are in the file (Refer to Section 700 Exhibit 31).

For the two transportation reviews conducted during the fiscal year, the below detailed sequence should be tabbed and filed as follows:

1. Transportation Memo
2. Supporting Documents
3. Findings Letter (if applicable)
4. Corrective Action Plan (if applicable)

Program Reviews – Third Section Left Side of File

This section of the file should include the Program Verification Form and the quarterly program reviews conducted during the fiscal year.

The Program Review Verification Form is used by the Supervisor to sign off on the completion of the quarterly program reviews conducted during the fiscal year (Refer to Section 700 Exhibit 32).

For the program reviews conducted during the fiscal year, the below detailed sequence should be tabbed and filed as follows:

FILE ORGANIZATION

1. Entrance Conference Letter
2. Program Review Monitoring Instrument
3. Findings Letter (if applicable)
4. Corrective Action Plan (if applicable)
5. Exit Letter

Memos, Site Visits, and Questionnaires – Fourth Section Right Side of File

This section of the file should include the program memos, site visits, and questionnaires conducted on a quarterly basis during the fiscal year.

On a quarterly basis for the program reviews conducted during the fiscal year, the below detailed sequence should be tabbed and filed as follows:

1. Program Memo
2. Site Visits
3. Questionnaires

Fiscal Reviews – Fourth Section Left Side of File

This section of the file should include the Fiscal Verification Form and the quarterly fiscal reviews conducted during the year.

The Fiscal Review Verification Form is used by the Supervisor to sign off on the completion of the quarterly fiscal reviews conducted during the year (Refer to Section 700 Exhibit 33).

For the two fiscal reviews conducted during the fiscal year, the below detailed sequence should be tabbed and filed as follows:

1. Entrance Conference Letter
2. Fiscal Review Worksheets
3. Findings Letter (if applicable)
4. Corrective Action Plan (if applicable)
5. Exit Letter

LOS ANGELES COUNTY PROBATION DEPARTMENT	CMOM-600
FILE ORGANIZATION	

Fiscal Substantiation – Fourth Section Right Side of File

This section of the file should include copies of the invoices to substantiate the fiscal reviews. To obtain copies of the invoices submitted to the Probation Department, the contract monitor is required to contact Fiscal Services and arrange for an appointment.

602 NAMING CONVENTION OF ELECTRONIC FILES

The Contract Monitoring Office has a standard naming convention for saving electronic files. All files should be saved on the U: Drive once the assignment has been reviewed and approved by the unit Supervisor, A copy of the file should also be placed in the L: Drive.

The contract monitor is required to use the following naming convention:

FILE ORGANIZATION

ASSIGNMENT CODES			
AR	Administrative Review	ARF	Administrative Review Findings Letter
AS	Administrative Review Semi-Annual	ASF	Administrative Semi Findings Letter
TR	Transportation Review	TRF	Transportation Review Findings Letter
TS	Transportation Review Semi-Annual	TSF	Transportation Review Semi-Annual Findings Letter
PMQ1	Program Memo Quarter 1	PFQ1	Program Review Quarter 1 Findings Letter
PMQ2	Program Memo Quarter 2	PFQ2	Program Review Quarter 2 Findings Letter
PMQ3	Program Memo Quarter 3	PFQ3	Program Review Quarter 3 Findings Letter
PMQ4	Program Memo Quarter 4	PFQ4	Program Review Quarter 4 Findings Letter
PQ1	Program Review Quarter 1	FFQ1	Fiscal Review Quarter 1 Findings Letter
PQ2	Program Review Quarter 2	FFQ2	Fiscal Review Quarter 2 Findings Letter
PQ3	Program Review Quarter 3	FFQ3	Fiscal Review Quarter 3 Findings Letter
PQ4	Program Review Quarter 4	FFQ4	Fiscal Review Quarter 4 Findings Letter
FQ1	Fiscal Review Quarter 1	AELQ1	Administrative Entrance Conference Letter Quarter 1
FQ2	Fiscal Review Quarter 2	PELQ#	Program Entrance Conference Letter Quarter #
FQ3	Fiscal Review Quarter 3	FELQ1	Program Entrance Conference Letter Quarter 1
FQ4	Fiscal Review Quarter 4	TELQ1	Transportation Entrance Conference Letter Quarter 1
QQ1	Questionnaires Quarter 1	PEQ1	Program Exit Letter Quarter 1
QQ2	Questionnaires Quarter 2	PLQ1	Program Compliance Letter Quarter 1
QQ3	Questionnaires Quarter 3		
QQ4	Questionnaires Quarter 4		
SVQ1	Site Visits Quarter 1		
SVQ2	Site Visits Quarter 2		
SVQ3	Site Visits Quarter 3		
SVQ4	Site Visits Quarter 4		



SERVICE CODES	
EMP	Employment
GC	Gender Community
GHB	Gender Home Based
GI	Gang Intervention
HB	Home Based
SB	School Based

EXAMPLE OF NAMING CONVENTION
Program Review Qtr1 Gang Intervention Cluster 5 Year-Service Code-Assignment Code-CBO-Cluster 2005-GI-PQ1-A3IANYOUTHCENTER-5

LOS ANGELES COUNTY PROBATION DEPARTMENT

Subject: CONTRACT MONITORING OFFICE MANUAL EXHIBITS	Section Number: CMOM-700
	Effective Date: July 31, 2007
	Approved By: Dave Leone, Quality Assurance Services Bureau Chief

701 ADMINISTRATIVE REVIEW EXHIBITS

ADMINISTRATIVE REVIEW EXHIBIT		EXHIBIT 1			
	<p>COUNTY OF LOS ANGELES PROBATION DEPARTMENT CONTRACT MONITORING OFFICE 7639 S. PAINTER AVE., WHITTIER, CA 90602 (562) 907- http://probation.co.la.ca.us</p>				
ROBERT B. TAYLOR CHIEF PROBATION OFFICER	QUALITY ASSURANCE SERVICES BUREAU CONTRACT MONITORING OFFICE				
<p>September 19, 2006</p> <p>Agency Director's Name Agency Name Address City, State, Zip Code</p> <p>Dear XXXXXXXX:</p> <p>This is to confirm our arrangement to conduct an administrative review of your Juvenile Justice Crime Prevention Act contract with the Los Angeles County Probation Department. As agreed, our review will begin on September 28, 2006 at 10:00 am.</p> <p>The following contracts will be examined:</p> <table border="0"> <tr> <td><u>Contract #</u></td> <td><u>Contract Period</u></td> <td><u>Service Type</u></td> </tr> </table> <p>Our work will consist of mainly examining administrative records, and obtaining an overview of services provided by you related to contracts listed above. Please have the records identified in the attached list, as well as any additional supporting documents available for our inspection. If your subcontract provider maintains certain records or information, please invite a representative from that agency to attend this meeting.</p> <p>If you have any questions relative to this meeting, please call me at (562) 907-XXXX.</p> <p>Sincerely,</p> <p>Contract Monitor's Name Contract Program Auditor Attachment</p>			<u>Contract #</u>	<u>Contract Period</u>	<u>Service Type</u>
<u>Contract #</u>	<u>Contract Period</u>	<u>Service Type</u>			

EXHIBITS**ADMINISTRATIVE REVIEW EXHIBIT****EXHIBIT 1**

AGENCY NAME

LIST OF REQUIRED DOCUMENTS

1. Copy of the IRS letter 501 C-3 Tax Exempt Status
2. Articles of Incorporation
3. List of Board of Directors
4. Organizational Chart (Program Director, names of all employees, reporting relationships)
5. Last three (3) most recent board meeting minutes
6. Certificates of Insurance
7. Contractor's procedures for receiving, investigating, and responding to complaints
8. Copy of subcontract agreements (if applicable)
9. Quarterly payroll taxes
10. Copies of cancelled checks or verification of electronic fund transfers on bank statements for the payment of payroll taxes
11. List of employees providing services under contract
12. Employee personnel files
13. Cost Allocation Plan
14. Copy of approved budget
15. List of other sources of funds
16. Cost allocation plan

EXHIBITS

ADMINISTRATIVE REVIEW EXHIBIT

EXHIBIT 2

INSURANCE REQUIREMENTS WORKSHEET		
COUNTY OF LOS ANGELES - PROBATION DEPARTMENT		
Contractor: _____	Contract Term: _____	
Contract Number(s): _____	Cluster/Program: _____	
CRITERIA	Y / N / NA	COMMENTS
1. Insurance specifically identifies all the above Contract #s	1	
2. 30 days written notice of modification or termination included	2	
3. County of Los Angeles is named as Additional Insured	3	
GENERAL LIABILITY is current. Expires: _____		
1. Written on:		
Commercial General Liability Form or Comprehensive General Liability Form endorsed for:		
a. General Aggregate	1a.	
b. Products / Completed Operations	1b.	
c. Personal and Advertising Injury	1c.	
2. Combined Single Limit of _____ per occurrence	2	
AUTO LIABILITY is current. Expires: _____		
1. Endorsed for:		
a. All owned vehicles	1a.	
b. Non-owned vehicles	1b.	
c. Hired vehicles	1c.	
d. Any auto	1d.	
2. Combined Single Limit of _____ per occurrence.	2	
PROFESSIONAL LIABILITY is current. Expires: _____		
\$ _____ limit per claim for any error, omission, negligent or wrongful act of Contractor or its Independent Contractors		
WORKER'S COMPENSATION is current. Expires: _____		
1. For all persons, employees or Independent Contractors \$ _____	1	
2. \$ _____ Employer's Liability limit per claim	2	
SUBCONTRACTOR INSURANCE EVIDENCED BY CONTRACTOR		
1	1	
2	2	
3	3	
Prepared By: _____	Date: _____	
Reviewed By: _____	Date: _____	

EXHIBITS**ADMINISTRATIVE REVIEW EXHIBIT****EXHIBIT 3****PERSONNEL REQUIREMENTS WORKSHEET****COUNTY OF LOS ANGELES – PROBATION DEPARTMENT**

Contractor: _____

Contract Number(s): _____

Review Period: _____

Employee Name				
Job Title				
Start Date				
Date 1 – 9 Completed				
Background Check				
Documented Qualification				
CORI				
Employee Acknowledgement of Employer				
Drivers License if applicable				
Other Comments				

NOTE: Verify how employer notifies employees of the Safe Baby Surrender Law and verify if employer offers 5 paid days of jury duty service to employees annually.

Prepared By: _____ Date Completed: _____

JD:0803

EXHIBITS

ADMINISTRATIVE REVIEW EXHIBIT

EXHIBIT 4

LOS ANGELES COUNTY PROBATION DEPARTMENT									
JUVENILE JUSTICE CRIME PREVENTION ACT									
CONTRACT MONITORING UNIT									
ADMINISTRATIVE EVALUATION CHECKLIST									
Contractor:					Cluster/Program:				
Contract Number:					Contract Term:				
					FILE PAGE NUMBER	MONITOR INITIALS	DATE PERFORMED	APPLICABLE NOTES	
ADMINISTRATIVE TESTWORK									
Entrance Conference Letter Provided to Agency									
Verify business organization and legal status, including 501C-3									
Review Articles of Incorporation and Bylaws									
Verify current membership of the Board of Directors									
Review organizational chart and determine appropriate agency hierarchy									
Review most current minutes of at least last three Board Meetings									
Verify contractor maintains appropriate licenses, permits, certificates, etc. as required by contract and all applicable, local, State and federal laws									
Verify certificates of insurance comply with contract requirements									
Verify Contractor has written procedures for receiving, investigating and responding to complaints									
Obtain copy of all subcontract agreements									
Obtain copy of Payroll tax reports for the quarter ended XXXXXX									
Request copies of cancelled checks or verification of electronic fund transfer on bank statements for the payment of payroll taxes.									
Request a list of employees charged to the program									
Review personnel files for completion of:									
Probation background clearance									
Completion of CORI form									
Completion of Acknowledgement and Confidentiality Agreement									
Completion of I & INS Employment Eligibility form									
Safely Surrendered Baby Law Fact Sheet provided to employees									
Employee Jury Service Policy									
Review copy of the budget									
Review list of other sources of funds									
Review cost allocation plan									
Findings Letter									
Corrective Action Plan									
Reviewed By: _____								Date: _____	

EXHIBITS**ADMINISTRATIVE REVIEW EXHIBIT****EXHIBIT 5**

QUALITY ASSURANCE SERVICES BUREAU
CONTRACT MONITORING OFFICE

Date: 9/29/06

TO: File**FROM:** Contract Monitor's Name**SUBJECT:** Administrative Memo

Agency Name:

Contract Number:

On September 19, 2006 a letter was faxed to Mary Do, Program Manager at XXXXXX to schedule an administrative review for the Home Based contract for the period of July 1, 2006 to June 30, 2007. All requested documents were provided to the Contract Monitoring Unit.

(Agency name) hired XXXXXXXX and XXXXXXXX as Case Workers for the program. Contract Monitor reviewed their personnel file to ensure that all required forms are on file. Based on the review of the board minutes it was noted that the last board meeting was held on April 24, 2006. Items discussed during the meeting were the purchase and sale of real state property by the agency. There were no discussions regarding any of the contracts with the Probation Department. Furthermore, it was noted that XXXXXXXXX business license and insurance are valid and current. For the fiscal year the agency has a total of \$2,205,702 in funding sources. It was also noted that the agency is up to date paying their quarterly taxes. Contract Monitor obtained copies of the agency quarterly taxes for the period of 4/1/06-6/30/06 Form 941 for federal taxes and Form DE-6 for state taxes.

Dates of expiration for the business license and insurance are as follows:

Date of Expiration	
Business License	Good until revoked or suspended
Insurance	
Auto Liability	8/1/07
General Liability	8/1/07
Workers Compensation	12/31/06

Amounts of taxes paid for the period of 4/1/06-6/30/06 are as follows:

EXHIBITS**ADMINISTRATIVE REVIEW EXHIBIT****EXHIBIT 5**

DE6 (California State Tax)	
Total Salaries subject to withhold	\$1,040,120.27
Total Tax Liability for the Quarter	\$17,486.54
940 (Federal Tax)	
Total Salaries subject to withhold	\$1,040,120.27
Total Tax Liability for the Quarter	\$245,767.91

Based on the review of (Agency name) quarterly taxes for the period of 4/1/06 thru 6/30/06, it was noted that the agency is a semiweekly schedule depositor with the Internal Revenue Services. We reviewed the agency payroll registers to verify the federal and state tax liability and traced the amounts to the electronic wire transfers by reviewing the bank statements for that period. The total amount of the wire transfers agreed to the tax liability for the quarter.

New personnel:

New employees to the contract	Background Clearance	CORI	Ack. of Employer	I-9 (INS form)
XXXXXXXXXX	9/8/06	9/22/06	9/8/06	9/8/06
XXXXXXXXXX	9/8/06	9/18/06	9/18/06	9/18/06

Subcontract Agreements:

(Agency name) does not have subcontractors.

Attachments:

17. Approved Budget
18. List of Other Sources of Funds
19. Cost Allocation Plan
20. Current Roster of Board of Directors
21. Board meeting minutes
22. Program Organizational Chart
23. Certificates of Insurance
24. List of employees providing services under contract
25. Payroll tax reports for the quarter ended June 30, 2006

EXHIBITS

702 PROGRAM REVIEW EXHIBITS

PROGRAM REVIEW EXHIBIT

EXHIBIT 6



ROBERT B. TAYLOR
CHIEF PROBATION OFFICER

COUNTY OF LOS ANGELES
PROBATION DEPARTMENT
QUALITY ASSURANCE SERVICES BUREAU
7639 PAINTER AVENUE
WHITTIER, CA 90602
(562) 907-
<http://probation.co.la.ca.us>



Date

Executive Director
Agency Name
Agency Address
City, State, Zip Code

Dear (Executive Director)

This is to confirm our arrangement to conduct a program review of your Juvenile Justice Crime Prevention Act contract with the Los Angeles County Probation Department. As agreed, our review will be on Friday, April 6, 2007.

The following contract will be examined:

<u>Contract #</u>	<u>Contract Period</u>	<u>Service Type</u>
XXXXX	10/15/06-10/14/07	Employment Services

Our work will consist of mainly examining programmatic records and obtaining an overview of the services. Please have the records identified in the attached list, as well as any additional supporting documents available for our inspection.

If you have any questions regarding this meeting, please call me at (562) 907 -XXXX

Sincerely,

Your Name
Contract Monitor

Attachment

Exhibit 6

PROBATION: PROTECTION, CORRECTION, SERVICE

EXHIBITS**PROGRAM REVIEW EXHIBIT****EXHIBIT 6**

(NAME OF AGENCY)

LIST OF REQUIRED DOCUMENTS

1. Current list of clients that are receiving services
2. Client case files (open and closed for the period of (XXXX-XXXX)
3. Schedule of services, including days and times.

EXHIBIT 7

[illegible]

EXHIBITS

PROGRAM REVIEW EXHIBIT

EXHIBIT 8

Los Angeles County Probation Department JJCPA				INITIAL EMPLOYMENT REFERRAL			
REFERRED YOUTH	Youth's Last Name		First Name	M.I.	Date of Birth / /	Age	Gender
	Parent/Guardian: Last Name		First Name	Parent's Primary Language		Cluster	
	Relationship To Minor	Home Address: Number and Street		City		Zip Code	
	Parents and Minor willing to participate? <input type="checkbox"/> Yes <input type="checkbox"/> No		Home Telephone Number	Other Contact Number		PDJ #	
	School Name		School type	Grade Level		Cumulative # of Credits	
	Youth's School Schedule						School Status
	Days youth is in school	<input type="checkbox"/> Mon	<input type="checkbox"/> Tue	<input type="checkbox"/> Wed	<input type="checkbox"/> Thu	<input type="checkbox"/> Fri	<input type="checkbox"/> Sat
Hours youth is in school (example: 8-2:30)							Is minor a HS Grad? <input type="checkbox"/> Yes <input type="checkbox"/> No Is minor a GED Recipient? <input type="checkbox"/> Yes <input type="checkbox"/> No
REFERRING DPO	DPO: Last Name, First Name		Program		Area Office		Caseload #
	Area Office Address: Number and Street		City		Zip Code	Telephone No.	
	Pager/Cell No.	Fax No.	SDPO: Last Name, First Name		Telephone No.		
REQUESTED SERVICES	CPT TO COMPLETE NEXT TWO SECTIONS						
	HRHN Employment Services <input type="checkbox"/> Module One: Assessment and Eligibility Support Services				Auth Date: _____		
					<input type="checkbox"/> Approved <input type="checkbox"/> Disapproved Comments		
REFERRED TO	Agency Name		Service Area		Cluster	Date Sent to CBO / /	
	Agency Address: Number and Street		City		Zip Code	Telephone No. () -	
AGENCY RESPONSE	AGENCY TO COMPLETE BELOW AND RETURN FORM						
	Contact Person: Name		Telephone No.		Fax No.		Date Referral Received
			() -		() -		/ /

EXHIBITS**PROGRAM REVIEW EXHIBIT****EXHIBIT 8****HRHN EMPLOYMENT VERIFICATION FORM**

New Job <input type="checkbox"/>	Change of Job <input type="checkbox"/>	Termination <input type="checkbox"/>	Other <input type="checkbox"/>
Youth's Name			
CBO Name			
Cluster and Service Area			
Employer/Company			
Work Address			
Work City, ZIP			
Work Telephone #			
Supervisor's Name and number			
Occupation			
Wage/hour			
Hours per week			
Job Start Date			
Termination Date			
Reason for Termination or Comments			

EXHIBITS

PROGRAM REVIEW EXHIBIT

EXHIBIT 9

ASSESSMENT REPORT**Section 1: PARTICIPANT INFORMATION**

Participant:		Gender:	
Social Security #:		Date of Attendance:	<input type="checkbox"/> Half Day <input type="checkbox"/> Full Day <input type="checkbox"/> Compton <input type="checkbox"/> ELA <input type="checkbox"/> FACTS-LA <input type="checkbox"/> FACTS-LB
Funding Source:		Case Manager:	
Assessment Provider:		Assessor:	

Section 2: PERSONAL DATA

Present Training/Education Level:	
Reported Work History:	

Section 3: TRANSFERABLE SKILLS

--

Section 4: STRENGTH/WEAKNESSES AS THEY RELATE TO EMPLOYABILITY

Strengths	
Weaknesses/Possible Limitations	
Support Services to Overcome Employment Barriers:	

EXHIBITS

PROGRAM REVIEW EXHIBIT

EXHIBIT 10

Los Angeles County Probation Department J J C P A				Authorization for HRHN Employment Services Modules	
AGENCY	Agency Name				
	Agency Address: Number and Street		City	Zip	Telephone
MODULE ONE	PDJ Number	Youth's Last Name	Youth's First Name	M.I.	DOB
	Start of Service Date: / /	Minor <input type="checkbox"/> completed Module 1 Completion Date:		Minor <input type="checkbox"/> did not complete Module 1 Did Not Complete Date:	
	Assessment Attached: <input type="checkbox"/> Yes <input type="checkbox"/> No			Reason for Non-Completion:	
	Work/Vocational Plan Attached: <input type="checkbox"/> Yes <input type="checkbox"/> No				
	CBO Recommendation:				
	<input type="checkbox"/> Module 2 <input type="checkbox"/> Module 3				
	Narrative				
CPT	Work/Vocational Plan Received: <input type="checkbox"/> Yes <input type="checkbox"/> No	Authorization Date: / /	Module Authorized: <input type="checkbox"/> Module 2 <u>OR</u> <input type="checkbox"/> Module 3		Signature
MODULE TWO OR THREE	Start of Service Date: / /	Module <input type="checkbox"/> Module 2 <input type="checkbox"/> Module 3	Did Not Complete Date:		Reason for Non-Completion:
	Completion Date: / /	Completion Certificate Attached: <input type="checkbox"/> Yes <input type="checkbox"/> No	Job Placement Date: / /	Employment Verification Form Attached: <input type="checkbox"/> Yes <input type="checkbox"/> No	
	Narrative:				
CPT	Retention Authorization Date: / /	Signature			
MODULE FOUR	Start of Service Date: / /	Did Not Complete Date: / /		Reason for Non-Completion:	
	Completion Date: / /	Job Retained: <input type="checkbox"/> Yes <input type="checkbox"/> No		Narrative:	

EXHIBITS

PROGRAM REVIEW EXHIBIT

EXHIBIT 11



EXHIBITS**PROGRAM REVIEW EXHIBIT****EXHIBIT 12****HRHN EMPLOYMENT VERIFICATION FORM – Module 4**

<input type="checkbox"/> Initial Job Assignment _____ <div style="text-align: center;">Date</div>			
Youth's Name			
CBO Name		Cluster	Service Area
Employer/Company			
Work Address			
Work City, Zip Code			Work Telephone
Supervisor's Name & Telephone Number			
Youth's Occupation			Job Start Date
Wage/Hour			Hours Per Week
<input type="checkbox"/> Job Loss/Termination _____ <div style="text-align: center;">Date</div>		<input type="checkbox"/> Change of Job _____ <div style="text-align: center;">Date</div>	
Reason for Job Loss/Job Change	<input type="checkbox"/> Move Out of Area <input type="checkbox"/> Violation/Arrest <input type="checkbox"/> Other		
Reconnection Plan			

EXHIBIT 13

[illegible]

EXHIBIT 14

[illegible]

EXHIBITS

PROGRAM REVIEW EXHIBIT

EXHIBIT 15

Los Angeles County Probation Department - JJCPA				HR-HN Parent /Youth Home Based Services Referral fax # (562) 803 - 4167				
REFERRED YOUTH	Youth's Last Name		First Name		M.I.	Date of Birth	Age	Gender
	Parent/Guardian Last Name		First Name		Parent's Primary Language		Cluster	
	Relationship to Minor	Home Address: Number and Street			City		Zip Code	
	Parents and Minor willing to participate? <input type="checkbox"/> Yes <input type="checkbox"/> No		Home Telephone Number		Other Contact Number		POJ #	
	School Name		School Type		Grade Level		Cumulative # of Credits	
	School and Work Schedule							School Status
	Family Schedule	<input type="checkbox"/> Mon	<input type="checkbox"/> Tue	<input type="checkbox"/> Wed	<input type="checkbox"/> Thu	<input type="checkbox"/> Fri	<input type="checkbox"/> Sat	<input type="checkbox"/> Sun
School Schedule Hours (example: 8-2:30 PM)								Is minor a GED Recipient? <input type="checkbox"/> Yes <input type="checkbox"/> No
Parent service availability (example: 8-9:00 PM)								
REFERRING DPO	DPO: Last Name, First Name		Unit		Area Office		Caseload #	
	Area Office Address: Number and Street		City		Zip Code		Telephone No.	
	Pager/Cell No.		Fax No.		SDPO Signature: Last Name, First Name		Telephone No.	
	() -		() -		() -		() -	
CASE PLAN INTERVENTIONS	Family Support Services designed to enhance Protective Factors <input type="checkbox"/> Positive family bonding and communication <input type="checkbox"/> Clear rules and expectations for participant youth, including participant's partaking in family chores, school activities, and community service <input type="checkbox"/> Parent involvement in schooling; parents are actively involved in helping the participant succeed in school <input type="checkbox"/> Family boundaries, such as family having clear rules and consequences for misbehavior, and monitoring youth's whereabouts <input type="checkbox"/> Adult role modeling that includes parents and other adults who model positive, responsible behavior <input type="checkbox"/> Other _____				Youth Support Services designed to address Crimenogenic Risk Factors <input type="checkbox"/> Anti-social attitudes, values, and beliefs (criminal thinking) <input type="checkbox"/> Pro-criminal associates and isolation from pro-social associates <input type="checkbox"/> Particular temperament and behavioral characteristic (list below) <input type="checkbox"/> Weak problem solving and social skills <input type="checkbox"/> Negative family factor (i.e., abuse, unstructured or undisciplined environment, criminality in the family, substance abuse in the family) <input type="checkbox"/> Gang membership or involvement <input type="checkbox"/> Other _____			
CPT	HR/HN Services CPT Telephone # (562) 940-3753				Authorization Information		Authorization Date	
	<input type="checkbox"/> Home Based Services - male <input type="checkbox"/> Home Based Services - female				<input type="checkbox"/> Approved <input type="checkbox"/> Disapproved		If disapproved, why?	
	Agency Name				Cluster		Service Area	
AGENCY RESPONSE	CBO Staff Last, First				Phone Number		Referral Received Date	
	Agency Address: Number and Street				City		Zip Code	
							Fax No.	
	Youth on referral can receive services? <input type="checkbox"/> Yes <input type="checkbox"/> No		Start Date		Did not Complete Date		Completion Date	
	Comments (indicate why youth cannot receive services or why youth did not complete services)							

Exhibit 15

EXHIBITS**PROGRAM REVIEW EXHIBIT****EXHIBIT 16**

**Juvenile Justice Crime Prevention Act
High Risks/High Needs Home-Based Services
High Risks/High Needs Home-Based Gender Services**

PARENT/YOUTH BASELINE MEASURES

Youth's Last Name	First Name	M.I.	Date of Birth	PDJ #
Address		City	ZIP	Home Phone #
Parent/Guardian's Name		DPO's Last, First Name		DPO's Contact #
CBO Name	Program	Cluster	Service Area	
Date of Visit	CBO Staff's Last, First Name		CBO Phone #	

***Please respond to the following questions as they relate to the family/clients status prior to the beginning of family strength-based services. If unable to apply the minimum required check marks, please provide a comment below.**

1) Prior to the beginning of family strength-based services, there is evidence that the primary caregiver(s) have the parenting skills necessary for handling problems.

As evidenced by at least 2 of the following:

- ☐ Limit setting ability
☐ Establishes and enforces consequences
☐ Monitoring in place

2) Prior to the beginning of family strength-based services, the family exhibits positive and appropriate family relations specific to the instrumental and affective domains in that family's subsystems.

As evidenced by warmth in at least 2 of the following domains:

- ☐ Regular recreational activities
☐ Positive praise and/or attention
☐ Demonstration of physical and/or verbal attention
☐ Positive engagement

3) Prior to the beginning of family strength-based services, there is evidence that the family has a network of informal social supports in the community and demonstrates skill at successfully accessing a range of supports (informal to formal) as needed.

As evidenced by at least 3 regular contacts with following:

- | | |
|---|--|
| <input type="checkbox"/> Probation Officer | <input type="checkbox"/> Recreational activities |
| <input type="checkbox"/> School | <input type="checkbox"/> Extended family |
| <input type="checkbox"/> Neighbors | <input type="checkbox"/> Church/Place of Worship |
| <input type="checkbox"/> Self-help/Support Groups | <input type="checkbox"/> Other: _____ |
| <input type="checkbox"/> Mental Health agencies | |

EXHIBITS**PROGRAM REVIEW EXHIBIT****EXHIBIT 16**

**Juvenile Justice Crime Prevention Act
High Risks/High Needs Home-Based Services
High Risks/High Needs Home-Based Gender Services**

4) Prior to the beginning of family strength-based services, the youth is showing evidence of success in an educational or vocational setting.

As evidenced by at least 2 of the following:

- ☐ Passing grades
- ☐ Regular attendance
- ☐ Appropriate and active participation

5) Prior to the beginning of family strength-based services, the youth is involved with pro-social peers and activities and is minimally involved with problem peers.

As evidenced by at least 2 of the following:

- ☐ No gang affiliation
- ☐ Youth chooses to minimize interaction with problem peers
- ☐ Positive social skill interactions

6) The behavior of the youth and the systems contributing to the family strength-based referral has been problematic for less than a 6-month period of time.

- ☐ Yes
- ☐ No

Baseline Living and School Status

7) Youth is currently living at home.

Or stable and appropriate living situation (e.g. armed service, peace corp., extended family, etc.)

- ☐ Yes
- ☐ No

8) Youth is attending school (is not truant) or vocational training or, if of the legally appropriate age to not attend school, has a paying job (≥ 20 hours/week).

- ☐ Yes
- ☐ No

Barriers and/or potential roadblocks to achieving case goals through existing case plan interventions.

Suggestions on enhancing services.

PARENT/GUARDIAN'S SIGNATURE _____

Parent/Guardian's Name (print): _____

EXHIBITS**PROGRAM REVIEW EXHIBIT****EXHIBIT 17**

Los Angeles County Probation Department

HR-HN Parent/Youth Contact Sheet

Page 1

Youth's Last Name	First Name	M.I.	Date of Birth	Gender	PDJ #
Address	City		ZIP	Home Phone #	
Parent/Guardian's Name	DPO's Last, First Name			DPO's Contact #	
Community-Based Organization's Name	Program		Cluster	Service Area	
Date of Home Visit	CBO Staff's Last, First Name			CBO Phone #	
Time In /	Time Out	Parent Hour(s) / Youth Hour(s) /			

*Place a check next to the appropriate activity.***Parent/Guardian Section:**

1) Parenting Practices: The guardian uses proper parenting practices.

- ☐ Limit setting ability
☐ Establishes and enforces consequences
☐ Monitoring in place

2) Interactions - The family exhibits positive and appropriate family relations.

- ☐ Regular recreational activities
☐ Positive praise and/or attention
☐ Demonstration of physical and/or verbal attention
☐ Positive engagement

3) There is evidence that the family has a network of informal social supports in the community and demonstrates the skill to successfully access resources (informal to formal) as needed.

- | | |
|---|--|
| <input type="checkbox"/> Probation officer | <input type="checkbox"/> Recreational activities |
| <input type="checkbox"/> School | <input type="checkbox"/> Extended Family |
| <input type="checkbox"/> Neighbors | <input type="checkbox"/> Church/Place of worship |
| <input type="checkbox"/> Self-help/Support groups | <input type="checkbox"/> Other: _____ |
| <input type="checkbox"/> Mental Health agencies | |

4) Parent Educational Involvement.

- ☐ Enrolled youth in school
☐ Monitors minor's weekly academic performance/grades
☐ Monitors minor's weekly attendance
☐ Participates in Parent/Teacher Conferences

5) The youth is involved with pro-social peers and activities and is minimally involved with problem peers

- ☐ Gang affiliation
☐ Youth chooses to minimize interact with problem/gang peers
☐ Positive social skills interactions
☐ Youth chooses to interact with positive peers.

EXHIBITS**PROGRAM REVIEW EXHIBIT****EXHIBIT 17**

Los Angeles County Probation Department	HRHN Parent /Youth Contact Sheet Page 2
Youth's Last Name	First Name
Date	CBO Staff's Last, First Name

Youth Section:

1) Youth's Acceptance of Parenting Practices.

- ☐ Accepts parent(s) setting limits
☐ Accepts parental enforcement of consequences
☐ Follows parental instructions

2) Interactions - The probationer exhibits positive and appropriate family relations.

- ☐ Participates in regular recreational activities
☐ Receives positive praise and/or attention
☐ Demonstrates physical and/or verbal attention
☐ Has positive engagements with other members of the family

3) There is evidence that the probationer participates in a network of informal social supports in the community and demonstrates the skill to successfully access resources (informal to formal) as needed.

- | | |
|---|--|
| <input type="checkbox"/> Probation officer | <input type="checkbox"/> Recreational activities |
| <input type="checkbox"/> School | <input type="checkbox"/> Extended Family |
| <input type="checkbox"/> Neighbors | <input type="checkbox"/> Church/Place of worship |
| <input type="checkbox"/> Self-help/Support groups | <input type="checkbox"/> Other: _____ |
| <input type="checkbox"/> Mental Health agencies | |

4) The youth is showing evidence of success in an educational or vocational setting.

- ☐ Youth enrolled in school/vocational program
☐ Passing grades
☐ Regular attendance
☐ Appropriate and active participation

5) The youth is involved with pro-social peers and activities and is minimally involved with problem peers.

- ☐ Gang affiliation
☐ Youth chooses to minimize interact with problem/gang peers
☐ Positive social skills interactions
☐ Youth chooses to interact with positive peers

Efforts attempted and progress made in meeting and/or addressing case plan interventions include the following:

Youth's Signature: _____

Parent/Guardian's Signature _____

CBO Staff's Signature _____

EXHIBITS**PROGRAM REVIEW EXHIBIT****EXHIBIT 18**

**Juvenile Justice Crime Prevention Act
HR/HN HOME-BASED SERVICES
HR/HN Home-Based Gender Services**

PARENT/YOUTH OUTCOME MEASURES

Youth's Last Name	First Name	M.I.	Date of Birth	PDJ #
Address		City	Zip Code	Home Phone No. () -
Parent/Guardian's Name (Last, First)		DPO Name (Last, First)		DPO Contact Phone No. () -
CBO Name		Date of Visit	Cluster	Service Area
Program and duration of contact		CBO Staff Name (Last, First)		CBO Phone No. () -

Please respond to each of the following questions as they relate to the family/clients status at the time of termination from the family strength-based services.

1. The Camp Community Transition Program DPO has evidence that the primary caregiver(s) has improved the parenting skills necessary for handling subsequent problems.

☐ Yes ☐ No

As evidenced by at least 2 of the following:

- ☐ Increased limit setting
☐ Established and enforced consequences
☐ Increased monitoring

2. There is evidence of improved family relations specific to the instrumental and affective domains in that family's subsystems that were drivers of the youth referral behavior.

☐ Yes ☐ No

As evidenced by increased warmth in at least 2 of the following domains:

- ☐ Regular recreational activities
☐ Increased positive praise and/or attention
☐ Demonstration of physical and/or verbal attention
☐ Increased positive engagement

3. The family has improved their network of informal social supports in the community and has demonstrated skill at successfully accessing a range of supports (informal to formal) as needed.

☐ Yes ☐ No

As evidenced by at least 3 regular contacts with the following:

- | | |
|---|---|
| <input type="checkbox"/> Probation Officer | <input type="checkbox"/> Recreational activities |
| <input type="checkbox"/> School | <input type="checkbox"/> Extended family |
| <input type="checkbox"/> Neighbors | <input type="checkbox"/> Church /Place of worship |
| <input type="checkbox"/> Self-help / Support groups | <input type="checkbox"/> Other: _____ |
| <input type="checkbox"/> Mental Health agencies | |

EXHIBITS

PROGRAM REVIEW EXHIBIT

EXHIBIT 18

**Juvenile Justice Crime Prevention Act
HR/HN HOME-BASED SERVICES
HR/HN Home-Based Gender Services
PARENT/ YOUTH OUTCOME MEASURES (continued)**

4. The youth is showing evidence of success in an educational or vocational setting. ☐ Yes ☐ No
As evidenced by at least 2 of the following:
☐ Improved and/or stabilized grades
☐ Regular attendance
☐ Appropriate and active participation
5. The youth is involved with pro-social peers and activities and is minimally involved with problem peers. ☐ Yes ☐ No
As evidenced by at least 2 of the following:
☐ Decreased gang affiliation
☐ Youth chooses to minimize interaction with problem peers
☐ Increase in positive social skill interactions
6. Changes in behavior of the youth and in the systems contributing to the referral problems have been sustained for 3-4 weeks. ☐ Yes ☐ No
7. Youth is currently living at home.
Or stable and appropriate living situation (e.g., armed service, peace corp., extended family, etc.)
☐ Yes ☐ No
8. Youth is attending school (is not truant) or vocational training or, if of the legally appropriate age to not attend school, has a paying job (≥ 20 hours/week). ☐ Yes ☐ No
9. Youth has not been arrested since the beginning of family strength-based services for an offense committed during family strength-based services. There have been no NEW law enforcement arrests – this does NOT include violations, 777, or being detained as a punishment for an offense previously committed. ☐ Yes ☐ No

Notes: _____

Youth's Signature: _____ Date: _____

Parent/Guardian's Signature: _____ Date: _____

CBO Staff's Signature: _____ Date: _____

EXHIBIT 19

AGENCY:	(1)																		
FOR SERVICES:	(2)																		
CONTRACT NUMBER:	(3)																		
CONTRACT AMOUNT:	(4)																		
REVIEW PERIOD:	(5)																		
REVIEW DATE:	(6)																		

Per Service Unit Fee:	
Service	(7)
Training	(8)
Admin	(9)

Last	(10)	Start Date		Scope of Services								Completion Date		Case Plan	(23)
				Parent Orientation		Mentoring Activities		Empowerment		Mother/Daughter		(21)			
		Parent Orientation	(16)	Date	Hours	Date	Hours	Date	Hours	Date	Hours	Parent Orientation		Release Consent	(24)
First	(11)	Mentoring Activities	(17)									Mentoring Activities			
Middle	(12)	Empowerment	(18)									Empowerment			
DOB	(13)	Mother Daughter	(19)									Mother Daughter			
F=DJ	(14)	Pre-Test Score	(20)									Post Test Score	(22)	Total hours of service	(25)
Referral Date	(15)														

Comments: (25)

EXHIBITS

PROGRAM REVIEW EXHIBIT

EXHIBIT 20

Fax To:							
From:							
Los Angeles County Probation Department JJCPA				Gender Specific Community Referral			
REFERRED YOUTH	Youth's Last Name		First Name	M.I.	Date of Birth / /	Age	Gender
	Parent/Guardian: Last Name		First Name	Parent's Primary Language		Cluster	
	Relationship To Minor	Home Address: Number and Street		City		Zip Code	
	Parents and Minor willing to participate? <input type="checkbox"/> Yes <input type="checkbox"/> No		Home Telephone Number	PDJ #		Youth ID #	
	School Name			School Type			
REFERRING DPO	DPO: Last Name, First Name		Program		Area Office		Caseload #
	Area Office Address: Number and Street		City		Zip Code	Telephone No. () -	
	Pager/Cell No. () -	Fax No. () -	SDPO: Last Name, First Name		Telephone No. () -		
	Gender Specific Community Service Components						
	<input type="checkbox"/> Parent Orientation/Support Workshop		<input type="checkbox"/> Mentoring Activities				
<input type="checkbox"/> Empowerment Workshop		<input type="checkbox"/> Mother/Daughter Activities					
REQUESTED SERVICES	CPT TO COMPLETE						
	Auth Date: _____		Signature: _____		<input type="checkbox"/> Approved <input type="checkbox"/> Disapproved Comments: _____		
REFERRED TO	Agency Name		Service Area		Cluster	Date Sent to CBO / /	
	Agency Address: Number and Street		City		Zip Code	Telephone No. () -	
AGENCY RESPONSE	AGENCY TO COMPLETE BELOW AND RETURN FORM						
	Contact Person: Name		Telephone No. () -		Fax No. () -		Date Referral Received / /
	<input type="checkbox"/> Parent Orientation/Support Workshop		<input type="checkbox"/> Mentoring Activities		<input type="checkbox"/> Empowerment Self-Efficacy Test Attached (For Empowerment referrals only) <input type="checkbox"/> Referral Rejected Date: _____ Reason: _____		
	Start Date: _____		Start Date: _____				
	<input type="checkbox"/> Empowerment Workshop		<input type="checkbox"/> Mother/Daughter Activities				
Start Date: _____		Start Date: _____					

Revised: 9/28/2004

Exhibit 20

EXHIBIT 21

[illegible]

EXHIBITS

PROGRAM REVIEW EXHIBIT

EXHIBIT 22

REFERRAL FORM

Los Angeles County Probation Department		Gang Intervention (Community) Referral					
REFERRED YOUTH	Youth's Last Name		First Name	M. I.	Date of Birth	Age	Gender
	Parent/Guardian: Last Name		First Name	Parent's Primary Language		Cluster	
	Relationship To Minor	Home Address: Number and Street		City		Zip Code	
	Parents and Minor willing to participate? <input type="checkbox"/> Yes <input type="checkbox"/> No		Home Telephone Number ()		PDJ #	Youth ID #	
	School Name		School Type				
REFERRING DPO	DPO: Last Name, First Name		Program		Area Office		Caseload #
	Area Office Address: Number and Street		City		Zip Code		Telephone No. ()
	Pager/Cell No. ()	Fax No. ()	SDPO: Last Name, First Name		Telephone No. ()		
	Gang Intervention (Community) Service Components						
	<input type="checkbox"/> Community-Based Youth Support Services <input type="checkbox"/> Community Mobilization Services <input type="checkbox"/> Community-Based Parent Family Services						
REQUESTED SERVICES	CPT TO COMPLETE						
	Auth Date: _____		Signature: _____		<input type="checkbox"/> Approved <input type="checkbox"/> Disapproved Comments: _____		
REFERRED TO	Agency Name		Service Area		Cluster		Date Sent to CBO
	Agency Address: Number and Street		City		Zip Code		Telephone No. ()
AGENCY RESPONSE	AGENCY TO COMPLETE BELOW AND RETURN FORM						
	Contact Person: Name		Telephone No. ()		Fax No. ()		Date Referral Received
	<input type="checkbox"/> Youth Support Services Start Date: _____ <input type="checkbox"/> Parent Support Services Start Date: _____		<input type="checkbox"/> Community Mobilization Start Date: _____		<input type="checkbox"/> Pre-Test <input type="checkbox"/> Referral Rejected Date: _____ Reason: _____		

EXHIBITS**PROGRAM REVIEW EXHIBIT****EXHIBIT 23**

**CONTRACT MONITORING OFFICE
JJCPA PROGRAM PARTICIPANT INTERVIEW****Cluster:**
Contract Monitor:**Agency:**
Program:**Participant Name:**
Participant's DPO's Name:**Date:**

Hi, my name is _____. I work with the part of the Probation Department that tries to make sure that our programs are helping people. I want to ask you some questions about how you feel about the programs your DPO has sent you to. It won't take too long. Do you mind if I ask you my questions?

1. When did you begin to participate in the program?
2. What services do you receive?
3. Where are the services you receive provided?
4. Who is your contact at the agency? Who provides the services to you?
5. How many times a week do you receive services?
6. How long are the sessions you receive? (20 minutes, 30 minutes, one hour)
7. Do you like the services? Why or why not?
8. Are the services helping you? How?
9. What services do you like the most? Why?
10. What services do you not like? Why?

Thank you for taking the time to answer my questions. Your opinion is important and helps us shape our programs to better serve you.

EXHIBITS

PROGRAM REVIEW EXHIBIT

EXHIBIT 24



ROBERT B. TAYLOR
CHIEF PROBATION OFFICER

COUNTY OF LOS ANGELES
PROBATION DEPARTMENT
QUALITY ASSURANCE SERVICES BUREAU
7639 PAINTER AVENUE
WHITTIER, CA 90602
(562) 907-
<http://probation.co.la.ca.us>

**Contract Monitoring Office**

Date

Executive Director
Agency Name
Agency Address
City, State Zip Code

Dear (Executive Director):

This is to confirm our arrangement to conduct a FISCAL review of your Juvenile Justice Crime Prevention Act contract with the Los Angeles County Probation Department. As agreed, our review will begin on DATE at TIME.

The following contract(s) will be examined:

<u>Contract #</u>	<u>Contract Period</u>	<u>Service Type</u>
XXXX	00/00/00 – 00/00/00	Gang Intervention

Our work will consist of mainly examining fiscal records and obtaining an overview of services provided by you (and your subcontract providers) related to contract XXXX. Please have the records identified in the attached list, as well as any additional supporting documents available for our inspection. If your subcontract provider maintains certain records or information, please invite a representative from that agency to attend this meeting.

If you have any questions relative to this meeting, please call me at (562) 907 - XXXX.

Sincerely,

Your Name,
Contract Monitor
Attachment

Exhibit 24

PROBATION: PROTECTION, CORRECTION, SERVICE

EXHIBITS

PROGRAM REVIEW EXHIBIT

EXHIBIT 25

Cash Disbursement Worksheet

Agency Name:							
Contract Number:							
Program: Gang Intervention							
Subcontractor:							
Fiscal Year:							
Review Period:							
Review Date:							
Cash Disbursements	A	B	C				
Contract #0078	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Total Expenses
DIRECT SALARIES & BENEFITS EXPENSE							
1							-
2							-
3							-
4							-
5							-
OPERATING EXPENSES							
Contractor Labor							
6							-
7							-
8							-
9							-
10							-
11							-
Transportation							
12							-
Other Operating Expenses							
13							-
14							-
15							-
16							-
SUBCONTRACTOR EXPENSE							
17							-
INDIRECT EXPENDITURES-SALARIES							
18							-
INDIRECT EXPENDITURES-OTHER COST							
19							-
20							-
21							-
22							-
							-
Indirect cost percentage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Notes							
Below you will find the expenses we randomly selected for detail testing during our review. To ensure that expenses were incurred we reviewed bank statements to verify checks have cleared the bank.							
Vendor Name	Amount	Method of Payment	Notes				

EXHIBIT 26

Agency Name:						
Contract Number:						
Program: Gang Intervention						
Subcontractor:						
Fiscal Year:						
Review Period:						
Review Date:						
Cash Receipts						
Month	Invoice Number	Amount Submitted to Prob	Amount Paid by Prob	Warrant Number	Variance	Date Deposited
July						
August						
September						
October						
November						
December						
	-		-		-	
NOTE:						

EXHIBIT 27

[illegible]

LOS ANGELES COUNTY PROBATION DEPARTMENT	CMOM-700
EXHIBITS	

PROGRAM REVIEW EXHIBIT	EXHIBIT 28
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CONTRACT INFORMATION SHEET

Cluster:	
Contractor:	
Contract Number:	
Program Service:	
Address:	
Phone:	
Fax:	
Executive Director:	
Program Manager:	
Fiscal Contact:	
Subcontractors:	

EXHIBITS**PROGRAM REVIEW EXHIBIT****EXHIBIT 29**

LOS ANGELES COUNTY PROBATION DEPARTMENT									
JUVENILE JUSTICE CRIME PREVENTION ACT									
CONTRACT MONITORING OFFICE									
SITE VISIT FORM									
Cluster:				Date:					
Contractor:				Subcontractor(s):					
Contract Number:				Monitor:					
Program:				Reviewed By:					
Start Time:		End Time:		Location:					
Purpose of Visit:									
Agency Employee's) and Job Description:									
Comments:									
Date:		Monitor:		Reviewed By:					
Start Time:		End Time:		Location:					
Purpose of Visit:									
Agency Employee's) and Job Description:									
Comments:									
Date:		Monitor:		Reviewed By:					
Start Time:		End Time:		Location:					
Purpose of Visit:									
Agency Employee's) and Job Description:									
Comments:									

LOS ANGELES COUNTY PROBATION DEPARTMENT	CMOM-700
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PROGRAM REVIEW EXHIBIT	EXHIBIT 30
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Administrative Review

Initial Review

Date	Monitor	Number of Pages	Verified

Follow-up

Date	Monitor	Number of Pages	Verified

LOS ANGELES COUNTY PROBATION DEPARTMENT	CMOM-700
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PROGRAM REVIEW EXHIBIT	EXHIBIT 31
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Transportation Review

Initial Review

Date	Monitor	Number of Pages	Verified

Follow-up

Date	Monitor	Number of Pages	Verified

EXHIBITS**PROGRAM REVIEW EXHIBIT****EXHIBIT 32****PROGRAM REVIEW VERIFICATION SHEET**

Program Memo

First Quarter (Q1)

Date	Monitor	Number of Pages	Verified

Second Quarter (Q2)

Date	Monitor	Number of Pages	Verified

Third Quarter (Q3)

Date	Monitor	Number of Pages	Verified

Fourth Quarter (Q4)

Date	Monitor	Number of Pages	Verified

Program Review

First Quarter (Q1)

Date	Monitor	Number of Pages	Verified

Second Quarter (Q2)

Date	Monitor	Number of Pages	Verified

Third Quarter (Q3)

Date	Monitor	Number of Pages	Verified

Fourth Quarter (Q4)

Date	Monitor	Number of Pages	Verified

Questionnaires

First Quarter (Q1)

Date	Monitor	Number of Pages	Verified

Second Quarter (Q2)

Date	Monitor	Number of Pages	Verified

EXHIBITS**PROGRAM REVIEW EXHIBIT****EXHIBIT 33****FISCAL REVIEW VERIFICATION SHEET**

First Quarter (Q1)

Entrance Conference Letter

Date	Monitor	Number of Pages	Verified

Worksheet

Date	Monitor	Number of Pages	Verified

Findings

Date	Monitor	Number of Pages	Verified

Corrective Action Plan

Date	Monitor	Number of Pages	Verified

Exit Letter

Date	Monitor	Number of Pages	Verified

Second Quarter (Q2)

Entrance Conference Letter

Date	Monitor	Number of Pages	Verified

Worksheet

Date	Monitor	Number of Pages	Verified

Findings

Date	Monitor	Number of Pages	Verified

Corrective Action Plan

Date	Monitor	Number of Pages	Verified

Exit Letter

Date	Monitor	Number of Pages	Verified

LOS ANGELES COUNTY PROBATION DEPARTMENT

Subject: CONTRACT MONITORING OFFICE MANUAL REFERENCES AND REFERENCE MATERIAL	Section Number: CMOM-800
	Effective Date: July 31, 2007
	Approved By: Dave Leone, Quality Assurance Services Bureau Chief

801 INTRODUCTION

This section is intended to provide contract monitors with an example of an accounting handbook to be used as a reference for any accounting matters that may arise with the contractors. This handbook identifies the minimum accounting requirements under General Accounting Accepted Principles (GAAP). A copy of Circular A-122, which establishes the principles for determining cost of grants, contracts, and other agreements with non-profit organizations, is also provided in this manual.

802 ACCOUNTING HANDBOOK

The purpose of this example handbook is to provide a contract monitor with an example of an accounting handbook that could be used by small non-profit organizations to adhere to the required accounting, financial reporting and internal controls standards.

The accounting, financial reporting and internal control standards described in this handbook are fundamental. These standards are not intended to be all inclusive, replace existing procedures or preclude the use of more sophisticated or advanced methods. Instead, the handbook represents the minimum accounting procedures and controls required by contractors.

In addition to the accounting, financial reporting and internal control standards described in this handbook, the contractors also need to comply with any state and federal guidelines and regulations.

For the accounting handbook sample and related documents, please refer to Section 900 Appendix A: Accounting Handbook.

803 OFFICE OF MANAGEMENT AND BUDGET (OMB) CIRCULAR A-122

The Office of Management and Budget (OMB) is an agency within the Executive Office of the President of the United States. The OMB has broad financial management power as well as the responsibility of preparing the executive budget. The purpose of OMB's Circular A-122 is to establish principles for determining costs of grants, contracts and other agreements with non-profit organizations.

In addition, contract monitors should refer to the Los Angeles County Fiscal Manual as a resource guide of fiscal policies, procedures and internal controls

REFERENCES AND REFERENCE MATERIAL

to safeguard county assets. That manual can be found on the Probation Department's website under the section Policies and Procedures Manuals.

For the Circular A-122, please refer to Section 1000 Appendix B: OMB Circular A-122.

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The policies and procedures described in this guide are the basic components of the financial, management, accounting, and reporting systems, which each organization should adopt.

The purpose of the policies and procedures adopted by the organization is four-fold:

- To provide clear responsibility for financial management and reporting.
- To provide regular and systematic financial reporting to the Board of Directors, governmental agencies, and private agencies.
- To develop public accountability for all funds received. This includes not only funds received from various levels of government (federal, state, and local) but funds from private organizations, charities, and individual contributions.
- To develop an accounting system that will provide reasonable internal and external control over the revenues, cash payments, expenses, assets, and liabilities of the organization. The ultimate goal is to prevent misuse of assets, fraud and waste.

FEDERALLY FUNDED ACCOUNTING

0200

The fiscal records and accounting procedures, which must be maintained for County Funded and for Federal Funded programs when funding exceeds \$300,000 must be kept in compliance with Circular A-133 and in accordance with Generally Accepted Accounting Principles. The differences between the two programs are programmatic and the organization should consult its program analyst with any programmatic questions.

ACCOUNTING SYSTEMS

0300

ACCOUNTING SYSTEMS – GENERAL

0310

Each organization, under Generally Accepted Accounting Principles, is required to maintain or cause to be maintained all records (including source documentation) as evidence of costs incurred. It is the responsibility of the participating organization to insure that: (1) an accounting system is in effect which conforms to Generally Accepted Accounting Principles; (2) the procedures are established and supporting documentation maintained to substantiate all costs and (3) the requirements of the Single Audit Act of 1984 are met.

This guide identifies minimum accounting requirements under Generally Accepted Accounting Principles for grants/contracts awarded. Compliance is required with Generally Accepted Accounting Principles that an organization can meet the financial reporting requirements of contracts with the counties and be able to prepare internal financial reports to satisfy program information needs.

It is essential that the organization's accounting system provide effective financial controls. Organizations should recognize that audits of grants and contracts will be made and unless commonly accepted standards of financial responsibilities have been followed, these audits may result in the disallowance of expenditure for which the organization will then be liable.

ELEMENTS OF ACCOUNTING SYSTEMS

GENERAL ACCOUNTING STRUCTURE

0320

Accounting systems involve a series of operations relation to the classifying, recording, summarizing, and reporting of transactions performed. The elements of the system should consist of an account structure, the accounting records, source documents, financial reports, and the procedures that prescribe the manner in which these operations are performed.

ACCOUNTING SYSTEMS STANDARDS

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Adequate accounting systems for organizations should meet the following criteria:

- Accounting records should provide the information needed to separately identify the receipt and expenditure of federal, state, and other funds. Such records are required for each grant or contract awarded by the counties.
- Entries in accounting records should be readily traceable to subsidiary records and source documentation, which support the entries as well as traceable to the Schedule of Federal Financial Assistance.
- The accounting system should provide accurate and current financial reporting information.
- The accounting system should be integrated with an adequate system of internal controls to safeguard the organization's funds and assets, increase the accuracy and reliability of accounting data, promote operational efficiency and encourage adherence to prescribed management policies.

In addition to the control and documentation of financial activities, the financial system can be an important instrument for managerial decision. Proper use financial information will assist in determining what activities merit priority of emphasis, where efficiency can be improved, and how resources can best be utilized.

The objectives of the organization's accounting system are:

- To provide management with financial data to assist in the planning, control, measurement, and evaluation required for the efficient and economical operation of the organization and the grant program.
- To provide management control of funds and other assets, so as to insure that the expenditure of funds and use of other property is in conformance with applicable lease and regulations.
- To insure, by means of cost and property control and prudent management, that optimal use is made of all resources.
- To meet any requirements for reporting periodically on financial operations.
- To classify current and projected costs as required for budgeting purposes.
- To allow the preparation of the "Monthly Reports" from the program accounting records.
- To implement the proper use of "Program Accounts Receivables" and "Program Unbanned Grants."

Organization may elect to use an accrual basis, cash basis or modified actual basis of accounting for recording financial transactions.

Accrual Basis of Accounting:**0410**

Under the accrual basis of accounting, revenue is recorded in the period when it is earned, regardless of when it is collected, and expenditures for expense and asset items are recorded in the period in which they are incurred, regardless of when they are paid.

Cash Basis of Accounting:**0420**

Under the cash basis of accounting, revenues are recognized only when cash is received and expenditures for expense and asset items are not recorded until cash is disbursed for them.

If an organization elects to use the cash basis for recording financial transactions during the year, adjustments must be made to the annual cost report at the close of each fiscal year. These adjustments are accruals. All computations supporting records, explanatory notes used in converting from the cash basis to the actual basis for year, and adjustments must be retained.

Modified Accrual Bases of Accounting:**0430**

The bases of accounting under which expenditures are recorded at the time liabilities are incurred and revenues are recorded when received. This method must be used to implement A-133 and A-128.

Each organization should have an Accounting Procedures Manual, which detail the procedures of the accounting system. This is particularly important to guarantee consistent treatment of all the major accounting functions. The manual is designed to provide the organization's staff with a working knowledge of the day-to-day financial activity of the organization. The manual not only helps to formalize the accounting system but assists in the orderly flow of information for reporting purposes. The Manual also serves a training manual for new financial staff and a reference guide for current staff.

A Procedure Manual should include a detailed description at all accounting procedures, job descriptions for all financial staff and sample forms with instructions for completing them. The manual should be reviewed at least yearly for needed corrections and modification of procedures to current practices.

The contents of an Accounting Procedures Manual should include but not be limited to:

- 1) List of all accounting records
- 2) Detailed share of accounts
- 3) Filing system
- 4) Cash receipts procedures
- 5) Cash disbursement procedures
- 6) Payroll, sick leave and vacation policy & procedures
- 7) General ledger description
- 8) Other journals and subsidiary ledger
- 9) Bank reconciliation and petty cash procedures
- 10) Tax reports: timetable and description
- 11) How to maintain property records

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- 12) Insurance policies and procedures
 - 13) Preparation of financial statements and reports for funders
 - 14) Budget preparation and monitoring procedures
 - 15) Reference manual
 - 16) Internal controls review

For an example of a manual for a small organization see

Appendix A

INTERNAL CONTROL

0600

1. Definition:

0610

Internal controls are comprised of an organizational plan containing the methods and measures adopted within a business to:

- A. Safeguard the assets from loss or misappropriation.
- B. Check the reliability of its accounting data.
- C. Promote operational efficiency.
- D. Encourage adherence to prescribed managerial policies.

2. Types of Internal Controls

0620

A. Accounting Controls include but are not limited to:

- Systems of Authorization and Approvals
- Segregation of Duties
- Physical Control Over Assets
- Internal Auditing

B. Administrative Controls include but are not limited to:

- Performance Reports
- Statistical Analysis
- Quality Control
- Training Programs

3. Objectives of Internal Control

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The objectives of Internal Control are to provide reasonable assurance that:

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- A. Transactions are executed in accordance with management's general or specific authorizations.
 - B. Transactions are recorded in appropriate detail to:
 - Permit preparation of financial statements in conformity with Generally Accepted Accounting Principles or any other criteria applicable to such statements; and
 - Maintain accountability for assets.
 - C. Access to assets is limited to those individuals who have specific authorization from management.
 - D. Accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.
 - E. Segregation of duties such that no one person controls a transaction from beginning to end.
 - F. The organization will create a plan of internal control and have it approved by the Board of Directors.

4. Segregation of Duties

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The Segregation of Duties provides a system of checks and balances, and therefore, is the central part of any system of internal control. There are four main areas where duties must be segregated:

- A. The authorization of a transaction must be segregated from the processing of the actual transaction to minimize the potential for diverting the organization's resources to an employee's personal benefit. For example, the individual who authorized a bill to be paid should be different from the individual who writes the check and records it in the accounting records.
- C. Operations should be segregated from the accounting and record keeping systems since the internal accounting system represents the primary quantitative information, which is used for control purposes. If the Operation Managers were able to control the internal accounting system, the system would not perform its control functions. For example, if a Personnel Manager controlled the accounting system, the manager would

be in a position to input false payroll information and would be able to pass the false information through the accounting system undetected.

- D. The custody of assets must be separated from the accounting function to minimize the potential concealment of any irregularities and to ensure the prompt detection of errors or irregularities pertaining to the disposal of assets such as cash, inventories, and equipment. For example, cashiers should not be involved in any accounting for cash and receivables.
- E. The important parts of accounting functions must be separated so that parts of the transaction are handled by different people. Checks built into the system should be performed by someone who is not involved in recording the transaction themselves. This separation provides reasonable assurance that errors are discovered within a reasonable time frame. For example, responsibility for general ledger accounts should be separated from related subsidiary records. In this manner, an error, which went undetected, may still be found through a monthly reconciliation process.

5. Other Principles of Internal Control

0650

- A. Employees should possess competence in the duties they are hired to perform and have the integrity to perform these duties honestly and to the best of their ability.
- B. Duties should be periodically rotated to prevent the manipulation of account balances and to facilitate the detection of such manipulations.
- C. Employees in certain high-risk positions (particularly those who have access to cash) should be bonded to provide for the recovery of assets lost due to the dishonesty of an employee.
- B. Periodic supervisory reviews should be performed to prevent the system of internal control from deterioration and to provide a measure of management control.
- F. All transactions should be properly documented to reduce the likelihood of errors and the non-detection of errors. In addition, documentation should leave a proper audit trail both in documenting the control procedures performed. It is also important that documentation be secured from destruction and tampering.
- G. Organizational property should be protected by restriction access to valuable items and taking measures to prevent their destruction.

The Department of Energy Program auditors comply with the Standards for Audit of Governmental Organizations, Programs, Activities and Functions as promulgated by the Comptroller General of the United States. Under these auditing standards it is recognized that an organization may be “so small that it is not feasible to have adequate internal controls.” In these cases, the auditors will disclose in the audit report the fact that the organization’s size precludes placing any reliance on the internal controls and that the audit testing was expanded to assure the auditor of the fairness of the financial statements.

The prime consideration for safeguarding assets is that no one person controls an entire transaction from the beginning to the end. This guide is an aide, which the small organization may utilize to create a closer relationship to the ideal situation.

Example: 1. An adequate internal control for cash disbursement can be established with three people. The Program Director authorizes the disbursements, the Secretary/Bookkeeper draws the check and makes the accounting entries, and the Chairman of the Board of Directors sign all checks after comparing them to the invoices and vouchers.

Example: 2. An adequate internal control for cash receipts can also be achieved using a Board Member. The Program Director opens the mail in the presence of the Secretary/Bookkeeper. The cash items are segregated and the Secretary/Bookkeeper makes out deposits and book entries. The Program Director deposits funds in the bank. Once a month the Treasurer reconciles the bank statements to the books.

The extent that adequate separation of duties is achieved in a small organization is only limited by the imagination of the members of that organization.

The organization must be able to support each reported expenditure and revenue by records, which clearly identify the expenditure or revenue to the funding source. This documentation (often called Source Documentation) includes, but is not limited to, such items as: time sheets; invoices, receipts; purchase orders; duplicate deposit slips; canceled checks, board minutes, by-laws, and bank statements.

The Source Documentation provides the input to all entries in the various records and books maintained by the organization. A filing system should be established for the Source Documentation such that all items entered into the books and records are readily traceable to the Source Documents. Such traceability is often referred to as the Auditor or Accounting Trail.

BOOKS, RECORDS AND REPORTS**0705**

The organization must maintain various records, books and reports in order for management to control the organization's operations and to promote fiscal integrity. Typical books, records and reports which the organization should maintain are shown in the following sections.

CHART OF ACCOUNTS:**0710**

An essential element of any accounting system is the composition of the Chart of Accounts. The composition of the Chart of Accounts depends on the size and complexity of the organization to which it pertains, as well as on the reporting or summary detail required by management, government agencies, and other interested parties. Likewise, the Chart of Accounts should have codes to provide flexibility both from the standpoint of recording and converting from a manually operated accounting system to a computer operated system.

Example:

A Chart of Accounts should be designed to provide the following:

1. An adequate control for balance sheet, revenue and expenditure accounts by funding source, program, agency, and cost categories.

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2. An easy identification of accounts by funding source, program, agency and cost categories by providing a definite and uniform pattern and/or codes to facilitate the accumulation of costs or expenditures for the purpose of reports management, grantors, and other government agencies.

Basically, the Chart of Accounts may be divided into the following categories:

1. Assets Accounts
2. Liability Accounts
3. Equity Fund Balance Accounts
4. Revenue Accounts
5. Expense Accounts

For the purposes of segregating costs; each funding source, cost center or program account, is identified by a specific code. The Chart of Accounts will be in written form and graph form and will reflect A-133, and FASB 117 format. An approved copy will be on file.

CASH RECEIPTS JOURNAL

0715

The Cash Receipts Journal is a book of original entry which records all transactions related to each received by the organization from grantors and other sources of funds, including nonfederal cash contributions. The normal accounting entry in this journal is: Debit – Cash; Credit – Appropriate Un paid Resource, Applied Resource, Income, Receivable Accounts. (See Appendix C for an example.)

CASH DISBURSEMENT JOURNAL

0720

The Cash Disbursement (Account Payable) Journal is a book of original entry which records all transactions pertaining to payments made by the organization to other parties, whether for expenditures, advances, or loans. This journal may contain the Accounts Payable Purchase Register, Accounts Payable Purchase Journal and Cash Requirements Report. All payments are by check. The same procedures apply to manual or computer generated checks.

DONATIONS / CONTRIBUTIONS JOURNAL

0725

This journal is a specific book of original entry designed to record all donations/contributions received by the organization. Donations/contributions are recorded as expenditures indicating the program account, the specific cost category and the value of the services rendered or fair market value of the property donated.

PURCHASE ORDER LOG

0730

This log is a record of all purchase orders (PO's) issued by the organization. This record is the control for all PO's issued, billed, and paid. It provides a check of status of all expenses incurred by the organization with vendors and assures no duplicate payments can occur. (See Appendix C for an example)

GENERAL LEDGER

0735

This ledger is the final book of consolidation of all the preceding book of accounts and the source of all-fiscal reporting. The ledger can be either computer generated or manual, utilizing the checkpoints, input data and verifications of the previous sections. Reconciliation of the ledger with bank accounts is done monthly.

GENERAL JOURNAL

0740

The General Journal will be used for all entries that do not involve cash receipt or cash disbursements.

TRIAL BALANCE

0745

At the end of each month, a Trial Balance is set up to check the accuracy of the postings and prove the equality of debits and credits in the General Ledger. From the Trial Balance the monthly financial statements are developed. (See Appendix C for an example.)

The Financial Statements consist of the format used in FASB 117. Included shall be Statement of Financial Position; Statement of Activities; Statement of Functional Expenses; Statement of Cash Flows; and Notes to Financial Statements.

1. STATEMENT OF FINANCIAL POSITION

The statement of financial position focuses on the nonprofit organization as a whole and, therefore, reports total assets, liabilities, and net assets (formerly fund balance). In so doing the statement of financial position should provide information about liquidity, financial flexibility and the interrelationship of assets and liabilities. The main purpose of this statement is to fully disclose the total assets, total liabilities, and information about the three classes of net assets (unrestricted, temporarily restricted and permanently restricted).

2. STATEMENT OF ACTIVITIES

The statement of activities is designed to provide information about changes in an organization's net assets. The statement reports the amount of change in permanently restricted net assets, temporarily restricted net assets, and unrestricted assets. The total change in net assets for the organization as a whole is also required to be reported. This will include such items as revenues, gains and losses; reclassifications; and functional classification of expenses.

3. STATEMENT OF FUNCTIONAL EXPENSES

The statement of functional expenses will include two classifications of expenses, the natural (object) and functional.

A. Natural (object) Classification. The natural, or object, classification of expenses represents the type of expense; e.g., salaries and employee benefits, professional fees, occupancy, postage and shipping, supplies, telephone, travel, etc. Captions for the natural classification of expenses are generally listed down the left side of the statement of the functional expenses.

B. Functional Classification.

This is the classification of expenses according to the purpose for which they are incurred. The primary functional classifications are program services and supporting services. Program service expenses are the direct and indirect costs related to providing a nonprofit organization's programs or social

services; i.e. the costs of the activities for which purpose the organization exists. Supporting services' expenses are costs for activities not directly related to the purpose for which the organization exists. Supporting services' are broadly categorized as management and general expenses, fund-raising expenses, and membership development expenses. Captions for functional categories of expenses are generally listed from left to right as column headings across the top of the statement or schedule of functional expenses.

4. STATEMENT OF CASH FLOWS

A statement of cash flows show the change in cash and cash equivalents during the period. Cash and cash equivalents are defined as follows:

Cash

... cash includes not only currency on hand but demand deposits with banks or other financial institutions. Cash also includes other kinds of accounts that have the general characteristics of demand deposits in that the customer may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty.

Cash Equivalents

... cash equivalents are short term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates.

5. NOTES TO FINANCIAL STATEMENTS

The notes to financial statements are specific items or areas that need further explanation or disclosure as set forth by A-133 and FASB 117 requirements. The notes, as an integral part of the financial statements, are the responsibility of the client, not to be prepared by the CPA.

An important tool in insuring adequate internal control over the receipt and disbursement function is the establishment of a bank checking account. In the case of the private provider, the bank represents an independent third party who is involved in each cash transaction. This gives independent verification that a dollar transaction shown on the organization's books took place. What it does not guarantee is that the payee or purpose of the transaction, as shown on the books, took place since it is possible to alter canceled checks.

In the case of a county, the establishment by the county treasurer of a fund for the specific program is analogous to the establishment of a bank account and has the same advantages and pitfalls as noted above for checking accounts.

Once a month the checking account and/or fund must be reconciled to the organization's books. The organization should request its bank statements with a cut-off on the last day of each month. This will facilitate the reconciliation process. The actual reconciliation should be performed by an individual who is not otherwise involved in the accounting process.

Sections 0900 through 1300 detail the control considerations for the five main areas of accounting faced by all organizations regardless of size:

- Cash Disbursements See Section 0900
- Cash Receipts See Section 1000
- Payroll Accounting See Section 1100
- Property Management See Section 1200
- Cost Allocation See Section 1300

The major control considerations for cash disbursement system are:

1. All disbursements, except petty cash should be made by check.
2. Checks should be prenumbered and inventoried monthly.
3. Voided checks should be defaced and the signature lines removed to prevent subsequent use. The voided check should be filed with the canceled checks, in check order.
4. Only checks for Petty Cash Fund reimbursement should be written to cash.
5. All disbursements should be properly supported by vouchers, invoices, and/or receipts and marked with the check number, date of check, and stamped "Paid" before filing.
6. The check-signer (s) must not be the person(s) who writes the checks or maintains the cash disbursement journal, register, or general ledger.
7. The American Institute of Certified Public Accountants (AICPA) recommends two signatures on all checks. Blank checks shall never be signed in advance.
8. Bank statements should be reconciled by a person not otherwise involved in the disbursement process.
9. A completely filled out and signed check request form (with supporting documentation) must be presented at the time the check is being requested. Checks will not be signed when not accompanied by completed forms.

The following describes a situation, which has adequate internal control. (For problems with small organizations see Section 0660).

Step

1. The Secretary/Receptionist opens the mail in the presence of another employee.
2. Bills, invoices, etc., are given to the Executive Director/Program Manager who reviews the documents and initials on them that payment is authorized to be made.
3. The initialed documents are given to the Bookkeeper/Accountant of Accounting Section for processing.
4.
 - (a) In a small organization, the Bookkeeper will make out a voucher, draw the check, attach invoices and checks to the voucher, and post the check to the cash disbursement journal or register.
 - (b) In a larger organization, several people will be involved in step 4(a). The voucher will serve as the input to the computer system.
 - (b) In both (a) and (b) the invoices and voucher will be canceled to prevent re submission which would result in a double payment.
5.
 - (a) The check (whether hand drawn or by computer) is attached to the supporting documentation and given to individuals, other than those involved in Step 4, for signature. If the check is hand signed, then the signers must compare the check to the supporting documentation to show that the check is correct, prior to signing the check.
 - (b) If the check is machine signed, then the person running the machine, who is not involved in Step 4, should do the verification in Step 5(a).
6. The signed check can be given to the Secretary/Receptionist for mailing of distribution. The supporting documentation is returned to accounting for filing.

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7.
 - (a) If a computer system is used, the correct entries will be ade in the various books and journals automatically.
 - (b) If a manual system is used, then the Bookkeeper/Accountant will complete the accounting entries.
 8. At the end of the month an individual not involved in Steps 1 through 7 should perform the back reconciliation.

In very small organization adequate internal control is still possible. The organization must involve counselors and members of the Board of Directors to perform some functions, such as the bank reconciliation, in order to achieve adequate separation of duties.

Using the form in Section 0920, analyze your organization's cash disbursement controls to ascertain whether they are adequate.

PETTY CASH

0940

Petty cash funds are authorized by the organization and issued to the named petty cash custodian for small day-to-day operating expenses, which are deemed necessary to improve operations. Petty cash funds are established to provide a readily available source of funds for the payment of small, incidental, and miscellaneous expenses such as supplies, postage, newspapers, etc. The purpose of such funds is to avoid the need for writing checks for small items and to facilitate quick, minor disbursements.

The organization will designate a staff person to conduct periodic and unannounced audits of petty cash funds. Such audits include a counting of cash, an explanation of unredeemed cash vouchers and a reconciliation of the petty cash fund with the general ledger balance.

The following restrictions are observed regarding petty cash funds:

1. The amount to be disbursed shall not exceed a specific amount per transaction (amount to be established by the Board of Directors).
2. Only the person to whom the fund has been assigned may have access to the cash.
3. No other moneys shall be mixed with the petty cash fund.
4. No personal checks shall be cashed from the petty cash fund.
5. No loans or advances are to be made from the petty cash fund.
6. The amount of a petty cash fund is limited to a specific amount (to be established by the Board of Directors).
7. Under no circumstances shall the petty cash fund be used to circumvent the established cash disbursement process.

The following sequence of activities takes place in the administration and control of the petty cash fund.

The petty cash custodian will:

1. Disburse cash from fund for authorized purposes.
2. Prepare a petty cash voucher for each disbursement of funds. The following information should be recorded on this form. (See Section 0970 for an example).
 - a. Date - Current date
 - b. Amount - The actual amount of cash disbursed from the fund.
 - c. Payee – The name of the individual or firm who is to receive the money.
 - d. Purpose of Disbursement - An explanation of the expenditure.
 - e. Account to be Charged – The appropriate account per the chart of accounts.
 - f. Signature of Person Receiving Cash – Have the individual receiving the cash sign the voucher.
 - g. Approval – Immediate supervisor signs the voucher.
3. Attach supporting documents for the purchases (e.g., receipts, cash register tapes, etc.) to the petty cash voucher.
4. File petty cash voucher and supporting documents until the petty cash account is less than a specific amount (to be established by the Board of Directors).
5. Request replenishment of the petty cash fund when the petty cash account is less than the designated specific amount, by preparing a Petty Cash Reimbursement Report.

The major control considerations for cash receipts are:

1. If donations are received through the mail, the mail should be opened in the presence of two people.
2. All incoming checks and cash should be counted in the presence of two people.
3. All checks, upon receipt, should be stamped "Deposit Only".
4. All cash receipt, should be recorded on prenumbered triplicate receipts as the money is received.
5. A person only directly involved in posting the books should fill out the deposit slips and make bank deposits.
6. All receipts should be deposited in the bank intact and on a timely basis.
7. Cash deposits should be reconciled by a person not otherwise involved in the receipt process.

The following describes a situation, which has adequate internal control. (For problems with small organizations see section 0660).

Steps

1. Mail is opened by the Secretary / Receptionist in the presence of another individual.
2. Cash amounts are listed by amount and source (prelisting) by the Secretary / Receptionist and verified by another individual.
3. All checks are stamped "Deposit Only" by the Receptionist.
4. All receipts are given to the Bookkeeper / Accountant or Accounting Department for recording on prenumbered triplicate receipts. (Note: This step could be done at 2 above and serves as the prelisting).
5. Receipts are given to an individual not otherwise involved in the receipt transaction for filling out deposit slips and depositing funds intact and in a timely manner into the bank account.
6. A duplicate deposit slip is given to the Bookkeeper / Accountant or Accounting Department for use in posting books and filing.
7. The prenumbered receipts serve as the source documentation for manual entry or computer entry into the receipts journal or register and into the general ledger. This step is performed by the Bookkeeper / Accountant or Accounting Department.
8. An individual not otherwise involved in the receipt process, should reconcile monthly the bank statement to the receipts journal.

Using the form in Section 1020, analyze your receipt's accounting system for cash receipts to see if your controls are adequate.

The major control considerations for the Payroll System are:

1. A personnel policy and procedures manual, which provide employee rights and benefits.
2. Complete employee files containing appointment papers, rate of pay, pay adjustment documentation, W-4's and other authorizations for deductions.
3. Employee originated time sheets signed by employee and by supervisor.
4. Maintenance of daily attendance reports.
5. Vacation, sick leave and overtime records should be kept independent of the employee and supervisor.
6. All payroll shall be paid by check.
7. All payroll checks should be inventoried.
8. Voided payroll checks shall be defaced and the signature lines removed to prevent subsequent use. Voided checks should be filed on check order with canceled checks.
9. Checks will only be signed by a person who has no involvement with bookkeeping or payroll. Any information regarding this will not be on any signature card.
10. Bank statements will be reconciled to the payroll register and the bank statements monthly.

The following describes a situation, which has adequate internal controls. (For problems with small organizations see Section 0660).

Steps

1. Employee signs in and out daily on the attendance report showing time in and time out.
2. Employee makes out time sheet daily. If employee works on more than one funded program, time should be kept to nearest hour for each program.
3. At the end of the pay period, the employee signs her / his time sheet and gives it to the supervisor.
4. Supervisor reviews the time sheets and certifies its accuracy by signing the sheet. In the case of the Director of a program, the time sheet should be signed by a member of the Board of Directors. Under no circumstances, should a paycheck be issued without proper certification of the time sheet.
5. Time sheets and attendance reports are given to the Bookkeeper/Accountant or the Accounting Department. The Bookkeeper, etc., checks the time sheet for completeness, compares it to the time sheet for completeness, compares it to the sign-in/out sheet (daily attendance), and maintains vacation and sick leave balances.
 - a. In a computerized system or a system using an outside payroll system, the time sheet / payroll claim is the computer input document.
 - b. In a manual system, the time sheet is the source document from which the payroll register is posted.
6. a) In a computerized system, the payroll register is automatically generated and the checks written. Before checks are issued the checks should be compared to the register by a responsible individual other than the one involved in the bookkeeping. The register should be signed and dated to certify that the payroll is accurate and checks can be released.

b) In a manual system the Bookkeeper, etc. posts the payroll register and writes the checks. Before signing the checks, a responsible person other than the Bookkeeper, etc., should compare the checks and the payroll register.

7. After the checks are signed, they should be distributed by designated payroll personnel.

8. a) In a computerized system the general ledger and subsidiary ledgers are automatically posted.

b) In a manual system, the bookkeeper, etc., should post all ledgers at the end of each payroll period.

For programs, all property costing \$300.00 or more and having a useful life of three years or more is considered a depreciable asset. Prior permission must be obtained if the property is to be expensed in the year purchased.

For programs an asset is depreciable if it has an estimated useful life of at least 2 years and a historical cost of at least \$300. Further, if the asset is acquired in quantity and the cost of the quantity is at least \$500, its cost must be capitalized, and amortized over the estimated useful life of the asset, using one of the approved methods of depreciation.

The major concerns of internal control for depreciable property are:

1. Persons ordering property should not receive incoming property.
2. Custody should be established for property, which is not assigned to a specific program or person.
3. The person maintaining the property ledger shall not be the same as the person who takes the annual physical inventory.
4. All depreciable assets should be tagged with a property tag.
5. The reconciliation of the physical inventory to the property ledger shall be one by persons not involved in step 3.
6. Procedures should be established to dispose of surplus property so that a person who declares the property surplus is not involved in disposing of the property.

The following describes a situation, which has adequate internal control (For problems with small organizations see Section 0660).

Steps

1. Property need is identified by staff who submits a purchase order to the Executive Director or Board.
2. Property need is approved by the Executive Director or Board and authorization to purchase or request for bids is executed.
3. The Secretary / Receptionist receives and tags incoming property.
4. The payment for property goes through the normal disbursement process.
5. The Executive Director or the Board assigns custody of the property.
6. The Bookkeeper/Accountant or Accounting Department enters the property in the property ledger.
7. Yearly, a person not involved in steps 2 through 6 takes a physical inventory.
8. Inventory is reconciled to the property ledger by an individual not involved in steps 2 through 7.

Definition

A cost is allocable or assignable to a particular cost objective in accordance with the relative benefits received or other equitable relationship.

A cost is allocable if it:

1. Is incurred specifically for a project.
2. Benefits the grant/contract and other cost objectives can be distributed in reasonable proportions to the benefits received.
3. Is necessary to the overall operation of the institution, although a direct relationship to any particular cost objective cannot be shown.

CONSISTENCY OF ALLOCATION**1320**

When a cost allocation methodology is adopted by an organization it must be consistent, that is, the methodology must assure that costs are charged in a uniform manner to all other work of the organization. The cost allocation methodology must also be documented.

Direct Costs**1340**

Direct costs are those that can be identified specifically with a particular cost objective. These costs include:

1. Salaries, including associated fringe benefits, of those personnel whose Effort can be directly identified to a particular program or cost objective.
2. Cost of materials and other supplies acquired, consumed or expended specifically for the purpose of the program or cost objective.
3. Travel costs, equipment costs, contractual costs, and any other costs which can be directly identified to a cost objective.

Any question or decision of whether to treat a specific cost as a direct or indirect cost will be settled or determined by the requirements of A-87, or A 122, or A-133. These definitions have already been determined by the requirements of the GAO.

It is the Granting Agencies Policy to bear its fair share of indirect costs except where prohibited by law. An indirect cost is a cost incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to cost objectives specifically benefited. These costs involve:

1. Salaries, wages and fringe benefits of administrative personnel whose effort benefits more than one cost objective.
2. Operational costs and maintenance costs which benefit more than one cost objective.
3. Full definitions, explanations and examples are presented in A-122 material.

The following are suggested bases, which may be used in lieu of a cost rate for distributing joint costs. The suggested bases are not mandatory for use if they are not suitable for the particular services involved. Any method of distribution can be used which will produce an equitable distribution of cost. In selecting one method over another, consideration should be given the additional effort required to achieve a greater degree of accuracy. You will see the specifications of OMB Circular A-122 [Single Audit Guide pages B. 276 – B. 288] regarding the material.

<u>Type of Service</u>	<u>Suggested Bases for Allocation</u>
Accounting	Numbers of transactions processed.
Auditing	Direct audit hours.
Budgeting	Direct hours of identifiable services of employees of central budget.
Building Lease	Sq. ft. of space occupied.
Building lease management	Number of leases
Data processing	System usage
Disbursing service	Number of checks or warrants issued
Employee retirement system administration	Number of employees contributing.
Insurance management service premiums	Dollar value of insurance.
Legal services	Direct Hours
Mail and messenger service	Number of documents handled or employees served.
Motor pool costs, including automotive management	Miles driven and/or days used.
Office machines and equipment maintenance	Direct Hours.

Office space use and related costs
(heat, light, services, etc.)

Sq. ft. of space occupied.

Organization and management services

Direct Hours.

Payroll services

Number of employees.

Personnel administration

Number of employees.

Printing and reproduction

Hours, job base, pages printed.

Procurement service

Numbers of transactions processed.

Local telephone

Number of telephone instruments.

Health services

Number of employees.

Fidelity Bonding program

Employees subject to bond or
penalty amounts.

An indirect cost rate is simply a device for determining fairly and expeditiously, within the boundaries of sound administrative principles, that portion of an organization's indirect costs each of its cost centers or cost objectives should bear.

The use of an indirect cost rate provides for a systematic, consistent allocation of indirect costs benefiting cost objectives in reasonable proportions with the benefits derived. See A-122 specifications.

The indirect cost rate is the ratio, expressed as a percentage, of an indirect cost pool and some direct cost base.

$$\frac{\text{INDIRECT COST POOL}}{\text{DIRECT COST}} = \text{Indirect Rate \%}$$

This method is used where all of an organization direct program activities receive services from all of its indirect or administrative activities in approximately the same degree or where the organization has only a single direct function or activity with multiple sources of funding.

Step 1. DEVELOP THE RATETotal Direct Salary and Wages

\$2,000,000

Total Indirect Cost Pool

\$400,000

Indirect Cost Pool — \$400,000 — 20% Indirect Rate
Direct Salary & Wage Base \$2,000,000

Step 2. IDENTIFY PARTICIPATING BASE COMPONENTS

The organization has 6 direct cost objectives, which are listed below, along with the direct S & W associated with each direct cost objective.

	<u>Cost Objective</u>	<u>Direct Salary & Wage</u>
1.	State Grant	\$ 300,000
2.	County Grant	350,000
3.	NIAAA Grant	500,000
4.	Ford Foundation Grant	400,000
5.	University Subcontract	200,000
6.	Independent R & D	<u>250,000</u>
	Total	<u>\$2,000,000</u>

Step 3. APPLY THE RATE

	<u>Direct Salary & Wage</u>		<u>Indirect Cost Rate</u>		<u>Share of Indirect Costs</u>
State Grant	\$ 300,000	X	20%	=	\$ 60,000
County Grant	\$ 350,000	X	20%	=	\$ 70,000
NIAAA Grant	\$ 500,000	X	20%	=	\$100,000
Ford Foundation	\$ 400,000	X	20%	=	\$ 80,000
University Subcontract	\$ 200,000	X	20%	=	\$ 40,000
Independent R & D	<u>\$ 250,000</u>	X	20%	=	<u>\$ 50,000</u>
<u>Totals</u>	<u>\$ 2,000,000</u>	X	20%	=	<u>\$400,000</u>

ADDITIONAL COST PRINCIPLES FOR DIRECT AND INDIRECT COST **1400**

Sections 1500 through 2200 contain additional cost principles which if followed, will lessen the likelihood of having costs disallowed as a result of audit.

- Allowability of costs Section 1500
- Compensation for Personal Services Section 1600
- Equipment and other Capital Expenditures Section 1700
- Depreciation and Use Allowance Section 1800
- Profits and Losses on Disposition of
Depreciable Property or Other
Capital Assets Section 1900
- Rental Costs Section 2000
- Donated Services Received Section 2100
- Fund Raising & Investment Management Section 2200

ALLOWABILITY OF COSTS

1500

BASIC CONSIDERATIONS

1510

Several factors need to be considered in determining the allowability of individual cost items not specifically covered by contract, regulation or statutory law. These factors include:

- Allowable per A-133 on A-87
- Reasonableness
- Allocability
- Application of generally accepted accounting principles and practices appropriate to the particular circumstances.

REASONABLENESS

1520

A cost can be considered reasonable in nature and amount if it does not exceed the cost, which would be incurred by an ordinarily prudent person in the conduct of a competitive business. What is reasonable depends on:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or performance of the contract.
- The restraints or requirements imposed by such factors as generally accepted sound business practices, arms length bargaining, federal and state laws and regulations, and grant/contract terms or specifications.
- The action that a prudent business person would take in the circumstances, considering his/her responsibilities to the public at large, the government, his/her employees, his/her clients, shareholders or members, and the fulfillment of the purpose for which the organization was organized.

A cost can be considered allocable if it is assignable or chargeable to a particular cost objective (such as a grant/contract, project, product, process, or major activity) in accordance with the relative benefits received or another equitable relationship. A cost can be considered allocable to a grant/contract if:

- It is incurred specifically for the grant/contract.
- It benefits both the grant/contract and other work and can be distributed to them in reasonable proportion to the benefits received.
- It is necessary to the overall operation of the organization although a direct relationship to any particular cost objective cannot be shown.

COMPENSATION FOR PERSONAL SERVICES

1600

DEFINITION

1610

Compensation for personal services include all compensation paid currently or accrued by the organization for services of employees rendered during the period of the grant/contract. It includes, but is not limited to salaries, wages, director's and Executive Committee members fees, incentive awards fringe benefits, pension plan cost, allowances for off-site pay, incentive pay, location allowances, hardship pays, and cost of living differences.

ALLOWABILITY

1620

Except as otherwise specifically provided by grant or contract the costs of such compensation are allowable to the extent that:

- A. Total compensation to individual employees is reasonable for the services rendered and conforms to the established policy of the organization consistently applied to both government and non-government activities.
- B. Charges to grants/contracts, whether treated as direct or indirect costs, are determined and adequately documented.
- C. Charges to grants/contracts for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to activities must be supported by personnel activity reports such as those listed below.
- D. Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or part, directly to grants/contracts. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities and is needed in the determination of the organization's indirect cost and rate(s), e.g. an employee engaged part-time in indirect cost activities and part-time in a direct function.

Records maintained by nonprofit organizations to satisfy these requirements must meet the following standards:

-
1. The records must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as Support for charges to grants/contracts.
 2. The records must account for the total activity for which is required in fulfillment of their obligations to the organization.
 3. The records must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed to the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.
 4. The records must be prepared at least monthly and must coincide with one or more pay periods.
- E. Charges for the salaries and wages of nonprofessional employees, in addition to the supporting documentation described in subparagraphs (1) and (2) above, must also be supported by records indicating the total number of hours worked each day, maintained in conformance with the Department of Labor regulations implementing the Fair Labor Standards Act (29 CFR, Part 516). For this purpose, the term “nonprofessional employee” shall have the same meaning as “nonexempt employee” under The Fair Labor Standards Act.
- F. Salaries and wages of employees used in meeting cost sharing or matching requirements on grant/contracts must be supported in the same manner as salaries and wages claimed for reimbursement from granting agencies.

EQUIPMENT AND OTHER CAPITAL EXPENDITURES

1700

DEFINITIONS

1710

- A. EQUIPMENT means an article of non-expendable, tangible, personal property having a useful life of two or more years and an acquisition cost of \$300 or more per unit and a useful life for three or more years and an acquisition cost of \$300 or more per unit. An organization may use its own definition provided that it at least includes all non-expendable tangible personal property as defined above.

- B. ACQUISITION COST means the net invoice unit price of an item of equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges, such as taxes, duty, protective in-transit insurance, freight, and installation shall be included in or excluded from acquisition cost in accordance with the organization's regular written accounting practices.

- C. SPECIAL PURPOSE EQUIPMENT means equipment, which is usable for other than research, medical, scientific, or technical activities. Examples of special purpose equipment include microscopes, x-ray machines, surgical instruments, and spectrometers.

- D. GENERAL PURPOSE EQUIPMENT means equipment, which is usable for other than research, medical, scientific, or technical activities, whether or not special modifications are needed to make them suitable for a particular purpose. Examples of general-purpose equipment include office equipment and furnishings, air conditioning equipment, reproduction and printing equipment, motor vehicles, and automatic data processing equipment.

- A. Capital expenditures for general-purpose equipment are unallowable as a direct cost except with the prior approval of the granting/contracting agency.
- B. Capital expenditures for land or buildings are unallowable as a direct cost except with the prior approval of the granting/contracting agency.
- C. Capital expenditures for improvements to land, buildings, or equipment which materially increases their value of useful life are unallowable as a direct cost except with the approval of the granting/contracting agency.
- D. Equipment and other capital expenditures are unallowable as indirect costs. However, use allowances or depreciation on buildings capital improvements, and equipment used in the direct cost function are allowable.

DEPRECIATION AND USE ALLOWANCES

1800

DEPRICIATION

1810

- A. Provides compensation for the use of buildings, capitol improvement and equipment.
- B. Adequate depreciation records must be maintained, physical inventories should be taken at least once every two years.
- C. Computation of depreciation will be based on acquisition cost and will exclude:
 - 1. Costs borne by government (donated or otherwise)
 - 2. Idle equipment or facilities.
 - 3. Obsolete equipment or facilities.
 - 4. Cost of land.
 - 5. Any portion of cost contributed by or for the organization in satisfaction of a statutory matching requirement.

USEALLOWANCE

1820

- A. Used in lieu of depreciation.
- B. For buildings and improvements – not to exceed 2% per year on acquisition cost.
- C. For equipment not to exceed 6-2/3% per year on acquisition cost.

DEPRECIATION OR USE ALLOWANCE MAY BE TAKEN
ON ASSETS DONATED BY THIRD PARTIES

1830

- A. Depreciation or use allowance to be computed on the fair market value of the asset at the time of donation.

BUILDING SHELL VS. BUILDING COMPONENTS

1840

- A. If use allowance is used, the entire building must be treated as a single asset.
- B. If depreciation is used, the building may be segregated from each building component. (Plumbing system, heating and air conditioning, elevators, escalators, electrical system.) Each building component may then be depreciated at its' estimated useful life.
- C. Generally, a combination of depreciation and use allowance may not be used on the same class of assets.
- D. Depreciation or use allowance on donated assets computed at its fair market value at the time of its donation.

**PROFITS AND LOSSES ON DISPOSITION OF
DEPRECIABLE PROPERTY OR OTHER CAPITAL ASSETS 1900**

Gains and losses on the sale, retirement, or other disposition of depreciable property shall be included in the year in which they occur as credits or charges to the cost objective(s) in which the depreciation applicable to such property was included. The amount of the gain or loss to be included as a credit or charge to the appropriate cost objective(s) shall be the difference between the amount realized on the property and the undepreciated basis of the property.

Gains and losses on the disposition of depreciable property shall not be recognized as a separate credit or charge under the following conditions:

- The gain or loss is processed through a depreciable reserve account and is reflected in the allowable depreciation.
- The property is given in exchange is part of the purchase price of a similar item and the gain or loss is taken into accounting in determining the depreciation cost basis of the new item.
- Compensation for the use of property was provide through use allowances in lieu of depreciation.

Gains and losses arising from mass or extraordinary sales, retirements, or other dispositions shall be considered on a case-by-case basis.

Gains or losses of any nature arising from the sale or exchange of property other than the property covered in paragraph 1. above shall be excluded in computing award costs (i.e., land).

RENTAL COSTS

2000

Generally, rental costs are allowable to the extent they are reasonable.

RENTAL COSTS UNDER SALE AND LEASEBACK

2010

Allowable up to the amount that would be allowed if the organization owned the property, (e.g. depreciation or use allowance, maintenance, taxes, insurance, etc.).

RENTAL COSTS-LESS THAN ARMS LENGTH TRANSACTION

2020

Allowable up to amount that would be allowed, had title to the property been vested in the organization.

A. LESS THAN ARMS LENGTH

When one party to the lease agreement is able to control or influence the actions of the other.

B. INCLUDE BUT NOT LIMITED TO LEASES BETWEEN

1. Divisions of an organization
2. Organizations under common control through common directors, officers or members.
3. An organization and a director, trustee, officer, etc.

RENTAL COSTS UNDER LEASES CREATING A MATERIAL EQUITY IN THE PROPERTY

2030

Allowable up to the amount that would have been allowed had the organization purchased the property on the date the lease agreement was executed.

A. WHEN DOES MATERIAL EQUITY EXIST?

If the lease is non-cancelable or is cancelable only upon the occurrence of some remote contingency and has one or more of the following characteristics?

1. Lease with a bargain purchase option.
2. Title to property passes to organization during or subsequent to the lease period.
3. Term of the lease (initial term + bargain renewal options) is equal to 75% or more of the economic life of the leased property. (i.e. the period the property is expected to be economically usable by one or more users.)

Determination can be made by grantee using Financial Accounting Standards.

DONATED SERVICES RECEIVED

2100

1. Must be recognized for indirect cost rate computation when the following circumstances exist:
 - A. The cost activity is not pursued primarily for the benefit of the grant/contract.
 - B. The aggregate value of the services is material.
 - C. The services are supported by a significant amount of the indirect costs incurred by the organization.
2. The value of donated services is not allowable as a reimbursement indirect cost. However:
 - A. The value of donated services performed in a direct program activity shall be treated accordingly and allocated a proportionate share of indirect costs. Depreciation or use allowance computed on assets donated by third parties is allowable and should be computed on the fair market value at the time of donation.

-
- B. When donated services directly benefit a project supported by a grant/contract, the indirect costs allocated to the services will be considered as a part of the total costs of the project. Such indirect costs may be reimbursed under the grant/contract or used to meet cost sharing or matching requirements.
 - C. Where donated services are treated as indirect costs, reimbursement will not be made.

FUND RAISING AND INVESTMENT MANAGEMENT

2200

- 1. Costs of fund raising incurred solely to raised capital or obtain contributions are unallowable.
- 2. Costs of investment counsel and staff and similar costs incurred solely to enhance income from investments are unallowable.
- 3. If the functions in numbers 1 & 2:
 - a. Include salaries of personnel;
 - b. Occupy space; and
 - c. Benefit from the indirect costs;

Then they must be treated as direct costs and accordingly be allocated to a proportionate share of indirect costs.

Contracting for services is a major need of counties and to a lesser extent by organizations, which need short-term help to meet specific goals. In present programs, there are two major types of contracts, Fee-For-Services and Cost Reimbursement.

FEE FOR SERVICE CONTRACTS**2310**

Contractors who provide services on a fee-for-service basis are reimbursed in accordance with the rate that is negotiated between the state, county, and contractor at the beginning of each fiscal year. This rate is fixed for the entire contract period and will not vary regardless of the contractor's actual cost. The contractor's monthly billing invoices are made in arrears, reflecting the services that have been provided for the month. The annual cost report year, serves as a basis for evaluating a contractor's prior year rates. Based on the cost report, adjustments in the rates may be made for the current year to more clearly reflect the actual cost incurred by the contractor.

COST REIMBURSEMENT CONTRACTS**2320**

Contractors who provide services on an cost reimbursement basis are reimbursed for actual net costs incurred in performing contracted services. The contractor's monthly billings are made in arrears, based on a provisional rate negotiated between the county and contractor. This negotiated rate should be an approximation of the provider's annual costs. The annual cost report serves as a basis for computing the final fiscal year-end settlement between the contractor and the county and the state. The year-end settlement is determined by subtracting previous monthly claims, including any other reportable revenue such as client fees, from the actual cost as reported on the cost reports. The cost report package is a basic standardized record and is subject to audit.

PURPOSE OF CONTRACTUAL SERVICES**2330**

At the organizational level the purpose of contractual services is to provide additional personnel needed to complete a specific task of a duly approved work program, budget, and contract.

To be effective and binding the contract must spell out the duties of each party to the contract and the amounts to be paid for services. The following lists ways to outline the contractor's required performance:

- A. If there is an existing job description available, which applies to the necessary work to be done, it should be attached to the contract. If this is done, note in a space on the contract that performance is according to the attached job description.
- B. If this is a new kind of job, or one not previously described, a list of duties or major tasks should be put in the contract.
- C. When an organization is making an agreement for a contract, more details may be added by using attachments.
- D. Always establish a supervisory relationship, which is time oriented and specific. For example:
 - Contractor will report to the Director daily.
 - Contractor will report progress on a weekly basis.
 - Contractor will work under the daily supervision of the Director.
 - Contractor's progress will be monitored on a regular basis.
 - Final inspection of the completed project will be made by the Director.
- E. A contractor is generally required to provide a performance proposal when he/she is a professional contractor, or where a written needs assessment is available for proposals or when the organization is looking for the accomplishment of certain results but has not determined the method to be used to get the job done.

CONSIDERATION FOR SERVICES

2350

Organizational services provided to contractor and amounts to be paid for the services to be rendered should be listed in the contract. The method of payment should be made in accordance with the regular organizational disbursement requirements. Payment should be made upon processing of the submitted authorized documents. Finally, payment should only be made upon satisfactory completion of the contracted agreement.

CONTRACT AMENDMENTS

2360

Amendments should be initiated and processed through the same steps as the original contract using an amendment form and attaching the form to the contract.

EMPLOYEE VS. INDEPENDENT CONTRACTOR

2400

Before you can know how to treat payments your organization makes for personal services rendered to the organization, the business relationship between the organization and the person performing services must be established. This relationship may be that of:

- An independent contractor.
- A common law employee.
- A statutory employee.

INDEPENDENT CONTRACTOR

2410

People such as lawyers, contractors, subcontractors, public stenographers, etc., who follow an independent trade, business, or profession in which they offer their services to the general public are generally not employees. However, whether such people are employees or independent contractors depends on the facts in each case. The general rule is that an individual is an independent contractor if you, the employer, have the right to control only the results of the work and not the means and methods of accomplishing the result.

Under common law rules, every individual who performs services that are subject to the will and control of an employer, as to both what shall be done and how it shall be done, is an employee. It does not matter that the employer allows the employee considerable discretion and freedom of action, so long as the employer has the legal right to control both the method and the result of the services.

Two of the usual characteristics of an employer-employee relationship are that the employee has the right to discharge the employee is called an employee or a partner, co-adventurer, agent or independent contractor. It does not matter how the payments are measured, how they are made, or what they are called. Nor does it matter whether the individual is employed full or part-time.

No distinction is made between classes of employees. Superintendents, managers, and other supervisory personnel are all employees. Generally, an officer of a corporation is an employee, but a director is not. However, an officer who performs no services or only minor services, and neither receives nor is entitled to receive any pay is not considered to be an employee.

In doubtful cases, the facts will determine whether or not there is an actual employer-employee relationship. If the organization wants the Internal Revenue Service to determine whether a worker is an employee, file form SS-8 with the IRS district director. Consult an attorney regarding workers compensation insurance requirements.

STATUTORY EMPLOYEE

2430

This class of employee deals mostly with outside sales persons and is not of consideration for providers of services.

PAYROLL RELATED TAXES-
EMPLOYEE VS. INDEPENDENT CONTRACTOR

2440

	<u>Employee</u>	<u>Independent Contractor</u>
Federal Income Tax	Withheld 1	Paid Quarterly 2
State Income Tax	Withheld 1	Paid Quarterly 2
FICA – Social Security Required	Mandatory 501[c][3] 3	Paid Quarterly 2
State Disability Insurance 4	Withheld	
State Unemployment Tax 5	Paid by Employer	No Coverage
Federal Unemployment Tax 5	Exempt	No Coverage
Worker's Compensation 6	Paid by Employer	No Coverage

- 1) These taxes are a portion of the individual employee's income tax, withheld and paid to federal and state authorities by the employer.
- 2) These taxes are paid quarterly by the independent contractor.
- 3) Both employees and employer pay a percentage of gross earnings.
- 4) SDI provides payments to an employee who is unable to work for an extended period due to illness or injury, incurred off the job.
- 5) SUI provides payments to an employee who is laid off and unable to find work.
- 6) Worker's Compensation pays medical expenses, temporary or permanent disability payments, and death benefits for an employee who is injured on the job.

FINANCIAL MANAGEMENT ROLES AND RESPONSIBILITIES

2500

The accounting system is relied upon to produce relevant, accurate data for decisions. It can only do so to the extent that all records and essential information flow into the system. Job descriptions with a detailed listing of responsibilities and reporting lines should be developed to facilitate the effective operation of the accounting system and the organization in general.

THE BOARD OF DIRECTORS

2510

The ultimate responsibility for the activity of any non-profit organization is vested in the organization's Board of Directors as detailed in the organization's Articles of Incorporation and By-Laws. The Board of Directors is the focus of most external accountability by governmental agencies and funders. They are the ones held responsible for any misappropriation of funds. The Board should review and approve the budget, monitor the programs and financial activities, and escalate program services. Since they cannot stay in touch with day-to-day operations, it is their obligation to appoint an Executive Director to manage the daily affairs of the organization.

EXECUTIVE DIRECTOR

2520

The Executive Director deals with the programmatic, financial and managerial activities of the organization. The Executive Director hires financial staff, oversees the budget process, monitors the organization's activities and sees to it that the Board receives financial statements and information. The Executive Director sees to it that program directors provide basic data for appropriate and necessary accounting and work closely with the Board Treasurer and, where appropriate, the Finance Committee.

THE TREASURER AND FINANCE COMMITTEE

2530

The Treasurer and Finance Committee monitor the financial activities of the organization and act as a resource for the Board of Directors and staff. The Treasurer reviews the system for compliance with internal control procedures, makes sure tax information returns are submitted on time, and checks financial statements for accuracy. The Treasurer works closely with the Bookkeeper and/or Accountant.

THE BOOKKEEPER AND/OR ACCOUNTANT

2540

The Bookkeeper and/or Accountant records daily transactions, prepares journals and ledgers, prepares trial balance and financial statements (with comparison of budget to actual), and files necessary payroll tax returns. The Bookkeeper or Secretary should prepare checks and vouchers for authorization, and stamp all incoming checks "For Deposit Only".

A CERTIFIED PUBLIC ACCOUNTANT

2550

A certified Public Accountant may work with the Bookkeeper and Treasurer to attest to the fairness of annual financial statements and prepare the annual information return.

OTHER ROLES

2560

The preceding sections are by no means an all-inclusive list. An organization's personnel responsibilities may vary depending on the size of the organization and financial management information needs. The importance, however, of clear roles and responsibilities cannot be overstated no matter how large or small the organization.

AUDITS

2600

The following is a general description of the purpose and process of an audit. It is intended to provide the reader with a basic understanding of audits.

Purpose

2610

Our system of government today rests on an elaborate structure of interlocking relationships among all levels of government for managing public programs. Those officials and employees who manage the program must render a full accounting of their activities to the public. While not always specified by law, this accountability is inherent in the governing process of this nation.

Audits are part of this accountability. One of the major benefits of an audit is that it lends credibility and provides the confidence that the financial data being used by management and is being presented to the Board of Directors and funding sources, is materially correct. In addition, a review of internal controls can provide recommendations for improving the management of the organization or increasing efficiency. Also, audits serve as a guardian and deterrent against waste, loss, or illegal practices.

Process

2620

The Audit Section conducts financial and compliance audits related to annual expenditures of state and federal funds distributed to the counties for the Department of Energy. The audit field work is conducted in accordance with the American Institute of Certified Public Accountants' field audit standards; the Yellow Book; and "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" as promulgated by the Controller General of the United States.

Financial Aspects

2630

The financial aspect of the audit determines whether the financial statements of an audited entity present fairly the financial position and the results of financial operations, in accordance with generally accepted accounting principles.

The financial aspect of the audit is the examination of the cost reports or claim submitted by the county and/or providers which disclose the source of revenues and how funds were expended. A sampling is made of the source or supporting documentation of the items reported on the cost reports to give assurance that what was reported did in fact transpire.

Compliance Aspects

2640

The compliance aspect of the audit is to ascertain that the funds were received and expended in accordance with the required governing laws and regulations. For example, a cost report might disclose \$3000 in equipment and supply expenses. Examination of the source documentation, such as vendor invoices

and canceled checks, might disclose that the expenditures did take place and were properly recorded in the accounting records. However, the compliance part of the audit might disclose that the county bought three pieces of equipment, which cost \$1,000 without prior approval (as required by regulations). Therefore, the cost, although properly disclosed and accounted for, is unallowable as a program expense and should be recovered.

General Audit Steps

2650

The general steps of an audit consist of the following:

1. Initial contact
2. Entrance conference
3. Field audit
4. Audit Issue Package
5. Exit conference
6. Final report

1. INITIAL CONTACT

- A. Two weeks prior to the planned audit date, the auditor-in-charge (AIC) will contact the program administrator and/or the contract provider administrator by phone to set the entrance conference, date, and place.
- B. The AIC will send a letter confirming the entrance conference time, date, and place to the provider, additionally, the letter will list the type of documents and records required for audit.
- C. The county drug and alcohol administrators will be informed of the planned audit of their respective contract providers, and will be invited to attend the entrance conference.

2. ENTRANCE CONFERENCE

At the entrance conference, the AIC will:

- A. Discuss the scope of the audit.
- B. Ask for areas that the county might want examined.
- C. Secure the names of key contact people.
- D. Secure working space for the audit staff.
- E. Ask for office rules.
- F. Request a tour of the facilities.

3. FIELD AUDIT

This is the time the auditors are at the audit site. The auditors develop audit work papers based on their examination and analysis of the kinds of accounting, internal control, and financial reporting systems discussed in this guide and used by the organizations being audited. This includes the analysis and evaluation of internal control, the reconciliation of revenues, expenditures and units of service and the testing and verification of financial records.

4. AUDIT ISSUE PACKAGE

After the audit, work papers are completed, they are reviewed by the audit supervisor and Audit Issue Package (AIP) is prepared. This package contains audit findings, including justifications for disallowances. The AIP is then given to the auditor to review and consider prior to the exit conference.

5. EXIT CONFERENCE

After the AIP is issued, an exit conference is scheduled. At the exit conference, the auditor is given an opportunity to discuss audit findings

and submit all additional documentation to support this position. Both the Auditors and clients response is considered while determining final disallowed costs and/or management recommendations, and is included in the Final Audit Report. This step completes the audit fieldwork.

6. FINAL REPORT

The audit report is the final step in the audit process. The audit report summarizes the management and financial findings developed during the audit fieldwork. It also recommends a final cost settlement.

APPEALS

A county contract provider (auditor) can appeal any or all of the audit disallowances to the Granting Agency. The county has a total of 60 days from the date of receipt of the final report to appeal to the Cognizant Agency. If the contract provider receives funds directly, the contract provider has a total of 60 days from the date of receipt of the final audit report to appeal to the Cognizant Agency.

AUDIT ISSUES – PROBLEMS AND REVIEWS

From past audits performed by auditors have identified a group of common areas, which have resulted in audit disallowances. The following is a list of generally identified problems and a corresponding list of methods to prevent these problems. This list is only meant as a general guide. More specific discussion related to these issues is contained within the contents of this guide.

1. Problem – No Time Distribution Records

Prevention:

- The salaries of employees chargeable to more than one grant program will be supported by appropriate time distribution records such as time sheets.

2. Problem – No Source Documentation

Prevention:

- Accounting records must be supported by source documents such as canceled checks, paid bills, payrolls, contract and grant award documents, etc.
- The contractor shall submit upon request all financial, performance, and other records required by the terms of the grant/contract.

3. Problem – No Separation of Funding Sources

Prevention:

- All costs chargeable to more than one program shall be documented.
- Records which identify adequately the source and application of funds for each grant/contract, and supported activities shall be maintained.

4. Problem – Cost Claimed in Excess of Actual Costs

Prevention:

- The cost of the services shall be the actual cost as determined in accordance with standard accounting practices or a negotiated net amount or rate approved by the Director of the Department of Energy Programs.
- All claims for reimbursements must be based on actual documented costs incurred in carrying out the work required by the contract.

5. Problem – No approval of the Cost in the Budget

Prevention:

- If the costs are specified in the budget or there is no approved budget, the recipient shall obtain specific prior approval in writing from the awarding party prior to making the expenditure.

6. Problem – Did Not Abide by the Contract

Prevention:

- The contractor must adhere to all provisions of the contract and to all applicable standards provided.
- In case of a discrepancy between the provisions of a specific contract and the applicable standards provided, the provisions of the contract shall govern unless the contract is in violation of federal or state laws or regulations.

7. Problem – Cost Incurred After of Before the Contract Period

Prevention:

- All costs shall be within the approved starting and ending dates specified within the approved contract agreement.

8. Problem – Cost Allocation

Prevention:

- “Cost allocation plan” means the documentation identifying, accumulating, and distributing allowable costs under grants and contracts together with the allocation methods used so that each cost center is charged its fair share of the costs incurred.
- It is improper to allocate costs based on funds available. Costs must be allocated on the basis of services rendered, benefits received, or goods provided to the grant/contract.
- Indirect costs must be allocable specifically to the contract or be a part of an indirect cost rate or allocation plan and not be a general expense required to carry out the overall responsibilities of the provider.
- Indirect costs should be distributed to each applicable project on the basis of direct salaries and wages, total direct costs, or another basis, which results in an equitable distribution. However, the allocation of costs (directly or indirectly) on the basis of revenue or on the basis of funds available is not allowable.

9. Problem – Cash Disbursement Problems (Internal Control)

Prevention:

- Have all invoices stamped paid, and the payment date and check number recorded on the invoice. Require all voided check signature blocks to be mutilated to remove signatures.
- Have two signatures on all checks.
- Have a person who is not involved in drawing checks or maintaining accounting records (both payroll and non payroll) distribute or mail checks.
- Require blank checks to be controlled by inventory.

-
- Develop time limit procedures to handle unclaimed or undelivered checks.
 - Develop a written policy to prohibit the signing of blank checks.

10. Problem – Petty Cash Fund Problem (Internal Control)

Prevention:

- Have the Executive Director approve all requests for reimbursement of the petty cash fund.
- Separate the duties of the petty cash custodian so that the custodian does not approve the release of funds to himself/herself.
- Use an imprint prenumbered voucher system for petty cash funds.
- Write procedures for petty cash.

11. Problem – No Written Policies and Procedures for All Accounting Functions

Prevention:

- Write policies and procedures for all accounting functions.

12. Problem – Cash flow Problem

Prevention:

- Ensure that expenses do not exceed revenues.

APPENDIX A

EXAMPLE OF A POLICIES AND PROCEDURES MANUAL

The following appendix is an example of a Policies and Procedures Manual which could be used by a small non-profit organization. This example represents the minimum that an organization should have. However, it is an example only. Each organization should develop a manual, which fits its individual needs.

FINANCIAL MANAGEMENT: POLICIES AND PROCEDURES

- I. SUBJECT – The following policies and procedures describe the basic systems adopted by the Board of Directors of Provider XXX.
 - A. Purpose – The purpose of the policies and procedures adopted by Provider XXX is four-fold:
 1. To provide clear responsibility for financial management and reporting.
 2. To provide regular and systematic financial reporting to the Board of Directors, governmental agencies and private agencies.
 3. To develop public accountability for all funds received. This includes not only funds received from various levels of government, (federal, state, and local), but funds from private organizations, charities, and individual contributions.
 4. To develop an accounting system that will provide reasonable internal and external control over the revenues, cash payments, expenses, assets, and liabilities of the organization. The ultimate goal is to prevent fraud and waste.
- II. GENERAL POLICIES – It shall be the policy of Provider XXX that:
 - A. All fiscal transactions conform to federal, state, and local laws governing the operation of nonprofit corporations with respect to all grants, contracts, and contributions.
 - B. All required financial, tax, and other reports be filed when required.
 - C. All fiscal expenditures be under the control of a Budget and Finance

Committee. This committee will be formed from among the membership of the Board of Directors and headed by the Treasurer. The number of members will be determined by the Board of Directors. This Committee will be responsible for the budget and all expenditures. The committee will be responsible to the Board of Directors. The Executive Director and Bookkeeper will be responsible to the committee. The committee will determine what responsibilities to delegate to the Executive Director and the Bookkeeper.

- D. All expenditures, except for petty cash, shall be made by check, require two signatures, and be approved by the Board of Directors.
 - 2. The two signatures may be any combination of designated Board members and the Executive Director.
 - 3. Signature by a Board member will constitute the Board of Directors approval.
- E. The Board of Directors will ensure that all duties and responsibilities of the staff will be divided among several employees in such a manner that no one person will have sole authority over any of the records, especially the fiscal records.
- F. An independent Certified Public Accountant will be hired by the Board of Directors on an annual basis to audit all books, records, and reports.

III. SPECIFIC POLICIES

- A. Fiscal Control – The Board of Directors will ensure that an internal accounting control system will be developed to ensure effective fiscal management and the safeguarding of assets from misappropriation. This will be accomplished by:
 - 1. Implementing the Voucher System of accounting. This system requires that every liability be recorded as soon as it is incurred, and that checks be issued only in payment of approved liabilities. (See last page for example of a typical voucher.)
 - 2. Ensuring that there is appropriate segregation of financial responsibilities. Fiscal responsibilities will be divided among several employees in such a manner that the work of each person serves to check that of the others. No one person shall be responsible for a transaction from beginning to end.
 - 3. Implementing a system of authorization and record procedures, which provides reasonable accounting control over assets, liabilities, revenues, and expenses.

4. Ensuring that the duties and functions of each employee will be spelled out so that sound practices will be developed.
5. Ensuring that the personnel hired are qualified to fulfill responsibilities.

IV. ACCOUNTING CONTROL

A. Policy

Misappropriation usually occurs when an employee has authority to both incur expenses and to issue checks. The solution is to divide disbursement duties among several employees. One method of establishing control over disbursements is the use of the voucher.

B. Use Of The Check Request System

1. The Check Request – A written authorization called a check request is prepared for each expenditure. The top half of the check request consists of the name and address of the creditor, the date and number of the check request, and all pertinent details of the invoice and other supporting documentation. One half of the bottom half of the check request is devoted to account distribution, while the other half of the bottom half is used for summaries of the check request, details of payment, and spaces for the signatures of approval.
2. The Check Request Register – After approval by the designated person, each check request is recorded in a journal called a Check Request Register. This replaces the traditional Purchases journal. The check requests are entered in numerical sequence, and are recorded as a credit Check Request Payable and a debit to the account to be charged for the expenditure. The Check Request Register serves as a dual purpose: it is primarily a book of original entry, but it also serves as the equivalent of a subsidiary ledger of liability accounts.
3. Unpaid Check Request File – A characteristic of the Check Request System is that a check request be prepared for each expenditure. However, the check request does not have to be paid immediately. Check requests are filed in an unpaid check request file. When the check request is to be paid, it is removed from this file and a check is issued to payment.
4. Check Register – Every check issued is recorded in numerical order in a Check Register by debiting Vouchers Payable and crediting Cash. A Check Register is a simplified version of the Cash Disbursement Journal. It provides a chronological record of all checks issued.

5. Paid Check Request File – The Check Request Register does not classify invoices by creditors – that is, it does not show the total purchases from a given business. Therefore, a card file will be set up to show the total business done with each creditor. A card will be maintained for each creditor showing dates and numbers of check requests payable.

C. Other Accounting Records – Other accounting records to be maintained are:

1. Chart of Accounts – A Chart of Accounts will be set up with appropriate account titles and account numbers. The Chart will be divided into five accounts: Assets, Liabilities, Equity, Fund Balance, Income (Revenue), and Expense Accounts.
2. General Ledger – The General Ledger is the permanent record in which the balance of each active account is recorded and maintained. The General Ledger will be divided into the five following sections: Assets, Liabilities, Equity Fund Balance, Income, and Expense Accounts.
3. General Journal – The General Journal will be used for all entries that do not involve cash receipts or cash disbursements. Normally, these are entries to achieve adjustments between General Ledger Accounts, to establish accruals, and to close the books at the end of the Accounting period.
 - a. Posting – At the end of each month, the recorded information in the General Journal, Voucher Register, and Check Register will be transferred (posted) to the proper General Ledger accounts. The debits and credits in the accounts are then totaled and lined.
 - b. Closing the Books – At the end of the fiscal year, the books are closed by removing the balances of revenue and expenses accounts from the General Ledger. This is done annually so that the excess or deficiency of revenues over expenses for the year can be determined. The annual closing is accomplished by journalizing and posting entries to the General Journal.
4. Trial Balance – At the end of each month, a Trial Balance is set up to check the accuracy of the posting and prove the equality of debits and credits in the General Ledger.
5. Financial Statements – The Financial Statements consist of the Income Statement and Balance Sheet.
 - a. Income Statement – The Income Statement reveals the financial progress of a business over a period of time. This statement is very important in the private sector because it shows whether the business is operating at a profit or a loss. The statement can also be used by nonprofit organizations and public agencies to show if

the organization's expenses are being kept within budget (usually determined by revenue from grant sources). Expenses are subtracted from revenue to determine Net Income. The Income Statement should be prepared every month so as to provide the Board with current information as to the financial health of the organization.

- b. Balance Sheet – The Balance Sheet reveals the financial condition of a business on a specific date. The Balance Sheet is important for both profit and nonprofit organizations because it shows the Net Worth of Fund Balance of an organization when Liabilities are subtracted from Assets.

6. Responsibilities and Duties

- a. General – The ultimate source of responsibility for the accounting records lies with the Board of Directors operating through the Budget and Finance Committee. This committee, headed by the Treasurer, must give its' approval for all expenditures. However, this approval power for all ordinary expenses may be delegated to the Board member(s) who sign all checks.
 - The Executive Director is responsible for supervising the overall accounting system.
 - The Bookkeeper is responsible for preparing the vouchers and recording them in the Voucher Register. The Executive Director is responsible for reviewing the vouchers and determining whether each expense is reasonable and proper. If the Executive Director approves the voucher, the Bookkeeper prepares the checks and records the payment in the Check Register. Two signatures are required for each check. The Board member who signs the check also should sign the voucher, thus giving Board approval for the payment to be made. The bookkeeper is responsible for preparing the accounting records, posting, and closing the records.

V. Fiscal Reporting Controls

- A. Policy – A systematic and programmatic fiscal reporting system will be developed which will enable the Board of Directors, membership, funding agencies, and other interested parties to monitor the program and expenditures.

- B. Procedure – The following fiscal reports will provide the Board of Directors with data to monitor the program:
1. Statement of Revenue, Expenses, and Change in Fund Balance – This statement will be prepared monthly and presented to the Board of Directors. This statement shows the monthly income and expenses, total operating budget, total expenses to date, and the fund balance. The statement shows income earned from which expenses are subtracted, to indicate the excess or deficit of income over expenses. The excess or deficit constitutes the change in fund balance.
 2. Income Statement – This statement will be prepared monthly and presented to the Board of Directors. This statement shows the income and expenses for the month.
 3. Balance Sheet – A monthly balance sheet will be prepared and presented to the Board of Directors. This statement will show the dollar amount of assets, liabilities, and fund balance.
 4. Monthly copies of all journal entries and bank reconciliation statements will be given to the Treasurer for verification.
 5. There will be an annual audit of the financial records by a Certified Public Accountant.
- C. Policy – The Board of Directors will ensure that all required financial reports, tax returns and returns to funding sources are filed when due.
- D. Procedure
1. The Board of Directors will contract with a Licensed Tax Preparer to prepare all required tax reports. The Board will be responsible for making certain that the tax reports are prepared on time. The required reports are:
 - a. Federal and State tax returns must be filed within four months following the end of the fiscal year. The fiscal year for Provider XXX ends on _____ of each year.
 - b. Federal and State payroll taxes, unemployment taxes, and income taxes withheld must be filed and paid on a quarterly basis. If the income tax withheld exceeds \$200 in one month, the taxes must be deposited on a monthly basis. The same procedure applies for social security taxes.

2. Other required financial reports as may be required from time to time by either the Board of Directors or by granting agencies will be prepared either by the Bookkeeper or by a Certified Public Accountant depending on the specific requirements of the report.

VI. Budget Control

- A. Policy – The Board of Directors will be responsible for ensuring that a Budget is drawn up to the beginning of each fiscal year or to meet the requirements of the granting sources.
- B. Procedure – The Board of Directors will ensure accountability through the following controls:
 1. Requiring the Budget and Finance committee to meet at least sixty (60) days prior to the end of the fiscal year (or as required by granting sources) to analyze past expenditures and develop a program budget for each source of funds.
 2. In lieu of #(1) above, the Budget and Finance Committee may make the Executive Director responsible for the development of a proposed budget for each fund for the following year. The Executive Director will make a presentation to the committee who will make such revisions as are necessary.

The committee will report to the full Board for approval of the Budget. The final decision to expand all funds rests with the full Board.

VII. Bank Accounts and Check Control

- A. Policy: Bank Accounts
 1. A checking account will be opened in a local bank where all revenue will be deposited intact and in a timely manner and from which all expenses will be paid.
 2. Monthly bank statements will be requested with a cut-off being the last day of each month. This will allow the bank statements to correspond with the monthly accounting records of Provider XXX. This will facilitate the reconciliation of the books to the bank statements.

B. Procedures

1. The Board of Directors will ensure that a checking account is opened in a local bank.
2. The Board may open additional bank accounts as it becomes necessary due to grant requirements.
3. Each account will require a monthly statement from the bank.

C. Policy: Check Control

1. All expenditures, except for petty cash, must be made by check from the checking account(s) established by the Board.

D. Procedures

1. All checks written shall have two authorized signatures. The two signatures may be any combination of Board members designated and the Executive Director.
2. All individuals authorized to sign checks will be bonded. Provider XXX will pay the bond premium.
3. Checks written to reimburse the Executive Director or any other employee for such things as travel expenses must be approved and signed by two Board members.
4. No Board member or any employee may sign any check payable to themselves for reimbursement of expenses.
5. All checks forwarded to authorized persons for signature must be accompanied by sufficient documentation to support the expenditure.

VIII. Cash Disbursements

A. Policy

1. Internal control over cash disbursements will be developed by setting up the voucher system of cash disbursements.
2. Cash disbursements duties will be divided among several employees. The segregation of duties is to be followed to the extent that there are qualified personnel available.

3. The ultimate authority and responsibility for all cash disbursement rests with the Board of Directors.

B. Procedures

1. All cash disbursements will be made by check.
2. Each check must be signed by two authorized individuals. The two signatories may be any combination of Board members designated and the Executive Director. No employee, other than the Executive Director, will be a signatory to any check.
3. Checks will be prenumbered and controlled by inventory.
4. Blank checks will be locked up and under the control of an individual who is not otherwise in the cash disbursement process and who does not record any cash transactions.
5. All cash disbursements must be approved by a member of the Board of Directors prior to signing the checks. This will be accomplished by the Board member who is a signatory on the checks, signing the voucher prior to signing the check.
6. A monthly bank reconciliation will be prepared for each checking account. This shall be done by an individual who does not handle cash or record cash transactions.

IX. Cash Receipts

- A. Policy – Internal control over cash receipts is to be developed by dividing duties among several employees.

- No one person will be allowed to receive cash, deposit it, and record it in the accounting records.

B. Procedures

1. The secretary will open all incoming mail, prepare a prelisting of all cash items (cash and checks received), and restrictively endorse all checks for deposit only. A deposit slip in duplicate will be prepared and sent to the Executive Director along with the prelisting and funds received.

2. The Executive Director will compare the list and the deposit slip, and then give the funds received and the deposit slip to another individual, who is not otherwise involved in cash transaction, to deposit the funds in the bank. The bank will be requested to give a duplicate deposit slip, which will be sent to the Bookkeeper.
3. The Executive Director will send the prelisting and the duplicate deposit slip prepared by the Secretary to the Bookkeeper.
4. The Bookkeeper compares the duplicate deposit slips prepared by the Secretary and the bank to the prelisting, and record the data in the cash receipts ledger.
5. All persons handling cash will be adequately bonded.
6. Reconciliation of the bank statements with the records will be done by an individual who is not otherwise involved in cash transactions.

X. Petty Cash Control

A. Policy

1. Policy of a petty cash fund is to avoid writing checks for small purchases, such as stamps and office supplies. If at all possible, Provider XXX will avoid setting up a petty cash fund, the reason being, the difficulty of controlling abuse by employees. Instead of a petty cash fund, charge accounts will be set up at various businesses for small purchases. However, if a petty cash fund is implemented, it will not exceed a reasonable amount established by the Board of Directors.
2. The cash will be kept in a safe place under lock and key. Prenumbered vouchers will be used to record the purchase of all items.
3. The Secretary will be responsible for disbursing the cash and maintaining the vouchers. Only authorized persons will be allowed to make petty cash purchases, preferably the Secretary. The Secretary, in turn, must seek permission from either the Executive Director or the Bookkeeper before making any purchases.
4. Any employee can request a petty cash purchase. However, the Executive Director or Bookkeeper must approve all such purchases in advance.
5. At the end of each month, the Secretary will summarize the petty cash disbursements and submit the summarization along with the vouchers and supporting documentation to the Executive Director who will authorize the fund to be reimbursed.

6. The reimbursement procedures will be the same as for any cash disbursement as outlined in Section VIII.
7. At all times, the total of receipts and cash on hand must equal the petty cash balance of \$50.

XI. Payroll

A. Policy

1. The policy will be controlled by keeping appropriate payroll records, by preparing time sheets, and by having more than one person involved in the payroll procedures.

B. Procedures

1. Payroll Records – All employees will be paid on a by-monthly basis. The Bookkeeper will be responsible for preparing payroll checks and maintaining the records in a payroll journal.
2. Deductions from Employees – The employer is responsible for deducting the appropriate social security taxes (FICA), federal income taxes withheld, state income taxes withheld and state disability insurance from the gross earnings of employees. These taxes are compulsory and the employer must submit these taxes to the proper agencies on either a monthly or quarterly basis. Other deductions are voluntary and include such things as charitable contributions, insurance premium, and savings bond purchases. The Bookkeeper, under the direction of the Board of Directors, will keep the appropriate records to ensure that the proper amounts are withheld and that payment of moneys withheld are made at the appropriate intervals.
3. Payroll Taxes – Provider XXX has the obligation to pay the following taxes: social security taxes (FICA), federal unemployment insurance taxes, and state unemployment insurance taxes. The Bookkeeper, under the direction of the Board of Directors, will ensure that these taxes are paid when due and that the appropriate records are maintained.
4. Time Sheets – A time sheet is a form on which each staff person records the number of hours worked on a given day. Each employee will be responsible for preparing a time sheet, signing the time sheet, and submitting it to his or her immediate supervisor for signed approval.

5. Specific Duties and Responsibilities

- a. The employee is responsible for filling out his or her time sheet every two weeks, signing it, and submitting it to his or her supervisor for approval.
 - b. The Supervisor will review each time and if it is correct will sign the time sheet. If the time sheet is not correct it will be returned to the employee for correction. The employee's pay for any given pay period will not be processed unless both the employees; and the supervisors' signatures appear on the time sheet.
 - c. When the time sheet is approved, it is submitted to the Secretary who will calculate the amount to be paid and enter it on the time sheet.
 - d. The time sheets are then submitted to the Executive Director for review and approval
 - e. Once the Executive Director has approved the time sheet for payment, signified by the Executive Director initialing the time sheet, the time sheets are given to the Bookkeeper who checks leave balances and prepares the vouchers and checks. The Bookkeeper also makes the appropriate entries in the records.
 - f. The rest of the payroll process follows the cash disbursement procedures outlined in Section VIII.
6. During each pay period, the Bookkeeper records all of the payroll data in the Payroll Register. This includes such data on each employee's total earnings, taxable earnings, deductions, and not pay. The cumulative amount of each employee's earnings is recorded in an Employee Earnings Record. The payroll is recorded in the General Ledger.
7. Payroll taxes are accumulated as liabilities to the employer. These taxes are paid at least four times a year to the federal and state governments. The Bookkeeper prepares the special tax forms and posts the taxes to the appropriate General Ledger Accounts. The payment of the taxes follows the cash disbursement procedures outlined in Section VIII.
8. Alternate Procedures – As an alternative to in house preparation of payroll, Provider XXX may find it more cost effective to contract with an outside payroll service to handle the actual preparation of the payroll, to the appropriate taxes and to keep the appropriate records.

- a. If a payroll service is utilized, the Bookkeeper will be responsible for preparing the input to the service from the time sheets which have gone through steps (5) a through (5) e above.
- b. When the payroll checks and registers are returned from the payroll service they should go to an individual who has not otherwise been involved in the payroll process. This individual will compare the checks to the input and the register. The individual will certify the payroll for payment by signing the payroll register returned by the payroll service.
- c. The Bookkeeper will make the appropriate entries in the in-house records.

XII Travel Reimbursement

A. Policy

1. Travel expenses and per diem rates will be established by the Board of Directors in accordance with either IRS rules and regulations, and/or provisions of contracts from granting sources.

B. Procedures

1. All reimbursement requests must be submitted on a form adopted by the Board of Directors.
2. The Executive Director must approve all travel expenses for staff. The Director's travel expenses must be approved by a member of the Board.
3. Travel outside of the normal work area (as defined by the Board of Directors) or overnight travel must be approved in advance by the Budget and Finance Committee or a designated member of the committee.
4. Expenses, other than mileage, must be accompanied by original receipts.

XIII. Fixed Asset Control

A. Policy

1. Fixed assets consist of furniture, fixtures, and other equipment. These assets, whether owned or borrowed, must be controlled by proper accounting records. Procedures will be established for the control of all assets having a unit value of \$300 or more.

B. Procedures

1. Any equipment to be purchased or leased which has a unit value of \$300 or more will require at least three bids.
2. All equipment purchases will require approval by the Budget and Finance committee.
3. The Bookkeeper must maintain inventory records of all fixed assets, whether purchased or donated.
4. All fixed assets (purchased or donated) must have all pertinent data recorded as soon after acquisition as is practical.

5. Each item must be recorded on a fixed asset record. Each item should be recorded at cost, which includes: contract or grant number, which paid for the item, purchase price, freight charges, and installation charges.
6. Each item will be tagged with an inventory numbered tag.
7. An annual equipment inventory will be conducted by an individual who is not otherwise involved in the acquisition of receiving of or record keeping for the fixed assets.
8. The disposal of any fixed asset must be authorized by the Board and done in accordance with the requirements of the grant or contract source which paid for the equipment.

XIV. Consultants

A. Policy

1. Whenever consultants are hired, it must be demonstrated that there is a need for this service and that there is adequate documentation of services and payment.

B. Procedures

1. The need for a consultant can be recommended by the Executive Director, but the Board of Directors must make final approval.
2. A written contract, approved by an attorney, must be made by the Board of Directors.
3. The contract must spell out the duties of the consultant and the method of compensation.
4. An adequate record of payment must be maintained.

EXAMPLE OF A TYPICAL CHECK REQUEST

Check Request No. _____ Date _____

Check No. _____

Amount \$ _____

Accounts Charged by Amount

_____	_____	_____
_____	_____	_____
_____	_____	_____

Purpose: _____

Check Request Prepared By: _____ Date: _____

Check Request Prepared By: _____ Date: _____

_____ Date: _____



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CIRCULAR NO. A-122

Revised

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Cost Principles for Non-Profit Organizations

1. **Purpose.** This Circular establishes principles for determining costs of grants, contracts and other agreements with non-profit organizations. It does not apply to colleges and universities which are covered by Office of Management and Budget (OMB) Circular A-21, "Cost Principles for Educational Institutions"; State, local, and federally-recognized Indian tribal governments which are covered by OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments"; or hospitals. The principles are designed to provide that the Federal Government bear its fair share of costs except where restricted or prohibited by law. The principles do not attempt to prescribe the extent of cost sharing or matching on grants, contracts, or other agreements. However, such cost sharing or matching shall not be accomplished through arbitrary limitations on individual cost elements by Federal agencies. Provision for profit or other increment above cost is outside the scope of this Circular.

2. **Supersession.** This Circular supersedes cost principles issued by individual agencies for non-profit organizations.

3. Applicability.

a. These principles shall be used by all Federal agencies in determining the costs of work performed by non-profit organizations under grants, cooperative agreements, cost reimbursement contracts, and other contracts in which costs are used in pricing, administration, or settlement. All of these instruments are hereafter referred to as awards. The principles do not apply to awards under which an organization is not required to account to the Federal Government for actual costs incurred.

b. All cost reimbursement subawards (subgrants, subcontracts, etc.) are subject to those Federal cost principles applicable to the particular organization concerned. Thus, if a subaward is to a non-profit organization, this Circular shall apply; if a subaward is to a commercial organization, the cost principles applicable to commercial concerns shall apply; if a subaward is to a college or university, Circular A-21 shall apply; if a subaward is to a State, local, or federally-recognized Indian tribal government, Circular A-87 shall apply.

4. Definitions.

a. **Non-profit organization** means any corporation, trust, association, cooperative, or other organization which:

(1) is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest;

(2) is not organized primarily for profit; and

(3) uses its net proceeds to maintain, improve, and/or expand its operations. For this purpose, the term "non-profit organization" excludes (i) colleges and universities; (ii) hospitals; (iii) State, local, and federally-recognized Indian tribal governments; and (iv) those non-profit organizations which are excluded from coverage of this Circular in accordance with paragraph 5.

b. **Prior approval** means securing the awarding agency's permission in advance to incur cost for those items that are designated as requiring prior approval by the Circular. Generally this permission will be in writing. Where an item of cost requiring prior approval is specified in the budget of an award, approval of the budget constitutes approval of that cost.

5. **Exclusion of some non-profit organizations.** Some non-profit organizations, because of their size and nature of operations, can be considered to be similar to commercial concerns for purpose of applicability of cost principles. Such non-profit organizations shall operate under Federal cost principles applicable to commercial concerns. A listing of these organizations is contained in Attachment C. Other organizations may be added from time to time.

6. **Responsibilities.** Agencies responsible for administering programs that involve awards to non-profit organizations shall implement the provisions of this Circular. Upon request, implementing instruction shall be furnished to OMB. Agencies shall designate a liaison official to serve as the agency representative on matters relating to the implementation of this Circular. The name and title of such representative shall be furnished to OMB within 30 days of the date of this Circular.

7. **Attachments.** The principles and related policy guides are set forth in the following Attachments:

[Attachment A](#) - General Principles

[Attachment B](#) - Selected Items of Cost

[Attachment C](#) - Non-Profit Organizations Not Subject To This Circular

8. **Requests for exceptions.** OMB may grant exceptions to the requirements of this Circular when permissible under existing law. However, in the interest of achieving maximum uniformity, exceptions will be permitted only in highly unusual circumstances.

9. **Effective Date.** The provisions of this Circular are effective immediately. Implementation shall be phased in by incorporating the provisions into new awards made after the start of the organization's next fiscal year. For existing awards, the new principles may be applied if an organization and the cognizant Federal agency agree. Earlier implementation, or a delay in implementation of individual provisions, is also permitted by mutual agreement between an organization and the cognizant Federal agency.

10. **Inquiries.** Further information concerning this Circular may be obtained by contacting the Office of Federal Financial Management, OMB, Washington, DC 20503, and telephone (202) 395-3993.

Attachments

GENERAL PRINCIPLES

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GENERAL PRINCIPLES

A. Basic Considerations

1. **Composition of total costs.** The total cost of an award is the sum of the allowable direct and allocable indirect costs less any applicable credits.

2. **Factors affecting allowability of costs.** To be allowable under an award, costs must meet the following general criteria:

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

3. **Reasonable costs.** A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions thereof which receive the preponderance of their support from awards made by Federal agencies. In determining the reasonableness of a given cost, consideration shall be given to:

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

4. Allocable costs.

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

(1) Is incurred specifically for the award.

(2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or

(3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.

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

5. Applicable credits.

a. The term applicable credits refers to those receipts, or reduction of expenditures which operate to offset or reduce expense items that are allocable to awards as direct or indirect costs. Typical examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing or received by the organization relate to allowable cost, they shall be credited to the Federal Government either as a cost reduction or cash refund, as appropriate.

b. In some instances, the amounts received from the Federal Government to finance organizational activities or service operations should be treated as applicable credits. Specifically, the concept of netting such credit items against related expenditures should be applied by the organization in determining the rates or amounts to be charged to Federal awards for services rendered whenever the facilities or other resources used in providing such services have been financed directly, in whole or in part, by Federal funds.

c. For rules covering program income (i.e., gross income earned from federally-supported activities) see Sec. __.24 of Office of Management and Budget (OMB) Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations."

6. Advance understandings. Under any given award, the reasonableness and allocability of certain items of costs may be difficult to determine. This is particularly true in connection with organizations that receive a preponderance of their support from Federal agencies. In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, it is often desirable to seek a written agreement

with the cognizant or awarding agency in advance of the incurrence of special or unusual costs. The absence of an advance agreement on any element of cost will not, in itself, affect the reasonableness or allocability of that element.

7. Conditional exemptions.

a. OMB authorizes conditional exemption from OMB administrative requirements and cost principles circulars for certain Federal programs with statutorily-authorized consolidated planning and consolidated administrative funding, that are identified by a Federal agency and approved by the head of the Executive department or establishment. A Federal agency shall consult with OMB during its consideration of whether to grant such an exemption.

b. To promote efficiency in State and local program administration, when Federal non-entitlement programs with common purposes have specific statutorily-authorized consolidated planning and consolidated administrative funding and where most of the State agency's resources come from non-Federal sources, Federal agencies may exempt these covered State-administered, non-entitlement grant programs from certain OMB grants management requirements. The exemptions would be from all but the allocability of costs provisions of OMB Circulars A-87 (Attachment A, subsection C.3), "Cost Principles for State, Local, and Indian Tribal Governments," A-21 (Section C, subpart 4), "Cost Principles for Educational Institutions," and A-122 (Attachment A, subsection A.4), "Cost Principles for Non-Profit Organizations," and from all of the administrative requirements provisions of OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," and the agencies' grants management common rule.

c. When a Federal agency provides this flexibility, as a prerequisite to a State's exercising this option, a State must adopt its own written fiscal and administrative requirements for expending and accounting for all funds, which are consistent with the provisions of OMB Circular A-87, and extend such policies to all subrecipients. These fiscal and administrative requirements must be sufficiently specific to ensure that: funds are used in compliance with all applicable Federal statutory and regulatory provisions, costs are reasonable and necessary for operating these programs, and funds are not be used for general expenses required to carry out other responsibilities of a State or its subrecipients.

B. Direct Costs

1. Direct costs are those that can be identified specifically with a particular final cost objective, i.e., a particular award, project, service, or other direct activity of an organization. However, a cost may not be assigned to an award as a direct cost if any other cost incurred for the same purpose, in like circumstance, has been allocated to an award as an indirect cost. Costs identified specifically with awards are direct costs of the awards and are to be assigned directly thereto. Costs identified specifically with other final cost objectives of the organization are direct costs of those cost objectives and are

not to be assigned to other awards directly or indirectly.

2. Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where the accounting treatment for such cost is consistently applied to all final cost objectives.

3. The cost of certain activities are not allowable as charges to Federal awards (see, for example, fundraising costs in **paragraph 23 of Attachment B**). However, even though these costs are unallowable for purposes of computing charges to Federal awards, they nonetheless must be treated as direct costs for purposes of determining indirect cost rates and be allocated their share of the organization's indirect costs if they represent activities which (1) include the salaries of personnel, (2) occupy space, and (3) benefit from the organization's indirect costs.

4. The costs of activities performed primarily as a service to members, clients, or the general public when significant and necessary to the organization's mission must be treated as direct costs whether or not allowable and be allocated an equitable share of indirect costs. Some examples of these types of activities include:

- a. Maintenance of membership rolls, subscriptions, publications, and related functions.
- b. Providing services and information to members, legislative or administrative bodies, or the public.
- c. Promotion, lobbying, and other forms of public relations.
- d. Meetings and conferences except those held to conduct the general administration of the organization.
- e. Maintenance, protection, and investment of special funds not used in operation of the organization.
- f. Administration of group benefits on behalf of members or clients, including life and hospital insurance, annuity or retirement plans, financial aid, etc.

C. Indirect Costs

1. Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. Direct cost of minor amounts may be treated as indirect costs under the conditions described in **subparagraph B.2**. After direct costs have been determined and assigned directly to awards or other work as appropriate, indirect costs are those remaining to be allocated to benefiting cost objectives. A cost may not be allocated to an award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to an award as a direct cost.

2. Because of the diverse characteristics and accounting practices of non-profit organizations, it is not possible to specify the types of cost which may be classified as indirect cost in all situations. However, typical examples of indirect cost for many non-profit organizations may include depreciation or use allowances on buildings and

equipment, the costs of operating and maintaining facilities, and general administration and general expenses, such as the salaries and expenses of executive officers, personnel administration, and accounting.

3. Indirect costs shall be classified within two broad categories: "Facilities" and "Administration." "Facilities" is defined as depreciation and use allowances on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses. "Administration" is defined as general administration and general expenses such as the director's office, accounting, personnel, library expenses and all other types of expenditures not listed specifically under one of the subcategories of "Facilities" (including cross allocations from other pools, where applicable). See indirect cost rate reporting requirements in **subparagraphs D.2.e and D.3.g.**

D. Allocation of Indirect Costs and Determination of Indirect Cost Rates

1. General.

a. Where a non-profit organization has only one major function, or where all its major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures, as described in **subparagraph 2.**

b. Where an organization has several major functions which benefit from its indirect costs in varying degrees, allocation of indirect costs may require the accumulation of such costs into separate cost groupings which then are allocated individually to benefiting functions by means of a base which best measures the relative degree of benefit. The indirect costs allocated to each function are then distributed to individual awards and other activities included in that function by means of an indirect cost rate(s).

c. The determination of what constitutes an organization's major functions will depend on its purpose in being; the types of services it renders to the public, its clients, and its members; and the amount of effort it devotes to such activities as fundraising, public information and membership activities.

d. Specific methods for allocating indirect costs and computing indirect cost rates along with the conditions under which each method should be used are described in **subparagraphs 2 through 5.**

e. The base period for the allocation of indirect costs is the period in which such costs are incurred and accumulated for allocation to work performed in that period. The base period normally should coincide with the organization's fiscal year but, in any event, shall be so selected as to avoid inequities in the allocation of the costs.

2. Simplified allocation method.

a. Where an organization's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by (i) separating the organization's total costs for the base period as either direct or

indirect, and (ii) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate, which is used to distribute indirect costs to individual awards. The rate should be expressed as the percentage which the total amount of allowable indirect costs bears to the base selected. This method should also be used where an organization has only one major function encompassing a number of individual projects or activities, and may be used where the level of Federal awards to an organization is relatively small.

b. Both the direct costs and the indirect costs shall exclude capital expenditures and unallowable costs. However, unallowable costs which represent activities must be included in the direct costs under the conditions described in **subparagraph B.3**.

c. The distribution base may be total direct costs (excluding capital expenditures and other distorting items, such as major subcontracts or subgrants), direct salaries and wages, or other base which results in an equitable distribution. The distribution base shall generally exclude participant support costs as defined in **paragraph 34 of Attachment B**.

d. Except where a special rate(s) is required in accordance with **subparagraph 5**, the indirect cost rate developed under the above principles is applicable to all awards at the organization. If a special rate(s) is required, appropriate modifications shall be made in order to develop the special rate(s).

e. For an organization that receives more than \$10 million in Federal funding of direct costs in a fiscal year, a breakout of the indirect cost component into two broad categories, Facilities and Administration as defined in **subparagraph C.3**, is required. The rate in each case shall be stated as the percentage which the amount of the particular indirect cost category (i.e., Facilities or Administration) is of the distribution base identified with that category.

3. Multiple allocation base method

a. General. Where an organization's indirect costs benefit its major functions in varying degrees, indirect costs shall be accumulated into separate cost groupings, as described in **subparagraph b**. Each grouping shall then be allocated individually to benefiting functions by means of a base, which best measures the relative benefits. The default allocation bases by cost pool are described in **subparagraph c**.

b. Identification of indirect costs. Cost groupings shall be established so as to permit the allocation of each grouping on the basis of benefits provided to the major functions. Each grouping shall constitute a pool of expenses that are of like character in terms of functions they benefit and in terms of the allocation base which best measures the relative benefits provided to each function. The groupings are classified within the two broad categories: "Facilities" and "Administration," as described in **subparagraph C.3**. The indirect cost pools are defined as follows:

(1) Depreciation and use allowances. The expenses under this heading are the portion of the costs of the organization's buildings, capital improvements to land and buildings, and equipment which are computed in accordance with **paragraph 11 of Attachment B** ("Depreciation and use allowances").

(2) Interest. Interest on debt associated with certain buildings, equipment and capital improvements are computed in accordance with **paragraph 23 of Attachment B** ("Interest, fundraising, and investment management costs").

(3) Operation and maintenance expenses. The expenses under this heading are those that have been incurred for the administration, operation, maintenance, preservation, and protection of the organization's physical plant. They include expenses normally incurred for such items as: janitorial and utility services; repairs and ordinary or normal alterations of buildings, furniture and equipment; care of grounds; maintenance and operation of buildings and other plant facilities; security; earthquake and disaster preparedness; environmental safety; hazardous waste disposal; property, liability and other insurance relating to property; space and capital leasing; facility planning and management; and, central receiving. The operation and maintenance expenses category shall also include its allocable share of fringe benefit costs, depreciation and use allowances, and interest costs.

(4) General administration and general expenses. The expenses under this heading are those that have been incurred for the overall general executive and administrative offices of the organization and other expenses of a general nature, which do not relate solely to any major function of the organization. This category shall also include its allocable share of fringe benefit costs, operation and maintenance expense, depreciation and use allowances, and interest costs. Examples of this category include central offices, such as the director's office, the office of finance, business services, budget and planning, personnel, safety and risk management, general counsel, management information systems, and library costs.

In developing this cost pool, special care should be exercised to ensure that costs incurred for the same purpose in like circumstances are treated consistently as either direct or indirect costs. For example, salaries of technical staff, project supplies, project publication, telephone toll charges, computer costs, travel costs, and specialized services costs shall be treated as direct costs wherever identifiable to a particular program. The salaries and wages of administrative and pooled clerical staff should normally be treated as indirect costs. Direct charging of these costs may be appropriate where a major project or activity explicitly requires and budgets for administrative or clerical services and other individuals involved can be identified with the program or activity. Items such as office supplies, postage, local telephone costs, periodicals and memberships should normally be treated as indirect costs.

c. Allocation bases. Actual conditions shall be taken into account in selecting the base to be used in allocating the expenses in each grouping to benefiting functions. The essential consideration in selecting a method or a base is that it is the one best suited for assigning the pool of costs to cost objectives in accordance with benefits derived; a traceable cause and effect relationship; or logic and reason, where neither the cause

nor the effect of the relationship is determinable. When an allocation can be made by assignment of a cost grouping directly to the function benefited, the allocation shall be made in that manner. When the expenses in a cost grouping are more general in nature, the allocation shall be made through the use of a selected base, which produces results that are equitable to both the Federal Government and the organization. The distribution shall be made in accordance with the bases described herein unless it can be demonstrated that the use of a different base would result in a more equitable allocation of the costs, or that a more readily available base would not increase the costs charged to sponsored awards. The results of special cost studies (such as an engineering utility study) shall not be used to determine and allocate the indirect costs to sponsored awards.

(1) Depreciation and use allowances. Depreciation and use allowances expenses shall be allocated in the following manner:

(a) Depreciation or use allowances on buildings used exclusively in the conduct of a single function, and on capital improvements and equipment used in such buildings, shall be assigned to that function.

(b) Depreciation or use allowances on buildings used for more than one function, and on capital improvements and equipment used in such buildings, shall be allocated to the individual functions performed in each building on the basis of usable square feet of space, excluding common areas, such as hallways, stairwells, and restrooms.

(c) Depreciation or use allowances on buildings, capital improvements and equipment related space (e.g., individual rooms, and laboratories) used jointly by more than one function (as determined by the users of the space) shall be treated as follows. The cost of each jointly used unit of space shall be allocated to the benefiting functions on the basis of:

(i) the employees and other users on a full-time equivalent (FTE) basis or salaries and wages of those individual functions benefiting from the use of that space; or

(ii) organization-wide employee FTEs or salaries and wages applicable to the benefiting functions of the organization.

(d) Depreciation or use allowances on certain capital improvements to land, such as paved parking areas, fences, sidewalks, and the like, not included in the cost of buildings, shall be allocated to user categories on a FTE basis and distributed to major functions in proportion to the salaries and wages of all employees applicable to the functions.

(2) Interest. Interest costs shall be allocated in the same manner as the depreciation or use allowances on the buildings, equipment and capital equipments to which the interest relates.

(3) Operation and maintenance expenses. Operation and maintenance expenses shall be allocated in the same manner as the depreciation and use allowances.

(4) General administration and general expenses. General administration and

general expenses shall be allocated to benefiting functions based on modified total direct costs (MTDC), as described in **subparagraph D.3.f**. The expenses included in this category could be grouped first according to major functions of the organization to which they render services or provide benefits. The aggregate expenses of each group shall then be allocated to benefiting functions based on MTDC.

d. Order of distribution.

(1) Indirect cost categories consisting of depreciation and use allowances, interest, operation and maintenance, and general administration and general expenses shall be allocated in that order to the remaining indirect cost categories as well as to the major functions of the organization. Other cost categories could be allocated in the order determined to be most appropriate by the organization. When cross allocation of costs is made as provided in **subparagraph (2)**, this order of allocation does not apply.

(2) Normally, an indirect cost category will be considered closed once it has been allocated to other cost objectives, and costs shall not be subsequently allocated to it. However, a cross allocation of costs between two or more indirect costs categories could be used if such allocation will result in a more equitable allocation of costs. If a cross allocation is used, an appropriate modification to the composition of the indirect cost categories is required.

e. Application of indirect cost rate or rates. Except where a special indirect cost rate(s) is required in accordance with **subparagraph D.5**, the separate groupings of indirect costs allocated to each major function shall be aggregated and treated as a common pool for that function. The costs in the common pool shall then be distributed to individual awards included in that function by use of a single indirect cost rate.

f. Distribution basis. Indirect costs shall be distributed to applicable sponsored awards and other benefiting activities within each major function on the basis of MTDC. MTDC consists of all salaries and wages, fringe benefits, materials and supplies, services, travel, and subgrants and subcontracts up to the first \$25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract). Equipment, capital expenditures, charges for patient care, rental costs and the portion in excess of \$25,000 shall be excluded from MTDC. Participant support costs shall generally be excluded from MTDC. Other items may only be excluded when the Federal cost cognizant agency determines that an exclusion is necessary to avoid a serious inequity in the distribution of indirect costs.

g. Individual Rate Components. An indirect cost rate shall be determined for each separate indirect cost pool developed. The rate in each case shall be stated as the percentage, which the amount of the particular indirect cost pool is of the distribution base identified with that pool. Each indirect cost rate negotiation or determination agreement shall include development of the rate for each indirect cost pool as well as the overall indirect cost rate. The indirect cost pools shall be classified within two broad categories: "Facilities" and "Administration," as described in **subparagraph C.3**.

4. **Direct allocation method.**

- a. Some non-profit organizations treat all costs as direct costs except general administration and general expenses. These organizations generally separate their costs into three basic categories: (i) General administration and general expenses, (ii) fundraising, and (iii) other direct functions (including projects performed under Federal awards). Joint costs, such as depreciation, rental costs, operation and maintenance of facilities, telephone expenses, and the like are prorated individually as direct costs to each category and to each award or other activity using a base most appropriate to the particular cost being prorated.
- b. This method is acceptable, provided each joint cost is prorated using a base which accurately measures the benefits provided to each award or other activity. The bases must be established in accordance with reasonable criteria, and be supported by current data. This method is compatible with the Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations issued jointly by the National Health Council, Inc., the National Assembly of Voluntary Health and Social Welfare Organizations, and the United Way of America.
- c. Under this method, indirect costs consist exclusively of general administration and general expenses. In all other respects, the organization's indirect cost rates shall be computed in the same manner as that described in **subparagraph 2**.

5. **Special indirect cost rates.** In some instances, a single indirect cost rate for all activities of an organization or for each major function of the organization may not be appropriate, since it would not take into account those different factors which may substantially affect the indirect costs applicable to a particular segment of work. For this purpose, a particular segment of work may be that performed under a single award or it may consist of work under a group of awards performed in a common environment. These factors may include the physical location of the work, the level of administrative support required, the nature of the facilities or other resources employed, the scientific disciplines or technical skills involved, the organizational arrangements used, or any combination thereof. When a particular segment of work is performed in an environment, which appears to generate a significantly different level of indirect costs, provisions should be made for a separate indirect cost pool applicable to such work. The separate indirect cost pool should be developed during the course of the regular allocation process, and the separate indirect cost rate resulting therefrom should be used, provided it is determined that (i) the rate differs significantly from that which would have been obtained under **subparagraphs 2, 3, and 4**, and (ii) the volume of work to which the rate would apply is material.

E. Negotiation and Approval of Indirect Cost Rates

1. **Definitions.** As used in this section, the following terms have the meanings set forth below:

- a. **Cognizant agency** means the Federal agency responsible for negotiating and approving indirect cost rates for a non-profit organization on behalf of all Federal agencies.
- b. **Predetermined rate** means an indirect cost rate, applicable to a specified current or future period, usually the organization's fiscal year. The rate is based on an estimate of the costs to be incurred during the period. A predetermined rate is not subject to adjustment.
- c. **Fixed rate** means an indirect cost rate which has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.
- d. **Final rate** means an indirect cost rate applicable to a specified past period which is based on the actual costs of the period. A final rate is not subject to adjustment.
- e. **Provisional rate** or billing rate means a temporary indirect cost rate applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs on awards pending the establishment of a final rate for the period.
- f. **Indirect cost proposal** means the documentation prepared by an organization to substantiate its claim for the reimbursement of indirect costs. This proposal provides the basis for the review and negotiation leading to the establishment of an organization's indirect cost rate.
- g. **Cost objective** means a function, organizational subdivision, contract, grant, or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, projects, jobs and capitalized projects.

2. Negotiation and approval of rates.

- a. Unless different arrangements are agreed to by the agencies concerned, the Federal agency with the largest dollar value of awards with an organization will be designated as the cognizant agency for the negotiation and approval of the indirect cost rates and, where necessary, other rates such as fringe benefit and computer charge-out rates. Once an agency is assigned cognizance for a particular non-profit organization, the assignment will not be changed unless there is a major long-term shift in the dollar volume of the Federal awards to the organization. All concerned Federal agencies shall be given the opportunity to participate in the negotiation process but, after a rate has been agreed upon, it will be accepted by all Federal agencies. When a Federal agency has reason to believe that special operating factors affecting its awards necessitate special indirect cost rates in accordance with **subparagraph D.5**, it will, prior to the time the rates are negotiated, notify the cognizant agency.
- b. A non-profit organization which has not previously established an indirect cost rate with a Federal agency shall submit its initial indirect cost proposal immediately after the organization is advised that an award will be made and, in no event, later than three months after the effective date of the award.
- c. Organizations that have previously established indirect cost rates must submit a new indirect cost proposal to the cognizant agency within six months after the close of each fiscal year.

- d. A predetermined rate may be negotiated for use on awards where there is reasonable assurance, based on past experience and reliable projection of the organization's costs, that the rate is not likely to exceed a rate based on the organization's actual costs.
 - e. Fixed rates may be negotiated where predetermined rates are not considered appropriate. A fixed rate, however, shall not be negotiated if (i) all or a substantial portion of the organization's awards are expected to expire before the carry-forward adjustment can be made; (ii) the mix of Federal and non-Federal work at the organization is too erratic to permit an equitable carry-forward adjustment; or (iii) the organization's operations fluctuate significantly from year to year.
 - f. Provisional and final rates shall be negotiated where neither predetermined nor fixed rates are appropriate.
 - g. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the non-profit organization. The cognizant agency shall distribute copies of the agreement to all concerned Federal agencies.
 - h. If a dispute arises in a negotiation of an indirect cost rate between the cognizant agency and the non-profit organization, the dispute shall be resolved in accordance with the appeals procedures of the cognizant agency.
 - i. To the extent that problems are encountered among the Federal agencies in connection with the negotiation and approval process, OMB will lend assistance as required to resolve such problems in a timely manner.
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SELECTED ITEMS OF COST

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SELECTED ITEMS OF COST

Paragraphs 1 through 56 provide principles to be applied in establishing the allowability of certain items of cost. These principles apply whether a cost is treated as direct or indirect. Failure to mention a particular item of cost is not intended to imply that it is unallowable; rather, determination as to allowability in each case should be based on the treatment or principles provided for similar or related items of cost.

1. Advertising and public relations costs.

a. The term advertising costs means the costs of advertising media and corollary administrative costs. Advertising media include magazines, newspapers, radio and television programs, direct mail, exhibits, and the like.

b. The term public relations includes community relations and means those activities dedicated to maintaining the image of the organization or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public.

c. The only allowable advertising costs are those which are solely for:

(1) The recruitment of personnel required for the performance by the organization of obligations arising under a sponsored award, when considered in conjunction with all other recruitment costs, as set forth in **paragraph 44** ("Recruiting costs");

(2) The procurement of goods and services for the performance of a sponsored award;

(3) The disposal of scrap or surplus materials acquired in the performance of a sponsored award except when organizations are reimbursed for disposal costs at a predetermined amount in accordance with OMB Circular A-110, Sec.____.34, "Equipment"; or

(4) Other specific purposes necessary to meet the requirements of the sponsored award.

d. The only allowable public relations costs are:

(1) Costs specifically required by sponsored awards;

(2) Costs of communicating with the public and press pertaining to specific activities or accomplishments which result from performance of sponsored awards (these costs are considered necessary as part of the outreach effort for the sponsored awards); or

(3) Costs of conducting general liaison with news media and government public relations officers, to the extent that such activities are limited to communication

and liaison necessary to keep the public informed on matters of public concern, such as notices of contract/grant awards, financial matters, etc.

e. Costs identified in **subparagraphs c and d** if incurred for more than one sponsored award or for both sponsored work and other work of the organization, are allowable to the extent that the principles in **paragraphs B** ("Direct Costs") and **C** ("Indirect Costs") of **Attachment A** are observed.

f. Unallowable advertising and public relations costs include the following:

(1) All advertising and public relations costs other than as specified in **subparagraphs c, d, and e**;

(2) Costs of meetings or other events related to fund raising or other organizational activities including:

(i) Costs of displays, demonstrations, and exhibits;

(ii) Costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events; and

(iii) Salaries and wages of employees or cost of services engaged in setting up and displaying exhibits, making demonstrations, and providing briefings;

(3) Costs of promotional items and memorabilia, including models, gifts, and souvenirs;

(4) Costs of advertising and public relations designed solely to promote the organization.

2. **Alcoholic beverages.** Costs of alcoholic beverages are unallowable.

3. **Bad debts.** Bad debts, including losses (whether actual or estimated) arising from uncollectible accounts and other claims, related collection costs, and related legal costs, are unallowable.

4. **Bid and proposal costs.** (reserved)

5. **Bonding costs.**

a. Bonding costs arise when the Federal Government requires assurance against financial loss to itself or others by reason of the act or default of the organization. They arise also in instances where the organization requires similar assurance. Included are such bonds as bid, performance, payment, advance payment, infringement, and fidelity bonds.

b. Costs of bonding required pursuant to the terms of the award are allowable.

c. Costs of bonding required by the organization in the general conduct of its operations

are allowable to the extent that such bonding is in accordance with sound business practice and the rates and premiums are reasonable under the circumstances.

6. **Communication costs.** Costs incurred for telephone services, local and long distance telephone calls, telegrams, radiograms, postage and the like are allowable.

7. **Compensation for personal services.**

a. **Definition.** Compensation for personal services includes all compensation paid currently or accrued by the organization for services of employees rendered during the period of the award (except as otherwise provided in **subparagraph h**). It includes, but is not limited to, salaries, wages, director's and executive committee member's fees, incentive awards, fringe benefits, pension plan costs, allowances for off-site pay, incentive pay, location allowances, hardship pay, and cost of living differentials.

b. **Allowability.** Except as otherwise specifically provided in this paragraph, the costs of such compensation are allowable to the extent that:

(1) Total compensation to individual employees is reasonable for the services rendered and conforms to the established policy of the organization consistently applied to both Federal and non-Federal activities; and

(2) Charges to awards whether treated as direct or indirect costs are determined and supported as required in this paragraph.

c. **Reasonableness.**

(1) When the organization is predominantly engaged in activities other than those sponsored by the Federal Government, compensation for employees on federally-sponsored work will be considered reasonable to the extent that it is consistent with that paid for similar work in the organization's other activities.

(2) When the organization is predominantly engaged in federally-sponsored activities and in cases where the kind of employees required for the Federal activities are not found in the organization's other activities, compensation for employees on federally-sponsored work will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor markets in which the organization competes for the kind of employees involved.

d. **Special considerations in determining allowability.** Certain conditions require special consideration and possible limitations in determining costs under Federal awards where amounts or types of compensation appear unreasonable. Among such conditions are the following:

(1) Compensation to members of non-profit organizations, trustees, directors, associates, officers, or the immediate families thereof. Determination should be made that such compensation is reasonable for the actual personal services rendered rather than a distribution of earnings in excess of costs.

(2) Any change in an organization's compensation policy resulting in a substantial increase in the organization's level of compensation, particularly when it was concurrent with an increase in the ratio of Federal awards to other activities of the organization or any change in the treatment of allowability of specific types of compensation due to changes in Federal policy.

e. **Unallowable costs.** Costs which are unallowable under other paragraphs of this Attachment shall not be allowable under this paragraph solely on the basis that they constitute personal compensation.

f. **Fringe benefits.**

(1) Fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as vacation leave, sick leave, military leave, and the like, are allowable, provided such costs are absorbed by all organization activities in proportion to the relative amount of time or effort actually devoted to each.

(2) Fringe benefits in the form of employer contributions or expenses for social security, employee insurance, workmen's compensation insurance, pension plan costs (see **subparagraph h**), and the like, are allowable, provided such benefits are granted in accordance with established written organization policies. Such benefits whether treated as indirect costs or as direct costs, shall be distributed to particular awards and other activities in a manner consistent with the pattern of benefits accruing to the individuals or group of employees whose salaries and wages are chargeable to such awards and other activities.

(3) (a) Provisions for a reserve under a self-insurance program for unemployment compensation or workers' compensation are allowable to the extent that the provisions represent reasonable estimates of the liabilities for such compensation, and the types of coverage, extent of coverage, and rates and premiums would have been allowable had insurance been purchased to cover the risks. However, provisions for self-insured liabilities which do not become payable for more than one year after the provision is made shall not exceed the present value of the liability.

(b) Where an organization follows a consistent policy of expensing actual payments to, or on behalf of, employees or former employees for unemployment compensation or workers' compensation, such payments are allowable in the year of payment with the prior approval of the awarding agency, provided they are allocated to all activities of the organization.

(4) Costs of insurance on the lives of trustees, officers, or other employees holding positions of similar responsibility are allowable only to the extent that the insurance represents additional compensation. The costs of such insurance

when the organization is named as beneficiary are unallowable.

g. Organization-furnished automobiles. That portion of the cost of organization-furnished automobiles that relates to personal use by employees (including transportation to and from work) is unallowable as fringe benefit or indirect costs regardless of whether the cost is reported as taxable income to the employees. These costs are allowable as direct costs to sponsored award when necessary for the performance of the sponsored award and approved by awarding agencies.

h. Pension plan costs.

(1) Costs of the organization's pension plan which are incurred in accordance with the established policies of the organization are allowable, provided:

(a) Such policies meet the test of reasonableness;

(b) The methods of cost allocation are not discriminatory;

(c) The cost assigned to each fiscal year is determined in accordance with generally accepted accounting principles (GAAP), as prescribed in Accounting Principles Board Opinion No. 8 issued by the American Institute of Certified Public Accountants; and

(d) The costs assigned to a given fiscal year are funded for all plan participants within six months after the end of that year. However, increases to normal and past service pension costs caused by a delay in funding the actuarial liability beyond 30 days after each quarter of the year to which such costs are assignable are unallowable.

(2) Pension plan termination insurance premiums paid pursuant to the Employee Retirement Income Security Act (ERISA) of 1974 (Pub. L. 93-406) are allowable. Late payment charges on such premiums are unallowable.

(3) Excise taxes on accumulated funding deficiencies and other penalties imposed under ERISA are unallowable.

i. Incentive compensation. Incentive compensation to employees based on cost reduction, or efficient performance, suggestion awards, safety awards, etc., are allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the organization and the employees before the services were rendered, or pursuant to an established plan followed by the organization so consistently as to imply, in effect, an agreement to make such payment.

j. Overtime, extra-pay shift, and multi-shift premiums. See paragraph 32.

k. Severance pay. See paragraph 49.

l. Training and education costs. See paragraph 53.

m. Support of salaries and wages.

(1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in **subparagraph (2)**, except when a substitute system has been approved in writing by the cognizant agency. (See **subparagraph E.2 of Attachment A.**)

(2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function). Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards:

(a) The reports must reflect an *after-the-fact* determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.

(b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.

(c) The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

(d) The reports must be prepared at least monthly and must coincide with one or more pay periods.

(3) Charges for the salaries and wages of nonprofessional employees, in addition to the supporting documentation described in **subparagraphs (1) and (2)**, must also be supported by records indicating the total number of hours worked each day maintained in conformance with Department of Labor regulations implementing the Fair Labor Standards Act (FLSA) (29 CFR Part 516). For this purpose, the term "nonprofessional employee" shall have the same meaning as "nonexempt employee," under FLSA.

(4) Salaries and wages of employees used in meeting cost sharing or matching requirements on awards must be supported in the same manner as salaries and

wages claimed for reimbursement from awarding agencies.

8. Contingency provisions. Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening, are unallowable. The term "contingency reserve" excludes self-insurance reserves (see **subparagraphs 7.f (3) and 22.a(2)(d)**); pension funds (see **subparagraph 7.h**); and reserves for normal severance pay (see **subparagraph 49.b(1)**).

9. Contributions. Contributions and donations by the organization to others are unallowable.

10. Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringement.

a. Definitions.

(1) Conviction, as used herein, means a judgment or a conviction of a criminal offense by any court of competent jurisdiction, whether entered upon as a verdict or a plea, including a conviction due to a plea of *nolo contendere*.

(2) Costs include, but are not limited to, administrative and clerical expenses; the cost of legal services, whether performed by in-house or private counsel; and the costs of the services of accountants, consultants, or others retained by the organization to assist it; costs of employees, officers and trustees, and any similar costs incurred before, during, and after commencement of a judicial or administrative proceeding that bears a direct relationship to the proceedings.

(3) Fraud, as used herein, means (i) acts of fraud corruption or attempts to defraud the Federal Government or to corrupt its agents, (ii) acts that constitute a cause for debarment or suspension (as specified in agency regulations), and (iii) acts which violate the False Claims Act, 31 U.S.C., sections 3729-3731, or the Anti-Kickback Act, 41 U.S.C., sections 51 and 54.

(4) Penalty does not include restitution, reimbursement, or compensatory damages.

(5) Proceeding includes an investigation.

b. (1) Except as otherwise described herein, costs incurred in connection with any criminal, civil or administrative proceeding (including filing of a false certification) commenced by the Federal Government, or a State, local or foreign government, are not allowable if the proceeding: (1) relates to a violation of, or failure to comply with, a Federal, State, local or foreign statute or regulation by the organization (including its agents and employees), and (2) results in any of the following dispositions:

(a) In a criminal proceeding, a conviction.

(b) In a civil or administrative proceeding involving an allegation of fraud or similar misconduct, a determination of organizational liability.

(c) In the case of any civil or administrative proceeding, the imposition of a monetary penalty.

(d) A final decision by an appropriate Federal official to debar or suspend the organization, to rescind or void an award, or to terminate an award for default by reason of a violation or failure to comply with a law or regulation.

(e) A disposition by consent or compromise, if the action could have resulted in any of the dispositions described in (a), (b), (c) or (d).

(2) If more than one proceeding involves the same alleged misconduct, the costs of all such proceedings shall be unallowable if any one of them results in one of the dispositions shown in **subparagraph b.(1)**.

c. If a proceeding referred to in **subparagraph b** is commenced by the Federal Government and is resolved by consent or compromise pursuant to an agreement entered into by the organization and the Federal Government, then the costs incurred by the organization in connection with such proceedings that are otherwise not allowable under **subparagraph b** may be allowed to the extent specifically provided in such agreement.

d. If a proceeding referred to in **subparagraph b** is commenced by a State, local or foreign government, the authorized Federal official may allow the costs incurred by the organization for such proceedings, if such authorized official determines that the costs were incurred as a result of (1) a specific term or condition of a federally-sponsored award, or (2) specific written direction of an authorized official of the sponsoring agency.

e. Costs incurred in connection with proceedings described in **subparagraph b**, but which are not made unallowable by that subparagraph, may be allowed by the Federal Government, but only to the extent that:

(1) The costs are reasonable in relation to the activities required to deal with the proceeding and the underlying cause of action;

(2) Payment of the costs incurred, as allowable and allocable costs, is not prohibited by any other provision(s) of the sponsored award;

(3) The costs are not otherwise recovered from the Federal Government or a third party, either directly as a result of the proceeding or otherwise; and,

(4) The percentage of costs allowed does not exceed the percentage determined by an authorized Federal official to be appropriate, considering the complexity of the litigation, generally accepted principles governing the award of legal fees in civil actions involving the United States as a party, and such other factors as may

be appropriate. Such percentage shall not exceed 80 percent. However, if an agreement reached under **subparagraph c** has explicitly considered this 80 percent limitation and permitted a higher percentage, then the full amount of costs resulting from that agreement shall be allowable.

f. Costs incurred by the organization in connection with the defense of suits brought by its employees or ex-employees under section 2 of the Major Fraud Act of 1988 (Pub. L. 100-700), including the cost of all relief necessary to make such employee whole, where the organization was found liable or settled, are unallowable.

g. Costs of legal, accounting, and consultant services, and related costs, incurred in connection with defense against Federal Government claims or appeals, antitrust suits, or the prosecution of claims or appeals against the Federal Government, are unallowable.

h. Costs of legal, accounting, and consultant services, and related costs, incurred in connection with patent infringement litigation, are unallowable unless otherwise provided for in the sponsored awards.

i. Costs which may be unallowable under this paragraph, including directly associated costs, shall be segregated and accounted for by the organization separately. During the pendency of any proceeding covered by **subparagraphs b and f**, the Federal Government shall generally withhold payment of such costs. However, if in the best interests of the Federal Government, the Federal Government may provide for conditional payment upon provision of adequate security, or other adequate assurance, and agreements by the organization to repay all unallowable costs, plus interest, if the costs are subsequently determined to be unallowable.

11. Depreciation and use allowances.

a. Compensation for the use of buildings, other capital improvements, and equipment on hand may be made through use allowances or depreciation. However, except as provided in **subparagraph f**, a combination of the two methods may not be used in connection with a single class of fixed assets (e.g., buildings, office equipment, computer equipment, etc.).

b. The computation of use allowances or depreciation shall be based on the acquisition cost of the assets involved. The acquisition cost of an asset donated to the organization by a third party shall be its fair market value at the time of the donation.

c. The computation of use allowances or depreciation will exclude:

(1) The cost of land;

(2) Any portion of the cost of buildings and equipment borne by or donated by the Federal Government irrespective of where title was originally vested or where it presently resides; and

(3) Any portion of the cost of buildings and equipment contributed by or for the organization in satisfaction of a statutory matching requirement.

d. Where the use allowance method is followed, the use allowance for buildings and improvement (including land improvements, such as paved parking areas, fences, and sidewalks) will be computed at an annual rate not exceeding two percent of acquisition cost. The use allowance for equipment will be computed at an annual rate not exceeding six and two-thirds percent of acquisition cost. When the use allowance method is used for buildings, the entire building must be treated as a single asset; the building's components (e.g., plumbing system, heating and air conditioning, etc.) cannot be segregated from the building's shell. The two percent limitation, however, need not be applied to equipment which is merely attached or fastened to the building but not permanently fixed to it and which is used as furnishings or decorations or for specialized purposes (e.g., dentist chairs and dental treatment units, counters, laboratory benches bolted to the floor, dishwashers, carpeting, etc.). Such equipment will be considered as not being permanently fixed to the building if it can be removed without the need for costly or extensive alterations or repairs to the building or the equipment. Equipment that meets these criteria will be subject to the six and two-thirds percent equipment use allowance limitation.

e. Where depreciation method is followed, the period of useful service (useful life) established in each case for usable capital assets must take into consideration such factors as type of construction, nature of the equipment used, technological developments in the particular program area, and the renewal and replacement policies followed for the individual items or classes of assets involved. The method of depreciation used to assign the cost of an asset (or group of assets) to accounting periods shall reflect the pattern of consumption of the asset during its useful life. In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater or lesser in the early portions of its useful life than in the later portions, the straight-line method shall be presumed to be the appropriate method. Depreciation methods once used shall not be changed unless approved in advance by the cognizant Federal agency. When the depreciation method is introduced for application to assets previously subject to a use allowance, the combination of use allowances and depreciation applicable to such assets must not exceed the total acquisition cost of the assets. When the depreciation method is used for buildings, a building's shell may be segregated from each building component (e.g., plumbing system, heating, and air conditioning system, etc.) and each item depreciated over its estimated useful life; or the entire building (i.e., the shell and all components) may be treated as a single asset and depreciated over a single useful life.

f. When the depreciation method is used for a particular class of assets, no depreciation may be allowed on any such assets that, under **subparagraph e**, would be viewed as fully depreciated. However, a reasonable use allowance may be negotiated for such assets if warranted after taking into consideration the amount of depreciation previously charged to the Federal Government, the estimated useful life remaining at time of negotiation, the effect of any increased maintenance charges or decreased efficiency due to age, and any other factors pertinent to the utilization of the asset for the purpose contemplated.

g. Charges for use allowances or depreciation must be supported by adequate property records and physical inventories must be taken at least once every two years (a

statistical sampling basis is acceptable) to ensure that assets exist and are usable and needed. When the depreciation method is followed, adequate depreciation records indicating the amount of depreciation taken each period must also be maintained.

12. Donations.

a. Services received.

(1) Donated or volunteer services may be furnished to an organization by professional and technical personnel, consultants, and other skilled and unskilled labor. The value of these services is not reimbursable either as a direct or indirect cost.

(2) The value of donated services utilized in the performance of a direct cost activity shall be considered in the determination of the organization's indirect cost rate(s) and, accordingly, shall be allocated a proportionate share of applicable indirect costs when the following circumstances exist:

(a) The aggregate value of the services is material;

(b) The services are supported by a significant amount of the indirect costs incurred by the organization;

(c) The direct cost activity is not pursued primarily for the benefit of the Federal Government,

(3) In those instances where there is no basis for determining the fair market value of the services rendered, the recipient and the cognizant agency shall negotiate an appropriate allocation of indirect cost to the services.

(4) Where donated services directly benefit a project supported by an award, the indirect costs allocated to the services will be considered as a part of the total costs of the project. Such indirect costs may be reimbursed under the award or used to meet cost sharing or matching requirements.

(5) The value of the donated services may be used to meet cost sharing or matching requirements under conditions described in Sec. __.23 of Circular A-110. Where donated services are treated as indirect costs, indirect cost rates will separate the value of the donations so that reimbursement will not be made.

(6) Fair market value of donated services shall be computed as follows:

(a) **Rates for volunteer services.** Rates for volunteers shall be consistent with those regular rates paid for similar work in other activities of the organization. In cases where the kinds of skills involved are not found in other activities of the organization, the rates used shall be consistent with those paid for similar work in

the labor market in which the organization competes for such skills.

(b) **Services donated by other organizations.** When an employer donates the services of an employee, these services shall be valued at the employee's regular rate of pay (exclusive of fringe benefits and indirect costs), provided the services are in the same skill for which the employee is normally paid. If the services are not in the same skill for which the employee is normally paid, fair market value shall be computed in accordance with **subparagraph (a)**.

b. Goods and space.

(1) Donated goods; i.e., expendable personal property/supplies, and donated use of space may be furnished to an organization. The value of the goods and space is not reimbursable either as a direct or indirect cost.

(2) The value of the donations may be used to meet cost sharing or matching share requirements under the conditions described in Sec.____.23 of Circular A-110. The value of the donations shall be determined in accordance with Sec.____.23 of Circular A-110. Where donations are treated as indirect costs, indirect cost rates will separate the value of the donations so that reimbursement will not be made.

13. Employee morale, health, and welfare costs and credits. The costs of house publications, health or first-aid clinics, and/or infirmaries, recreational activities, employees' counseling services, and other expenses incurred in accordance with the organization's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable. Such costs will be equitably apportioned to all activities of the organization. Income generated from any of these activities will be credited to the cost thereof unless such income has been irrevocably set over to employee welfare organizations.

14. Entertainment costs. Costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable (but see **paragraphs 13 and 30**).

15. Equipment and other capital expenditures.

a. As used in this paragraph, the following terms have the meanings set forth below:

(1) "Equipment" means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of (a) the capitalization level established by the organization for the financial statement purposes, or (b) \$5000. The unamortized portion of any equipment written off as a result of a change in capitalization levels may be recovered by continuing to claim the otherwise allowable use allowances or depreciation on the equipment, or by amortizing the amount to be written off over a period of years as negotiated with the Federal cognizant agency.

(2) **Acquisition cost** means the net invoice unit price of an item of equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges, such as taxes, duty, protective in-transit insurance, freight, and installation shall be included in or excluded from acquisition cost in accordance with the organization's regular written accounting practices.

(3) **Special purpose equipment** means equipment, which is usable only for research, medical, scientific, or technical activities. Examples of special purpose equipment include microscopes, x-ray machines, surgical instruments, and spectrometers.

(4) **General purpose equipment** means equipment, which is usable for other than research, medical, scientific, or technical activities, whether or not special modifications are needed to make them suitable for a particular purpose. Examples of general-purpose equipment include office equipment and furnishings, air conditioning equipment, reproduction and printing equipment, motor vehicles, and automatic data processing equipment.

b. (1) Capital expenditures for general-purpose equipment are unallowable as a direct cost except with the prior approval of the awarding agency.

(2) Capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of \$5000 or more have the prior approval of awarding agency.

c. Capital expenditures for land or buildings are unallowable as a direct cost except with the prior approval of the awarding agency.

d. Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior approval of the awarding agency.

e. Equipment and other capital expenditures are unallowable as indirect costs. However, see **paragraph 11** for allowability of use allowances or depreciation on buildings, capital improvements, and equipment. Also, see **paragraph 46** for allowability of rental costs for land, buildings, and equipment.

16. Fines and penalties. Costs of fines and penalties resulting from violations of, or failure of the organization to comply with Federal, State, and local laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of an award or instructions in writing from the awarding agency.

17. Fringe benefits. See **subparagraph 7.f.**

18. Goods or services for personal use. Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is

reported as taxable income to the employees.

19. Housing and personal living expenses.

- a. Costs of housing (e.g., depreciation, maintenance, utilities, furnishings, rent, etc.), housing allowances and personal living expenses for/of the organization's officers are unallowable as fringe benefit or indirect costs regardless of whether the cost is reported as taxable income to the employees. These costs are allowable as direct costs to sponsored award when necessary for the performance of the sponsored award and approved by awarding agencies.
- b. The term "officers" includes current and past officers and employees.

20. Idle facilities and idle capacity.

- a. As used in this paragraph, the following terms have the meanings set forth below:
 - (1) **Facilities** means land and buildings or any portion thereof, equipment individually or collectively, or any other tangible capital asset, wherever located, and whether owned or leased by the organization.
 - (2) **Idle facilities** means completely unused facilities that are excess to the organization's current needs.
 - (3) **Idle capacity** means the unused capacity of partially used facilities. It is the difference between that which a facility could achieve under 100 percent operating time on a one-shift basis less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays, and the extent to which the facility was actually used to meet demands during the accounting period. A multi-shift basis may be used if it can be shown that this amount of usage could normally be expected for the type of facility involved.
 - (4) **Costs of idle facilities or idle capacity** means costs such as maintenance, repair, housing, rent, and other related costs, e.g., property taxes, insurance, and depreciation or use allowances.
- b. The costs of idle facilities are unallowable except to the extent that:
 - (1) They are necessary to meet fluctuations in workload; or
 - (2) Although not necessary to meet fluctuations in workload, they were necessary when acquired and are now idle because of changes in program requirements, efforts to achieve more economical operations, reorganization, termination, or other causes, which could not have been reasonably foreseen. Under the exception stated in this subparagraph, costs of idle facilities are allowable for a reasonable period of time, ordinarily not to exceed one year, depending upon the initiative taken to use, lease, or dispose of such facilities (but see

subparagraphs 48.b and d).

c. The costs of idle capacity are normal costs of doing business and are a factor in the normal fluctuations of usage or indirect cost rates from period to period. Such costs are allowable, provided the capacity is reasonably anticipated to be necessary or was originally reasonable and is not subject to reduction or elimination by subletting, renting, or sale, in accordance with sound business, economics, or security practices. Widespread idle capacity throughout an entire facility or among a group of assets having substantially the same function may be idle facilities.

21. Independent research and development. [Reserved]

22. Insurance and indemnification.

a. Insurance includes insurance, which the organization is required to carry, or which is approved, under the terms of the award and any other insurance, which the organization maintains in connection with the general conduct of its operations. This paragraph does not apply to insurance which represents fringe benefits for employees (see **subparagraphs 7.f and 7.h(2)**).

(1) Costs of insurance required or approved, and maintained, pursuant to the award are allowable.

(2) Costs of other insurance maintained by the organization in connection with the general conduct of its operations are allowable subject to the following limitations:

(a) Types and extent of coverage shall be in accordance with sound business practice and the rates and premiums shall be reasonable under the circumstances.

(b) Costs allowed for business interruption or other similar insurance shall be limited to exclude coverage of management fees.

(c) Costs of insurance or of any provisions for a reserve covering the risk of loss or damage to Federal property are allowable only to the extent that the organization is liable for such loss or damage.

(d) Provisions for a reserve under a self-insurance program are allowable to the extent that types of coverage, extent of coverage, rates, and premiums would have been allowed had insurance been purchased to cover the risks. However, provision for known or reasonably estimated self-insured liabilities, which do not become payable for more than one year after the provision is made, shall not exceed the present value of the liability.

(e) Costs of insurance on the lives of trustees, officers, or other employees

holding positions of similar responsibilities are allowable only to the extent that the insurance represents additional compensation (see **subparagraph 7.f(4)**). The cost of such insurance when the organization is identified as the beneficiary is unallowable.

(f) Insurance against defects. Costs of insurance with respect to any costs incurred to correct defects in the organization's materials or workmanship are unallowable.

(g) Medical liability (malpractice) insurance. Medical liability insurance is an allowable cost of Federal research programs only to the extent that the Federal research programs involve human subjects or training of participants in research techniques. Medical liability insurance costs shall be treated as a direct cost and shall be assigned to individual projects based on the manner in which the insurer allocates the risk to the population covered by the insurance.

(3) Actual losses which could have been covered by permissible insurance (through the purchase of insurance or a self-insurance program) are unallowable unless expressly provided for in the award, except:

(a) Costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound business practice are allowable.

(b) Minor losses not covered by insurance, such as spoilage, breakage, and disappearance of supplies, which occur in the ordinary course of operations, are allowable.

b. Indemnification includes securing the organization against liabilities to third persons and any other loss or damage, not compensated by insurance or otherwise. The Federal Government is obligated to indemnify the organization only to the extent expressly provided in the award.

23. Interest, fundraising, and investment management costs.

a. Interest.

(1) Costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable. However, interest on debt incurred after the effective date of this revision to acquire or replace capital assets (including renovations, alterations, equipment, land, and capital assets acquired through capital leases), acquired after the effective date of this revision and used in support of sponsored agreements is allowable, provided that:

(a) For facilities acquisitions (excluding renovations and alterations) costing over \$10 million where the Federal Government's reimbursement is expected to equal

or exceed 40 percent of an asset's cost, the non-profit organization prepares, prior to the acquisition or replacement of the capital asset(s), a justification that demonstrates the need for the facility in the conduct of federally-sponsored activities. Upon request, the needs justification must be provided to the Federal agency with cost cognizance authority as a prerequisite to the continued allowability of interest on debt and depreciation related to the facility. The needs justification for the acquisition of a facility should include, at a minimum, the following:

- A statement of purpose and justification for facility acquisition or replacement

- A statement as to why current facilities are not adequate

- A statement of planned future use of the facility

- A description of the financing agreement to be arranged for the facility

- A summary of the building contract with estimated cost information and statement of source and use of funds

- A schedule of planned occupancy dates

(b) For facilities costing over \$500,000, the non-profit organization prepares, prior to the acquisition or replacement of the facility, a lease/purchase analysis in accordance with the provisions of Sec. __.30 through __.37 of Circular A-110, which shows that a financed purchase or capital lease is less costly to the organization than other leasing alternatives, on a net present value basis. Discount rates used should be equal to the non-profit organization's anticipated interest rates and should be no higher than the fair market rate available to the non-profit organization from an unrelated ("arm's length") third-party. The lease/purchase analysis shall include a comparison of the net present value of the projected total cost comparisons of both alternatives over the period the asset is expected to be used by the non-profit organization. The cost comparisons associated with purchasing the facility shall include the estimated purchase price, anticipated operating and maintenance costs (including property taxes, if applicable) not included in the debt financing, less any estimated asset salvage value at the end of the period defined above. The cost comparison for a capital lease shall include the estimated total lease payments, any estimated bargain purchase option, operating and maintenance costs, and taxes not included in the capital leasing arrangement, less any estimated credits due under the lease at the end of the period defined above. Projected operating lease costs shall be based on the anticipated cost of leasing comparable facilities at fair market rates under rental agreements that would be renewed or reestablished over the period defined above, and any expected maintenance costs and allowable property

taxes to be borne by the non-profit organization directly or as part of the lease arrangement.

(c) The actual interest cost claimed is predicated upon interest rates that are no higher than the fair market rate available to the non-profit organization from an unrelated ("arm's length") third party.

(d) Investment earnings, including interest income, on bond or loan principal, pending payment of the construction or acquisition costs, are used to offset allowable interest cost. Arbitrage earnings reportable to the Internal Revenue Service are not required to be offset against allowable interest costs.

(e) Reimbursements are limited to the least costly alternative based on the total cost analysis required under **subparagraph (b)**. For example, if an operating lease is determined to be less costly than purchasing through debt financing, then reimbursement is limited to the amount determined if leasing had been used. In all cases where a lease/purchase analysis is performed, Federal reimbursement shall be based upon the least expensive alternative.

(f) Non-profit organizations are also subject to the following conditions:

(i) Interest on debt incurred to finance or refinance assets acquired before or reacquired after the effective date of this Circular is not allowable.

(ii) For debt arrangements over \$1 million, unless the non-profit organization makes an initial equity contribution to the asset purchase of 25 percent or more, non-profit organizations shall reduce claims for interest expense by an amount equal to imputed interest earnings on excess cash flow, which is to be calculated as follows. Annually, non-profit organizations shall prepare a cumulative (from the inception of the project) report of monthly cash flows that includes inflows and outflows, regardless of the funding source. Inflows consist of depreciation expense, amortization of capitalized construction interest, and annual interest expense. For cash flow calculations, the annual inflow figures shall be divided by the number of months in the year (usually 12) that the building is in service for monthly amounts. Outflows consist of initial equity contributions, debt principal payments (less the pro rata share attributable to the unallowable costs of land) and interest payments. Where cumulative inflows exceed cumulative outflows, interest shall be calculated on the excess inflows for that period and be treated as a reduction to allowable interest expense. The rate of interest to be used to compute earnings on excess cash flows shall be the three-month Treasury Bill closing rate as of the last business day of that month.

(iii) Substantial relocation of federally-sponsored activities from a facility financed by indebtedness, the cost of which was funded in whole or part through Federal reimbursements, to another facility prior to the expiration of a period of 20 years

requires notice to the Federal cognizant agency. The extent of the relocation, the amount of the Federal participation in the financing, and the depreciation and interest charged to date may require negotiation and/or downward adjustments of replacement space charged to Federal programs in the future.

(iv) The allowable costs to acquire facilities and equipment are limited to a fair market value available to the non-profit organization from an unrelated ("arm's length") third party.

(2) For non-profit organizations subject to "full coverage" under the Cost Accounting Standards (CAS) as defined at 48 CFR 9903.201, the interest allowability provisions of **subparagraph a** do not apply. Instead, these organizations' sponsored agreements are subject to CAS 414 (48 CFR 9903.414), cost of money as an element of the cost of facilities capital, and CAS 417 (48 CFR 9903.417), cost of money as an element of the cost of capital assets under construction.

(3) The following definitions are to be used for purposes of **paragraph 23**:

(a) **Re-acquired assets** means assets held by the non-profit organization prior to the effective date of this revision that have again come to be held by the organization, whether through repurchase or refinancing. It does not include assets acquired to replace older assets.

(b) **Initial equity contribution** means the amount or value of contributions made by non-Federal entities for the acquisition of the asset or prior to occupancy of facilities.

(c) **Asset costs** means the capitalizable costs of an asset, including construction costs, acquisition costs, and other such costs capitalized in accordance with GAAP.

b. Costs of organized fundraising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable.

c. Costs of investment counsel and staff and similar expenses incurred solely to enhance income from investments are unallowable.

d. Fundraising and investment activities shall be allocated an appropriate share of indirect costs under the conditions described in **subparagraph B.3 of Attachment A**.

24. Labor relations costs. Costs incurred in maintaining satisfactory relations between the organization and its employees, including costs of labor management committees, employee publications, and other related activities are allowable.

25. Lobbying.

a. Notwithstanding other provisions of this Circular, costs associated with the following activities are unallowable:

(1) Attempts to influence the outcomes of any Federal, State, or local election, referendum, initiative, or similar procedure, through in kind or cash contributions, endorsements, publicity, or similar activity;

(2) Establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections;

(3) Any attempt to influence: (i) The introduction of Federal or State legislation; or (ii) the enactment or modification of any pending Federal or State legislation through communication with any member or employee of the Congress or State legislature (including efforts to influence State or local officials to engage in similar lobbying activity), or with any Government official or employee in connection with a decision to sign or veto enrolled legislation;

(4) Any attempt to influence: (i) The introduction of Federal or State legislation; or (ii) the enactment or modification of any pending Federal or State legislation by preparing, distributing or using publicity or propaganda, or by urging members of the general public or any segment thereof to contribute to or participate in any mass demonstration, march, rally, fundraising drive, lobbying campaign or letter writing or telephone campaign; or

(5) Legislative liaison activities, including attendance at legislative sessions or committee hearings, gathering information regarding legislation, and analyzing the effect of legislation, when such activities are carried on in support of or in knowing preparation for an effort to engage in unallowable lobbying.

b. The following activities are excepted from the coverage of **subparagraph a**:

(1) Providing a technical and factual presentation of information on a topic directly related to the performance of a grant, contract or other agreement through hearing testimony, statements or letters to the Congress or a State legislature, or subdivision, member, or cognizant staff member thereof, in response to a documented request (including a Congressional Record notice requesting testimony or statements for the record at a regularly scheduled hearing) made by the recipient member, legislative body or subdivision, or a cognizant staff member thereof; provided such information is readily obtainable and can be readily put in deliverable form; and further provided that costs under this section for travel, lodging or meals are unallowable unless incurred to offer testimony at a regularly scheduled Congressional hearing pursuant to a written request for such presentation made by the Chairman or Ranking Minority Member of the Committee or Subcommittee conducting such hearing.

(2) Any lobbying made unallowable by **subparagraph a(3)** to influence State legislation in order to directly reduce the cost, or to avoid material impairment of the organization's authority to perform the grant, contract, or other agreement.

(3) Any activity specifically authorized by statute to be undertaken with funds from the grant, contract, or other agreement.

c. (1) When an organization seeks reimbursement for indirect costs, total lobbying costs shall be separately identified in the indirect cost rate proposal, and thereafter treated as other unallowable activity costs in accordance with the procedures of **subparagraph B.3 of Attachment A**.

(2) Organizations shall submit, as part of the annual indirect cost rate proposal, a certification that the requirements and standards of this paragraph have been complied with.

(3) Organizations shall maintain adequate records to demonstrate that the determination of costs as being allowable or unallowable pursuant to **paragraph 25** complies with the requirements of this Circular.

(4) Time logs, calendars, or similar records shall not be required to be created for purposes of complying with this paragraph during any particular calendar month when: (1) the employee engages in lobbying (as defined in **subparagraphs (a) and (b)**) 25 percent or less of the employee's compensated hours of employment during that calendar month, and (2) within the preceding five-year period, the organization has not materially misstated allowable or unallowable costs of any nature, including legislative lobbying costs. When conditions **(1) and (2)** are met, organizations are not required to establish records to support the allowability of claimed costs in addition to records already required or maintained. Also, when conditions **(1) and (2)** are met, the absence of time logs, calendars, or similar records will not serve as a basis for disallowing costs by contesting estimates of lobbying time spent by employees during a calendar month.

(5) Agencies shall establish procedures for resolving in advance, in consultation with OMB, any significant questions or disagreements concerning the interpretation or application of **paragraph 25**. Any such advance resolution shall be binding in any subsequent settlements, audits or investigations with respect to that grant or contract for purposes of interpretation of this Circular; provided, however, that this shall not be construed to prevent a contractor or grantee from contesting the lawfulness of such a determination.

26. Losses on other awards. Any excess of costs over income on any award is unallowable as a cost of any other award. This includes, but is not limited to, the organization's contributed portion by reason of cost sharing agreements or any under-

recoveries through negotiation of lump sums for, or ceilings on, indirect costs.

27. Maintenance and repair costs. Costs incurred for necessary maintenance, repair, or upkeep of buildings and equipment (including Federal property unless otherwise provided for) which neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition, are allowable. Costs incurred for improvements, which add to the permanent value of the buildings and equipment or appreciably prolong their intended life shall be treated as capital expenditures (see **paragraph 15**).

28. Materials and supplies. The costs of materials and supplies necessary to carry out an award are allowable. Such costs should be charged at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received by the organization. Withdrawals from general stores or stockrooms should be charged at cost under any recognized method of pricing consistently applied. Incoming transportation charges may be a proper part of material cost. Materials and supplies charged as a direct cost should include only the materials and supplies actually used for the performance of the contract or grant, and due credit should be given for any excess materials or supplies retained, or returned to vendors.

29. Meetings and conferences.

a. Costs associated with the conduct of meetings and conferences include the cost of renting facilities, meals, speakers' fees, and the like. But see **paragraph 14**, Entertainment costs, and **paragraph 34**, Participant support costs.

b. To the extent that these costs are identifiable with a particular cost objective, they should be charged to that objective (see **paragraph B of Attachment A**). These costs are allowable, provided that they meet the general tests of allowability, shown in **paragraph A of Attachment A** to this Circular.

c. Costs of meetings and conferences held to conduct the general administration of the organization are allowable.

30. Memberships, subscriptions, and professional activity costs.

a. Costs of the organization's membership in business, technical, and professional organizations are allowable.

b. Costs of the organization's subscriptions to business, professional, and technical periodicals are allowable.

c. Costs of meetings and conferences, when the primary purpose is the dissemination of technical information, are allowable. This includes costs of meals, transportation, rental of facilities, and other items incidental to such meetings or conferences.

d. Costs of membership in any civic or community organization are allowable with prior approval by Federal cognizant agency.

e. Costs of membership in any country club or social or dining club or organization are unallowable.

31. **Organization costs.** Expenditures, such as incorporation fees, brokers' fees, fees to promoters, organizers or management consultants, attorneys, accountants, or investment counselors, whether or not employees of the organization, in connection with establishment or reorganization of an organization, are unallowable except with prior approval of the awarding agency.

32. **Overtime, extra-pay shift, and multi-shift premiums.** Premiums for overtime, extra-pay shifts, and multi-shift work are allowable only with the prior approval of the awarding agency except:

- a. When necessary to cope with emergencies, such as those resulting from accidents, natural disasters, breakdowns of equipment, or occasional operational bottlenecks of a sporadic nature.
- b. When employees are performing indirect functions, such as administration, maintenance, or accounting.
- c. In the performance of tests, laboratory procedures, or other similar operations which are continuous in nature and cannot reasonably be interrupted or otherwise completed.
- d. When lower overall cost to the Federal Government will result.

33. **Page charges in professional journals.** Page charges for professional journal publications are allowable as a necessary part of research costs, where:

- a. The research papers report work supported by the Federal Government; and
- b. The charges are levied impartially on all research papers published by the journal, whether or not by federally-sponsored authors.

34. **Participant support costs.** Participant support costs are direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with meetings, conferences, symposia, or training projects. These costs are allowable with the prior approval of the awarding agency.

35. **Patent costs.**

- a. Costs of (i) preparing disclosures, reports, and other documents required by the award and of searching the art to the extent necessary to make such disclosures, (ii) preparing documents and any other patent costs in connection with the filing and prosecution of a United States patent application where title or royalty-free license is required by the Federal Government to be conveyed to the Federal Government, and (iii) general counseling services relating to patent and copyright matters, such as advice on patent and copyright laws, regulations, clauses, and employee agreements are allowable (but see **paragraph 39**).
- b. Cost of preparing disclosures, reports, and other documents and of searching the art to the extent necessary to make disclosures, if not required by the award, are

unallowable. Costs in connection with (i) filing and prosecuting any foreign patent application, or (ii) any United States patent application, where the award does not require conveying title or a royalty-free license to the Federal Government, are unallowable (also see **paragraph 47**).

36. Pension plans. See **subparagraph 7.h**.

37. Plant security costs. Necessary expenses incurred to comply with Federal security requirements or for facilities protection, including wages, uniforms, and equipment of personnel are allowable.

38. Pre-award costs. Pre-award costs are those incurred prior to the effective date of the award directly pursuant to the negotiation and in anticipation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency.

39. Professional service costs.

a. Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the organization, are allowable, subject to **subparagraphs b and c** when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government.

b. In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant:

(1) The nature and scope of the service rendered in relation to the service required.

(2) The necessity of contracting for the service, considering the organization's capability in the particular area.

(3) The past pattern of such costs, particularly in the years prior to Federal awards.

(4) The impact of Federal awards on the organization's business (i.e., what new problems have arisen).

(5) Whether the proportion of Federal work to the organization's total business is such as to influence the organization in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under Federal grants and contracts.

(6) Whether the service can be performed more economically by direct

employment rather than contracting.

(7) The qualifications of the individual or concern rendering the service and the customary fees charged, especially on non-Federal awards.

(8) Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).

c. In addition to the factors in **subparagraph b**, retainer fees to be allowable must be supported by evidence of bona fide services available or rendered.

40. Profits and losses on disposition of depreciable property or other capital assets.

a. (1) Gains and losses on sale, retirement, or other disposition of depreciable property shall be included in the year in which they occur as credits or charges to cost grouping(s) in which the depreciation applicable to such property was included. The amount of the gain or loss to be included as a credit or charge to the appropriate cost grouping(s) shall be the difference between the amount realized on the property and the undepreciated basis of the property.

(2) Gains and losses on the disposition of depreciable property shall not be recognized as a separate credit or charge under the following conditions:

(a) The gain or loss is processed through a depreciation reserve account and is reflected in the depreciation allowable under **paragraph 11**.

(b) The property is given in exchange as part of the purchase price of a similar item and the gain or loss is taken into account in determining the depreciation cost basis of the new item.

(c) A loss results from the failure to maintain permissible insurance, except as otherwise provided in **subparagraph 22.a(3)**.

(d) Compensation for the use of the property was provided through use allowances in lieu of depreciation in accordance with **paragraph 11**.

(e) Gains and losses arising from mass or extraordinary sales, retirements, or other dispositions shall be considered on a case-by-case basis.

b. Gains or losses of any nature arising from the sale or exchange of property other than the property covered in **subparagraph a** shall be excluded in computing award costs.

41. Publication and printing costs.

a. Publication costs include the costs of printing (including the processes of

composition, plate-making, press work, binding, and the end products produced by such processes), distribution, promotion, mailing, and general handling.

b. If these costs are not identifiable with a particular cost objective, they should be allocated as indirect costs to all benefiting activities of the organization.

c. Publication and printing costs are unallowable as direct costs except with the prior approval of the awarding agency.

d. The cost of page charges in journals is addressed **paragraph 33**.

42. Rearrangement and alteration costs. Costs incurred for ordinary or normal rearrangement and alteration of facilities are allowable. Special arrangement and alteration costs incurred specifically for the project are allowable with the prior approval of the awarding agency.

43. Reconversion costs. Costs incurred in the restoration or rehabilitation of the organization's facilities to approximately the same condition existing immediately prior to commencement of Federal awards, fair wear and tear excepted, are allowable.

44. Recruiting costs.

a. Subject to **subparagraphs b, c, and d**, and provided that the size of the staff recruited and maintained is in keeping with workload requirements, costs of "help wanted" advertising, operating costs of an employment office necessary to secure and maintain an adequate staff, costs of operating an aptitude and educational testing program, travel costs of employees while engaged in recruiting personnel, travel costs of applicants for interviews for prospective employment, and relocation costs incurred incident to recruitment of new employees, are allowable to the extent that such costs are incurred pursuant to a well-managed recruitment program. Where the organization uses employment agencies, costs that are not in excess of standard commercial rates for such services are allowable.

b. In publications, costs of help wanted advertising that includes color, includes advertising material for other than recruitment purposes, or is excessive in size (taking into consideration recruitment purposes for which intended and normal organizational practices in this respect), are unallowable.

c. Costs of help wanted advertising, special emoluments, fringe benefits, and salary allowances incurred to attract professional personnel from other organizations that do not meet the test of reasonableness or do not conform with the established practices of the organization, are unallowable.

d. Where relocation costs incurred incident to recruitment of a new employee have been allowed either as an allocable direct or indirect cost, and the newly hired employee resigns for reasons within his control within twelve months after being hired, the organization will be required to refund or credit such relocation costs to the Federal Government.

45. Relocation costs.

a. Relocation costs are costs incident to the permanent change of duty assignment (for an indefinite period or for a stated period of not less than 12 months) of an existing employee or upon recruitment of a new employee. Relocation costs are allowable, subject to the limitation described in **subparagraphs b, c, and d**, provided that:

(1) The move is for the benefit of the employer.

(2) Reimbursement to the employee is in accordance with an established written policy consistently followed by the employer.

(3) The reimbursement does not exceed the employee's actual (or reasonably estimated) expenses.

b. Allowable relocation costs for current employees are limited to the following:

(1) The costs of transportation of the employee, members of his immediate family and his household, and personal effects to the new location.

(2) The costs of finding a new home, such as advance trips by employees and spouses to locate living quarters and temporary lodging during the transition period, up to maximum period of 30 days, including advance trip time.

(3) Closing costs, such as brokerage, legal, and appraisal fees, incident to the disposition of the employee's former home. These costs, together with those described in **(4)**, are limited to 8 per cent of the sales price of the employee's former home.

(4) The continuing costs of ownership of the vacant former home after the settlement or lease date of the employee's new permanent home, such as maintenance of buildings and grounds (exclusive of fixing up expenses), utilities, taxes, and property insurance.

(5) Other necessary and reasonable expenses normally incident to relocation, such as the costs of canceling an unexpired lease, disconnecting and reinstalling household appliances, and purchasing insurance against loss of or damages to personal property. The cost of canceling an unexpired lease is limited to three times the monthly rental.

c. Allowable relocation costs for new employees are limited to those described in **(1) and (2) of subparagraph b**. When relocation costs incurred incident to the recruitment of new employees have been allowed either as a direct or indirect cost and the employee resigns for reasons within his control within 12 months after hire, the organization shall refund or credit the Federal Government for its share of the cost. However, the costs of travel to an overseas location shall be considered travel costs in accordance with **paragraph 55** and not relocation costs for the purpose of this paragraph if dependents are not permitted at the location for any reason and the costs do not include costs of transporting household goods.

d. The following costs related to relocation are unallowable:

- (1) Fees and other costs associated with acquiring a new home.
- (2) A loss on the sale of a former home.
- (3) Continuing mortgage principal and interest payments on a home being sold.
- (4) Income taxes paid by an employee related to reimbursed relocation costs.

46. Rental costs.

a. Subject to the limitations described in **subparagraphs b through d**, rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased.

b. Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the organization continued to own the property.

c. Rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property vested in the organization. For this purpose, a less-than-arms-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include, but are not limited to those between (i) divisions of an organization; (ii) organizations under common control through common officers, directors, or members; and (iii) an organization and a director, trustee, officer, or key employee of the organization or his immediate family either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest.

d. Rental costs under leases which are required to be treated as capital leases under GAAP, are allowable only up to the amount that would be allowed had the organization purchased the property on the date the lease agreement was executed, i.e., to the amount that minimally would pay for depreciation or use allowances, maintenance, taxes, and insurance. Interest costs related to capitalized leases are allowable to the extent they meet criteria in **subparagraph 23.a**. Unallowable costs include amounts paid for profit, management fees, and taxes that would not have been incurred had the organization purchased the facility.

47. Royalties and other costs for use of patents and copyrights.

a. Royalties on a patent or copyright or amortization of the cost of acquiring by purchase a copyright, patent, or rights thereto, necessary for the proper performance of the award are allowable unless:

- (1) The Federal Government has a license or the right to free use of the patent or copyright.
- (2) The patent or copyright has been adjudicated to be invalid, or has been

administratively determined to be invalid.

(3) The patent or copyright is considered to be unenforceable.

(4) The patent or copyright is expired.

b. Special care should be exercised in determining reasonableness where the royalties may have arrived at as a result of less-than-arm's-length bargaining, e.g.:

(1) Royalties paid to persons, including corporations, affiliated with the organization.

(2) Royalties paid to unaffiliated parties, including corporations, under an agreement entered into in contemplation that a Federal award would be made.

(3) Royalties paid under an agreement entered into after an award is made to an organization.

c. In any case involving a patent or copyright formerly owned by the organization, the amount of royalty allowed should not exceed the cost which would have been allowed had the organization retained title thereto.

48. Selling and marketing. Costs of selling and marketing any products or services of the organization (unless allowed under **paragraph 1** as allowable public relations costs) are unallowable. These costs, however, are allowable as direct costs, with prior approval by awarding agencies, when they are necessary for the performance of Federal programs.

49. Severance pay.

a. Severance pay, also commonly referred to as dismissal wages, is a payment in addition to regular salaries and wages, by organizations to workers whose employment is being terminated. Costs of severance pay are allowable only to the extent that in each case, it is required by (i) law, (ii) employer-employee agreement, (iii) established policy that constitutes, in effect, an implied agreement on the organization's part, or (iv) circumstances of the particular employment.

b. Costs of severance payments are divided into two categories as follows:

(1) Actual normal turnover severance payments shall be allocated to all activities; or, where the organization provides for a reserve for normal severances, such method will be acceptable if the charge to current operations is reasonable in light of payments actually made for normal severances over a representative past period, and if amounts charged are allocated to all activities of the organization.

(2) Abnormal or mass severance pay is of such a conjectural nature that measurement of costs by means of an accrual will not achieve equity to both parties. Thus, accruals for this purpose are not allowable. However, the Federal

Government recognizes its obligation to participate, to the extent of its fair share, in any specific payment. Thus, allowability will be considered on a case-by-case basis in the event or occurrence.

- c. Costs incurred in certain severance pay packages (commonly known as "a golden parachute" payment) which are in an amount in excess of the normal severance pay paid by the organization to an employee upon termination of employment and are paid to the employee contingent upon a change in management control over, or ownership of, the organization's assets are unallowable.
- d. Severance payments to foreign nationals employed by the organization outside the United States, to the extent that the amount exceeds the customary or prevailing practices for the organization in the United States are unallowable, unless they are necessary for the performance of Federal programs and approved by awarding agencies.
- e. Severance payments to foreign nationals employed by the organization outside the United States due to the termination of the foreign national as a result of the closing of, or curtailment of activities by, the organization in that country, are unallowable, unless they are necessary for the performance of Federal programs and approved by awarding agencies.

50. Specialized service facilities.

- a. The costs of services provided by highly complex or specialized facilities operated by the organization, such as electronic computers and wind tunnels, are allowable, provided the charges for the services meet the conditions of either **subparagraph b or c** and, in addition, take into account any items of income or Federal financing that qualify as applicable credits under **subparagraph A.5 of Attachment A**.
- b. The costs of such services, when material, must be charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that (i) does not discriminate against federally-supported activities of the organization, including usage by the organization for internal purposes, and (ii) is designed to recover only the aggregate costs of the services. The costs of each service shall consist normally of both its direct costs and its allocable share of all indirect costs. Advance agreements pursuant to **subparagraph A.6 of Attachment A** are particularly important in this situation.
- c. Where the costs incurred for a service are not material, they may be allocated as indirect costs.

51. Taxes.

- a. In general, taxes which the organization is required to pay and which are paid or accrued in accordance with GAAP, and payments made to local governments in lieu of taxes which are commensurate with the local government services received are

allowable, except for (i) taxes from which exemptions are available to the organization directly or which are available to the organization based on an exemption afforded the Federal Government and in the latter case when the awarding agency makes available the necessary exemption certificates, (ii) special assessments on land which represent capital improvements, and (iii) Federal income taxes.

b. Any refund of taxes, and any payment to the organization of interest thereon, which were allowed as award costs, will be credited either as a cost reduction or cash refund, as appropriate, to the Federal Government.

52. Termination costs. Termination of awards generally give rise to the incurrence of costs, or the need for special treatment of costs, which would not have arisen had the award not been terminated. Cost principles covering these items are set forth below. They are to be used in conjunction with the other provisions of this Circular in termination situations.

a. **Common items.** The cost of items reasonably usable on the organization's other work shall not be allowable unless the organization submits evidence that it would not retain such items at cost without sustaining a loss. In deciding whether such items are reasonably usable on other work of the organization, the awarding agency should consider the organization's plans and orders for current and scheduled activity. Contemporaneous purchases of common items by the organization shall be regarded as evidence that such items are reasonably usable on the organization's other work. Any acceptance of common items as allocable to the terminated portion of the award shall be limited to the extent that the quantities of such items on hand, in transit, and on order are in excess of the reasonable quantitative requirements of other work.

b. **Costs continuing after termination.** If in a particular case, despite all reasonable efforts by the organization, certain costs cannot be discontinued immediately after the effective date of termination, such costs are generally allowable within the limitations set forth in this Circular, except that any such costs continuing after termination due to the negligent or willful failure of the organization to discontinue such costs shall be unallowable.

c. **Loss of useful value.** Loss of useful value of special tooling, machinery and equipment which was not charged to the award as a capital expenditure is generally allowable if:

(1) Such special tooling, machinery, or equipment is not reasonably capable of use in the other work of the organization.

(2) The interest of the Federal Government is protected by transfer of title or by other means deemed appropriate by the awarding agency;

d. **Rental costs.** Rental costs under unexpired leases are generally allowable where clearly shown to have been reasonably necessary for the performance of the terminated award less the residual value of such leases, if (i) the amount of such rental claimed does not exceed the reasonable use value of the property leased for the period of the award and such further period as may be reasonable, and (ii) the organization makes all

reasonable efforts to terminate, assign, settle, or otherwise reduce the cost of such lease. There also may be included the cost of alterations of such leased property, provided such alterations were necessary for the performance of the award, and of reasonable restoration required by the provisions of the lease.

e. **Settlement expenses.** Settlement expenses including the following are generally allowable:

(1) Accounting, legal, clerical, and similar costs reasonably necessary for:

(a) The preparation and presentation to awarding agency of settlement claims and supporting data with respect to the terminated portion of the award, unless the termination is for default (see Sec. __.61 of Circular A-110); and

(b) The termination and settlement of subawards.

(2) Reasonable costs for the storage, transportation, protection, and disposition of property provided by the Federal Government or acquired or produced for the award, except when grantees or contractors are reimbursed for disposals at a predetermined amount in accordance with Sec. __.30 through __.37 of Circular A-110.

(3) Indirect costs related to salaries and wages incurred as settlement expenses in **subparagraphs (1) and (2)**. Normally, such indirect costs shall be limited to fringe benefits, occupancy cost, and immediate supervision.

f. **Claims under subawards.** Claims under subawards, including the allocable portion of claims which are common to the award, and to other work of the organization are generally allowable. An appropriate share of the organization's indirect expense may be allocated to the amount of settlements with subcontractors and/or subgrantees, provided that the amount allocated is otherwise consistent with the basic guidelines contained in **Attachment A**. The indirect expense so allocated shall exclude the same and similar costs claimed directly or indirectly as settlement expenses.

53. **Training and education costs.**

a. Costs of preparation and maintenance of a program of instruction including but not limited to on-the-job, classroom, and apprenticeship training, designed to increase the vocational effectiveness of employees, including training materials, textbooks, salaries or wages of trainees (excluding overtime compensation which might arise therefrom), and (i) salaries of the director of training and staff when the training program is conducted by the organization; or (ii) tuition and fees when the training is in an institution not operated by the organization, are allowable.

b. Costs of part-time education, at an undergraduate or post-graduate college level, including that provided at the organization's own facilities, are allowable only when the course or degree pursued is relative to the field in which the employee is now working or

may reasonably be expected to work, and are limited to:

(1) Training materials.

(2) Textbooks.

(3) Fees charges by the educational institution.

(4) Tuition charged by the educational institution or, in lieu of tuition, instructors' salaries and the related share of indirect costs of the educational institution to the extent that the sum thereof is not in excess of the tuition which would have been paid to the participating educational institution.

(5) Salaries and related costs of instructors who are employees of the organization.

(6) Straight-time compensation of each employee for time spent attending classes during working hours not in excess of 156 hours per year and only to the extent that circumstances do not permit the operation of classes or attendance at classes after regular working hours; otherwise, such compensation is unallowable.

c. Costs of tuition, fees, training materials, and textbooks (but not subsistence, salary, or any other emoluments) in connection with full-time education, including that provided at the organization's own facilities, at a post-graduate (but not undergraduate) college level, are allowable only when the course or degree pursued is related to the field in which the employee is now working or may reasonably be expected to work, and only where the costs receive the prior approval of the awarding agency. Such costs are limited to the costs attributable to a total period not to exceed one school year for each employee so trained. In unusual cases the period may be extended.

d. Costs of attendance of up to 16 weeks per employee per year at specialized programs specifically designed to enhance the effectiveness of executives or managers or to prepare employees for such positions are allowable. Such costs include enrollment fees, training materials, textbooks and related charges, employees' salaries, subsistence, and travel. Costs allowable under this paragraph do not include those for courses that are part of a degree-oriented curriculum, which are allowable only to the extent set forth in **subparagraphs b and c**.

e. Maintenance expense, and normal depreciation or fair rental, on facilities owned or leased by the organization for training purposes are allowable to the extent set forth in **paragraphs 11, 27, and 46**.

f. Contributions or donations to educational or training institutions, including the donation of facilities or other properties, and scholarships or fellowships, are unallowable.

g. Training and education costs in excess of those otherwise allowable under **subparagraphs b and c** may be allowed with prior approval of the awarding agency. To be considered for approval, the organization must demonstrate that such costs are

consistently incurred pursuant to an established training and education program, and that the course or degree pursued is relative to the field in which the employee is now working or may reasonably be expected to work.

54. Transportation costs. Transportation costs include freight, express, cartage, and postage charges relating either to goods purchased, in process, or delivered. These costs are allowable. When such costs can readily be identified with the items involved, they may be directly charged as transportation costs or added to the cost of such items (see **paragraph 28**). Where identification with the materials received cannot readily be made, transportation costs may be charged to the appropriate indirect cost accounts if the organization follows a consistent, equitable procedure in this respect.

55. Travel costs.

a. Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the organization. Travel costs are allowable subject to **subparagraphs b through e**, when they are directly attributable to specific work under an award or are incurred in the normal course of administration of the organization.

b. Such costs may be charged on an actual basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used results in charges consistent with those normally allowed by the organization in its regular operations.

c. The difference in cost between first-class air accommodations and less than first-class air accommodations is unallowable except when less than first-class air accommodations are not reasonably available to meet necessary mission requirements, such as where less than first-class accommodations would (i) require circuitous routing, (ii) require travel during unreasonable hours, (iii) greatly increase the duration of the flight, (iv) result in additional costs which would offset the transportation savings, or (v) offer accommodations which are not reasonably adequate for the medical needs of the traveler.

d. Necessary and reasonable costs of family movements and personnel movements of a special or mass nature are allowable, pursuant to **paragraphs 44 and 45**, subject to allocation on the basis of work or time period benefited when appropriate. Advance agreements are particularly important.

e. Direct charges for foreign travel costs are allowable only when the travel has received prior approval of the awarding agency. Each separate foreign trip must be approved. For purposes of this provision, foreign travel is defined as any travel outside of Canada and the United States and its territories and possessions. However, for an organization located in foreign countries, the term "foreign travel" means travel outside that country.

56. Trustees. Travel and subsistence costs of trustees (or directors) are allowable. The costs are subject to restrictions regarding lodging, subsistence and air travel costs provided in **paragraph 55**.

ATTACHMENT
Circular No. A-122

C

NON-PROFIT ORGANIZATIONS NOT SUBJECT TO THIS CIRCULAR

Aerospace Corporation, El Segundo, California

Argonne National Laboratory, Chicago, Illinois
Atomic Casualty Commission, Washington, D.C.
Battelle Memorial Institute, Headquartered in Columbus, Ohio
Brookhaven National Laboratory, Upton, New York
Charles Stark Draper Laboratory, Incorporated, Cambridge, Massachusetts
Environmental Institute of Michigan, Ann Arbor, Michigan
Hanford Environmental Health Foundation, Richland, Washington
IIT Research Institute, Chicago, Illinois
Institute for Defense Analysis, Alexandria, Virginia
Mitre Corporation, Bedford, Massachusetts
National Radiological Astronomy Observatory, Green Bank, West Virginia
National Renewable Energy Laboratory, Golden, Colorado
Oak Ridge Associated Universities, Oak Ridge, Tennessee
Rand Corporation, Santa Monica, California
Research Triangle Institute, Research Triangle Park, North Carolina
Riverside Research Institute, New York, New York
Southern Research Institute, Birmingham, Alabama
Southwest Research Institute, San Antonio, Texas
SRI International, Menlo Park, California
Syracuse Research Corporation, Syracuse, New York
Universities Research Association, Incorporated (National Acceleration Lab), Argonne, Illinois
Non-profit insurance companies, such as Blue Cross and Blue Shield Organizations
Other non-profit organizations as negotiated with awarding agencies

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