

FINANCIAL MANAGEMENT GUIDE FOR FEDERALLY-FUNDED ORGANIZATIONS

*RURAL DEVELOPMENT SECTION 523
MUTUAL SELF-HELP HOUSING PROGRAM*

A Guide for Grantees of the USDA Section 523 Self-Help Housing Program

Developed jointly by the Self-Help Housing Technical and Management Assistance (T & MA) Contractors:

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Little Dixie Community Action Agency, Inc. (LDCAA)

National Council of Agricultural Life and Labor Research Fund, Inc. (NCALL)

Rural Community Assistance Corporation (RCAC)

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Refer to the Introduction Chapter of this guide to identify the appropriate T & MA Contractor to contact for your area. After receipt of consent and conditions letter you may copy and distribute the manual in accordance with such terms and conditions as set and approved by the T & MA Contractors.

Table of Contents

<u>Chapter</u>	<u>Page</u>
Disclaimer.....	2
Introduction to the Mutual Self-Help Housing Program.....	5
Additional Training Materials.....	12
Introduction to this Guide.....	17
Structuring Your Accounting System.....	18
1. Double Entry Accounting	
2. Cost Allocation Methods	
3. Bank Account	
4. Required Books of Record	
5. Chart of Accounts	
6. Fund Balance Account	
7. CPA Certification	
Federal Administrative Requirements	27
1. Office of Management and Budget	
2. Code of Federal Regulations	
3. Financial Reporting	
4. SHARES	
Program Receipts.....	32
Program Expenditures	33
1. Ordering/Procurement Procedures	
2. Processing Payments/Checks	
3. Travel Expenditures	
4. Payroll Expenditures	
5. Petty Cash Fund	
6. Common Disallowed Expenditures	
Fixed Assets/Equipment.....	42
1. Book Entries	

- 2. Inventory of Fixed Assets
- 3. Tool Inventory

TABLE OF CONTENTS (continued)

Federal Tax Forms.....	44
1. Form 941	
2. Form 990	
3. Forms W-2 and W-3	
4. Federal Unemployment Compensation Tax	
5. Tax Calendar	
6. Form I-9	
7. Tax Exempt Ruling	
Insurance.....	46
Internal Controls.....	47
Audits.....	48
Policies & Procedures.....	52
1. Accounting Policies & Procedures Manual	
2. Policies for Your Computer	
3. Personnel Policies	
4. Personnel Records	
Budgets.....	58
Grant Requirements.....	58
1. Extension or Revision of Grant Agreement	
2. Grantee Self-Evaluations	
3. Grant Closeout	
Closing Summary.....	59
List of Appendices.....	61

INTRODUCTION

The Self-Help Program

Self-Help Housing is just as it sounds: Participants working together to build their own homes. This cooperative effort is a direct application of the church and barn raising techniques of the Amish and Mennonites. The participants supply the necessary labor while qualifying for mortgage financing to purchase land, materials, and subcontract work on very technical items. A private nonprofit corporation, public body, or rural town can obtain a grant from Rural Development to hire skilled staff, rent office facilities, pay for mileage, and purchase tools. This staff then works with the participants by providing the assistance and training necessary to fulfill the goals of the self-help housing program. The specifics of the program are described below.

With the assistance of the skilled staff, an association of generally 4 to 10 households is formed. (Once the grant is completed, at least 40% of the total participants served must have been very low income, 50% or less of the county median income.) They select lots, house plans, and apply for individual mortgage loans. While participants await loan approval, the group studies the responsibilities of homeownership, construction techniques, tool usage, safety, homeowner's insurance, taxes, home maintenance, and money management. This time is known as the pre-construction stage.

Once the loans are approved, the group begins to build under the guidance of a skilled construction supervisor. The participants must complete a minimum of 65% of the construction labor tasks, until the group of homes is completed; usually the more technical work is subcontracted out. The construction stage lasts from 6 to 12 months, depending on the size of the group. Participants work during their spare time (evenings, weekends, and days off) so as not to interfere with the regular household employment. Rural Development loans feature interest rates ranging from 1% to the market

rate, depending on the household's adjusted annual income. The repayment period is 33 or 38 years and no down payment is required.

Rural Development

Rural Development is an agency of the United States Department of Agriculture. It was originally a credit agency for lower income farmers who could not qualify for loans elsewhere. Since the 1960's rural non-farm households have been eligible for mortgage credit. Rural Development's function as a lender is significant because private credit institutions in rural areas are relatively few in number, smaller, and often impose more rigid terms, which can be a barrier to homeownership.

The Rural Development mission is to help rural Americans improve the quality of their lives.

Rural Development helps rural communities meet their basic needs by:

- Building water and wastewater systems,
- Financing decent, affordable housing,
- Supporting electric power and rural businesses, including cooperatives, and
- Supporting community development with information and technical assistance.

Rural Development has been providing the funds for the self-help housing program since the late 1960's. They provide technical assistance grants to eligible entities to start and implement the program and they thoroughly review the pre-application and final application before a grant is awarded. When a grant is awarded, Rural Development is saying that there is a need for self-help housing in this area; this agency is suited to administer a self-help housing program; the proposed plan, budget and schedule are feasible; house plans meet local, state and Rural Development building codes; adequate building sites are available; the project ingredients are in place; and Rural Development is ready to provide the financial resources necessary to make the project work. There is no charge to participating groups. Grant funds provided to sponsors by Rural Development do not have to be repaid. It is an investment Rural Development is willing to make in order to see self-help housing work.

Rural Development will continue to monitor and provide insight in the areas of construction and administration, through quarterly meetings, construction inspections, and participant accounts throughout the term of the program.

In many cases Rural Development provides another important ingredient to the self-help program: construction/permanent financing. They are independent of private or conventional lending institutions; the financing is directly between Rural Development and the borrower. While labor and construction are group efforts, each applicant must qualify and obtain a loan directly from Rural Development.

Rural Development Offices

Rural Development usually operates from four levels: national, state, area and local. The National Rural Housing Service Administrator in the National Office and the State Directors are politically appointed – all others are federal civil service employees.

Rural Housing Service National Office

The Rural Housing Service National Office is responsible for developing policy and interacts with Congress for legislation, development and program funding. The National Office also obligates and monitors all Section 523 grants. The program staff at the national level maintains reports and statistics on operating self-help organizations and projected needs for funding.

Rural Development State Office

The State Office has the approval authority over the smaller Section 523 grant applications. Section 502 loan funds are allocated on a state-by-state basis and the State

Office allocates the 502 money based on a State formula. There are additional staff members who are key to the operation of a self-help program located in many State Offices:

Rural Development State Director

Rural Housing Program Director

Rural Development State Architect

Rural Development Appraiser

Rural Development Housing Specialist

Rural Development Area Office

The Rural Development Manager is responsible for the Section 523 grant. It is his or her responsibility to ensure that the grant is operated effectively and in accordance to regulations. The Rural Development Manager will evaluate the Section 523 self-help agencies on a quarterly basis and review grant applications for new and on-going programs. In addition, Rural Development Construction Analysts are usually available through this office.

Rural Development Local Office

Within this office, the Community Development Manger is typically responsible for making the Section 502 mortgages to participating applicants of each group. He or she will be responsible for monitoring the 502 loans and will also be the co-signor on the participant's checking accounts. Usually, this office does construction inspections.

The Rural Development Section 502 Rural Housing Loan

Many applicants that participate in the self-help housing program use Rural Development's Section 502 loan to finance their homes. Section 502 loans are only available to families living in rural areas. "Rural" is defined as towns with populations of 10,000 or fewer, and designated cities with populations between 10,000 and 20,000 in counties that are not associates with Standard Metropolitan Statistical Areas (SMSA) where a serious lack of

mortgage credit exists.

In order to qualify for a Section 502 loan, prospective self-help applicants must meet Rural Development income eligibility requirements as low-income or very low-income. They must be credit-worthy, have repayment ability for the loan requested, and be unable to secure credit from other sources. The low-income measure is 80% or less of the county median income, based on family size. Very low-income is defined as 50% or less of the county median income, based on family size. These income standards, established by HUD and adopted by Rural Development, are subject to local variation and periodic change. Current information on income standards and eligibility requirements for Section 502 loans is available at Rural Development local offices.

The repayment period for the Section 502 loan is either 33 or 38 years, and the interest rate is between 1% and the current market rate. The actual rate of interest the borrower pays depends on the borrower's income, as does the loan term. If a borrower is eligible to pay less interest than the market rate, the borrower then receives a subsidy called "payment assistance". The amount of payment assistance a borrower receives is determined by the loan amount, loan period, and the household income. The assistance makes up the difference between the full loan rate and the rate the participant pays.

Section 502 funds are advanced from the Rural Development finance office in St. Louis and disbursed by the local offices based on regulatory guidelines. TA grantees prepare the drawdowns and checks for each participant's account as needed to purchase materials for different phases of construction. Note that the participant's loan payments are deferred during construction.

When all the money is withdrawn from a participant's account, Rural Development's

finance office sends payment books to the participant. The participant's first loan payment is due within thirty days of termination of deferred payments. Payments then go directly to Rural Development's Centralized Servicing Center (CSC) in St. Louis.

The 523 Mutual Self-Help Housing Technical Assistance Grant

In order to enable organizations to operate a mutual self-help housing program, Rural Development provides grant funds to operate and oversee mutual self-help housing programs. Each TA grant is usually for a period of up to two years, and is available to public and private nonprofit organizations and units of state or local government. The amount of grant funds an organization can receive is based upon how many houses they build in a grant period.

An organization can receive up to 15% of the average cost of a new home financed under the 502 program in their area, for every home they are planning to build.

Activities that are allowable uses of Section 523 Technical Assistance grant funds include:

- Recruiting eligible households to participate in the self-help program;
- Hold training meetings with participants on the self-help process and Homeownership topics such as mortgages, insurances, taxes, and maintenance;
- Assisting participants obtain and develop building sites; obtaining or creating Rural Development-approved house plans and helping participants select theirs;
- Helping participants bid and select building supplies and subcontractors; train participants in construction techniques and provide construction supervision;
- Supervise participant Section 502 loan accounting, including;
 - Totaling invoices and itemizing payments to suppliers and subcontractors;
 - Maintaining records of deposits and withdrawals;
 - Preparing checks (accompanied with invoices and statements).

Disallowed activities using Section 523 Technical Assistance grant funds are

- The use of any TA funds to pay staff to provide labor on the houses;
- Purchasing any real estate or building materials for participating families;

- Paying any debts, expenses or costs which should be the responsibility of the participating families;

Any lobbying activities as prohibited in OMB Circular A-122.

The T&MA Contractors

In 1979 the appropriations language was changed to authorize the use of Section 523 grant funds to contract for technical assistance to self-help grantees. There were initially six Technical and Management Assistance (T&MA) Contractors; currently there are four.

Rural Development contracts with these groups to assist operating and potential self-help housing grantees across the country. This assistance comes in the form of staff and board training, grant management, development of applications, 502 loan program and processing training, newsletters and conferences, among other services. These services are provided at no cost to the grantee.

The four contractors are:

- Florida Non-Profit Housing – covering Region I, the Southeast, including the states of AL, FL, GA, MS, NC, SC, TN, Puerto Rico and the Virgin Islands.
- Little Dixie Community Action Agency, Inc. – covering Region II, the South Central US, including the states of AR, KS, LA, MO, ND, NE, NM, OK, SD, TX, WY.
- NCALL Research, Inc. – covering Region III, the Northeast and Midwest, including the states of CT, DE, IA, IL, IN, KY, MA, MD, ME, MI, MN, NH, NJ, NY, OH, PA, RI, VA, VT, WI, WV.
- Rural Community Assistance Corporation (RCAC) – covering Region IV, the Western US, including the states of AK, AZ, CA, CO, HI, ID, MT,

NV, OR, UT, WA.

ADDITIONAL TRAINING MATERIALS

The T&MA Contractors have produced a variety of other training materials for the purpose of assisting grantees and training grantee staff. The following is a list of the available manuals. Please contact your T&MA Contractor for a copy or for more information.

Board of Directors' Guide

Boards of Directors play a critical role in the success of any non-profit organization. With this in mind, this manual was designed for use by board members of any housing agency. This guide is intended primarily as a reference and not to dictate that, "this is the only way". However, it is an informational resource that may be used as a training tool and can provide new insights and a clearer understanding of nonprofit organizations, board meetings and operations, agency planning, administration of agency personnel, teamwork, orientation for new board members, federal accounting requirements, and self-help agency activities.

Project Director's Guide

It is the responsibility of the Project Director or Executive Director to administer a successful Mutual Self-Help Housing Program. This guide should be used as an important resource to assist with that goal. It can also be used as a training manual when new staff is hired. The Project Director's Guide takes a general look at the Self-Help Program as well as providing information on required reports, program criteria, grant and financial management, personnel and fair housing.

Guide to Basic Bookkeeping for Not-for-Profit Organizations

Understanding the basic bookkeeping procedures is just as vital to developing a not-for-profit organization as it is for a for-profit organization. Therefore, mastering the concepts of double entry bookkeeping is of much importance. Most non-profits are probably using computerized accounting software for their bookkeeping needs; however, it is still important to understand the concepts of double-entry bookkeeping. This manual will present the basic material for a not-for-profit organization's needs. With improved bookkeeping skills each organization will gain a better command of available resources and help in planning a more profitable future.

Guide to Accounting for Individual Borrower 502 Loan Accounts

In addition to establishing and maintaining an accounting system for the Section 523 grant funds, the Self-Help Housing grantee is responsible for keeping an accurate account of the disbursement of funds from the individual self-help participants' Section 502 loan accounts. Instruction 1944-I indicates that technical assistance provided by the grantee to the participants should include "providing financial supervision to individual participants with Section 502 loans, which will minimize the time and effort required by Rural Development in processing borrower expenditures for materials and contract services. In order to fulfill this accounting responsibility, the grantees establish a record keeping system with clear procedures for handling the purchase of construction supplies, invoices from sub-contractors and vendors, and accounting for expenditures from participant loan funds. This guide provides guidelines for self-help grantees to use in designing the procedure necessary for a minimum standard of control and a system of checks and balances to protect the participants and the grantee.

Group Coordinator

The job duties and responsibilities of a Group Coordinator are crucial to the success of the self-help program. The Group Coordinator is the person that is responsible for locating interested participants, screening them and packaging their 502 loan application, preparing them for the construction phase and homeownership, and helping to track their progress during construction. If one of these duties is not fulfilled, the entire program is put in jeopardy.

Because the Group Coordinator often wears so many hats in a self-help agency, there are other manuals that the Group Coordinator is going to need to read in addition to this one. The 502 Program & Processing Manual is crucial to the success of qualifying and processing applicants, the Preconstruction Meetings Manual will help guide the Group Coordinator through these meetings, and the SHARE Manual will instruct the Group Coordinator on the task of entering information into the SHARES database.

This manual will help to guide the Group Coordinator in the areas of recruitment, communication, forming a group, group management, motivation, and money management.

502 Loan Processing Guide

(This guide is currently under development.)

While the labor and construction is a group effort, each participant must qualify and obtain a loan individually from Rural Development. In order to qualify, a household must fall within the income guidelines set by Rural Development, must have demonstrated repayment ability, must have a good credit rating, and should have a low debt load. Because the 502 self-help loan process can be complicated for the individual, the technical assistance staff will pre-screen participants for program eligibility and prepare the application packages for Rural Development.

The 502 Loan Processing Manual will help to train the Group Coordinator or appropriate

staff person in packaging these loans. The loan terms, application forms, credit reports, and the additional documentation required are all covered.

Preconstruction Meetings Guide

(This guide is currently under development.)

Each self-help grantee is responsible for organizing participants into groups, which remain together from loan processing through construction. The organization of participants into groups reinforces the “mutual” aspect of the self-help program because participants within a group are expected to work on each other’s house until all houses in the group are completed. In addition to organizing participants into groups, self-help programs are responsible for explaining the self-help concept and methodology to participants, and for educating participants about their responsibilities as self-help participants, 502 loan borrowers, and homeowners. This is achieved through a series of “pre-construction meetings”.

Group meetings provide self-help grantees with the opportunity to “weed out” those participants who would not be reliable and productive participants during the critical construction phase. Group meetings also provide self-help grantees, Rural Development, and the self-help participants with an opportunity to develop bonds which can contribute to the timely construction of houses – of which all can be proud – and which can place participants on a sound footing for assuming their homeownership responsibilities.

The information and materials contained in this manual are presented as information resources, ready to use formats, or samples to be modified to suite grantees’ individual circumstances.

Construction Supervisor Guide

The Construction Supervisor Guide will discuss the roles and responsibilities of the construction supervisor as it relates to Self-Help Housing. This guide will cover several aspects of the construction supervisor’s job; from construction specification, house plans, schedules, bill paying procedures, to group motivation. Insight will be provided on how the self-help program operates and what is expected from the construction supervisor. This guide should not be the only source of training, but can be used

as an introduction. Further exposure should be sought at conferences and networking with peers in the field.

SHARES Help Manual

SHARES stands for the Self-Help Automated Reporting and Evaluation System. It is an Internet ready application designed to manage, track, evaluate, and report on the status of the self-help program, as well as share this information with all parties that provide assistance to this program.

The SHARES Help Manual describes all aspects of the SHARES program, such as, getting started, the available screens, entering information, and printing reports.

Introduction to this Guide

The purpose of this Financial Management Guide is to aid new and operating grantees with the development of financial management systems and policies that are compatible with the fiscal responsibilities set forth by the funding agency (Rural Development) and the Office of Management and Budget (OMB). While self-help housing programs that have been operating for many years may have sophisticated financial systems and policies, others are lacking written, established financial procedures that assure proper internal controls.

This Financial Management Guide offers grantees sample information, guides, and checklists for virtually all fiscal aspects of self-help housing including: Section 523 grant accounting requirements, establishing accounting systems, program and payroll expenditures, tax requirements, personnel records, federal accounting requirements, and audit preparation.

While this Guide has been developed specifically for self-help housing grantees, the principles and information provided are applicable to any nonprofit housing development corporation utilizing federal financing or administrative funding.

It is hoped that this Financial Management Guide will be utilized as a resource by self-help housing grantees to supplement information already provided by Rural Development, local CPAs, and other sources. We offer this Guide not in the spirit of "this way is the only way," but rather as an informational resource that may offer new insights, a clearer understanding, and many ideas gleaned from self-help housing grantees over the years.

Note that this is one of three financial management guides produced by the T&MA Contractors. The other two guides cover topics related to basic bookkeeping for not-for-profit organizations and the management of 502 loan funds. See the section entitled "Additional Training Materials" for more information on the other guides.

Structuring Your Accounting System

A clear, precise, yet simple accounting system is crucial for sound fiscal management of 523 TA Grant funds. An accounting system is a formal means of gathering and reporting on data to aid and coordinate decisions in light of the overall goals of an organization. An effective accounting system provides information for three broad purposes: (1) internal reporting for use in planning and controlling operations; (2) internal reporting for use in strategic planning such as the making of special decisions and the formulating of overall policies; and (3) external reporting to board members and funding sources. Your agency's accounting procedures should be in written form, and regularly updated to reflect major changes. These written procedures should be based on generally accepted accounting principles (GAAP) and must be clear enough to be used for cross-training of current staff and training new staff. (See the Accounting Manual section of this guide.)

A decision must be made as to whether a cash basis or accrual basis method of accounting best meets your organization's needs. The major difference between these two methods occurs when a transaction is recorded. With cash basis accounting, expenses are recorded when they are paid and revenues are recorded when funds are received. In accrual basis accounting, expenses are recorded as payables when they are incurred, not when they are paid. Revenues are recorded as receivables when grant monies are earned, that is, when the services are provided, not when the funds are received.

The size of your organization plays a major part in the decision of which method to utilize. In most cases, small organizations follow the cash basis of accounting because of its simplicity. This Guide will provide an in-depth view of the cash basis of accounting. Conferring with a Certified Public Accountant (CPA) is recommended for aid in establishing or revising accounting procedures for a larger or more complex organization. Regardless of the basis used throughout the fiscal year, a nonprofit organization must prepare its fiscal year-end financial statements on an accrual basis in order to comply with GAAP.

1. Double Entry Accounting

Whether your organization uses a cash or accrual basis, the double entry system of bookkeeping is essential. This system balances itself and leaves little chance for error. The double entry system contains five major account categories: Assets, Liabilities, Equity, Income, and Expenses. When there is accounting activity (e.g. a transaction occurs), it is recorded as a debit and a matching credit in at least one of these account categories.

The following is a schedule of rules for double entry accounting, which shows the debit/credit activity for all account categories.

RULES FOR DOUBLE ENTRY ACCOUNTING

<u>Account Category</u>	<u>To Increase You Add a</u>	<u>To Decrease You Add a</u>	<u>Normal Balance</u>
Assets (cash, accounts receivable, inventory, prepaid expenses, fixed assets)	debit	credit	debit
Liabilities (accounts payable, accrued liabilities, bank loans payable, long term debt)	credit	debit	credit
Equity (fund balance, net assets)	credit	debit	credit
Income (contributions, sales, receipts)	credit	debit	credit
Expenses (salaries, cost of goods sold, supplies, taxes)	debit	credit	debit

Since every recorded transaction is entered once as a debit and once as a credit, the books should easily balance. Total debits should equal total credits and if they do not equal, an error has been made and must be corrected to keep the books in balance. Two examples of transactions follow. Note that transactions can result in an increase to two accounts, an increase in one account and a decrease in another or a decrease in two accounts but that the debits must always equal the credits.

1. Payment of Office Telephone Bill:
 (Expense) Telephone Account is debited (Increase)
 (Asset) Cash Account is credited (Decrease)

2. Self-Help TA Grant check is deposited:
 (Asset) Cash is debited (Increase)
 (Income) S-H Grant Income is credited (Increase)

3. Returned damaged merchandise prior to paying invoice:
 (Liability) Accounts Payable is debited (Decrease)
 (Expense) Supplies Account is credited (Decrease)

A trial balance or a balance sheet and revenue & expense statement should be prepared at least once a month to ensure that your organization’s books are balanced.

2. Cost Allocation Methods

Responsible accounting relies on appropriate cost allocations. The term cost allocation is used as a general label for the tracing of various costs to cost objectives, such as programs, departments and/or funding sources. There are two primary methods of allocating costs that must be considered when structuring your accounting system—direct and indirect. It is the responsibility of each grantee that receives funds from multiple sources to receive approval of its cost allocation method. Once a cost allocation method is approved and adopted, it must be followed consistently. Consistency will ensure that costs charged to government-supported projects are charged in a uniform manner to all other funding sources of the organization.

The direct method of cost allocation requires that all costs be directly attributed to a funding source. The simplest example of this is when an organization has one funding source or program, and all costs are paid by that program. An organization with two or three funding sources can still utilize the direct cost method as long as each funding source pays its fair share or prorated share of all costs. Cost allocation is fundamentally a task of linking (1) some costs with (2) one or more cost objectives such as funding sources. However, benefits received for common or shared expenses such as rent, equipment rental, supplies, and other administrative costs, cannot be easily linked with one specific funding source. A cost allocation “base” must be chosen for each type of expense that will determine the amount of each expense to be prorated to each funding source. Such a base is the common denominator used to trace the cost(s) in question to the cost objective.

Total direct labor is often used as a cost allocation base. Once the base is decided upon, percentages for allocating costs can be developed. In the example below, cost allocation percentages are derived from the number of **direct** full-time staff positions in relation to the total number of staff positions (the cost base):

	<u># of Direct Full-Time Staff Positions</u>	<u>%</u>	<u>Costs</u>
Self-Help Housing Staff	3	60%	\$150
Community Development Staff	<u>2</u>	<u>40%</u>	<u>\$100</u>
Totals	5	100%	\$250/mo

The salary cost is distributed to the Self-Help and Community Development programs by a cost allocation of 60% and 40% respectively using the number of full-time staff positions as a base.

Such cost allocations for shared costs by this direct method should be approved by your "cognizant" Federal agency. The "cognizant" agency is usually your largest federal funding source and acts on behalf of all other Federal agencies. The direct allocation method is usually acceptable provided each joint cost is (1) prorated on a distribution base that is established in accordance with reasonable and consistently applied criteria; (2) is adequately supported by current data of the organization; and (3) is based on benefits received.

The indirect method of cost allocation involves pooling those costs that benefit the organization as a whole but whose benefit to specific programs is difficult to determine. These costs can include audit, accounting, depreciation, and insurance. Some organizations also include administrative costs like rent, utilities, and telephone in this pool. These costs will appear as one line item called "indirect cost" on the organization's financial statements. With the indirect cost method, these costs are reimbursed based on an organization's approved indirect cost rate. An indirect cost rate is simply a device for determining what proportion of the shared/general expense (indirect costs) each grant/program should bear. Direct and indirect costs are described in OMB Circular A-122 "Cost Principles for Non-Profit Organizations". (See Appendix 18)

The indirect cost rate is a ratio, expressed as a percentage, of all the shared/common costs to a cost allocation base. The cost allocation base is usually either total direct costs (exclusive of capital expenditures or other distorting items) or direct salaries and fringes. Indirect cost rate agreements are established through a proposal and negotiation process between the organization and its Federal cognizant agency. Grantees whose largest federal funding source is USDA Rural Development would apply to the Department Of Labor, Rural Development's contracted indirect cost negotiator. (See Appendix 23 for contact information.) Other Federal agencies will accept the indirect cost rate approved by the "cognizant" agency. When deciding whether to pursue an indirect cost rate, please consult with your T & MA Regional Contractor, your local CPA, and your cognizant Federal agency.

An illustration follows that shows how the indirect cost pool can be distributed to three programs using an indirect cost rate with total direct costs as a base.

	<u>Total Direct Costs</u>
Self-Help Housing	\$ 64,000
Community Development	\$122,000
Head Start	<u>\$ 86,000</u>
Total Direct Costs	\$272,000
Total Indirect Cost Pool	\$ 16,320

Indirect Cost Rate (16,320/272,000= 6%)

Allocation of Indirect Expense:

Self-Help Housing (64,000 x 6%)	\$ 3,840
Community Development (122,000 x 6%)	\$ 7,320
Head Start (86,000 x 6%)	\$ <u>5,160</u>
Total Allocated Indirect Cost Pool	\$ 16,320

The rates approved in the indirect cost rate agreement are for use on grants, contracts, and other agreements with the Federal Government to which OMB Circular A-122 applies. The rate contained in the agreement is subject to all statutory or administrative limitations and is applicable to a given grant or contract only to the extent that funds are available. Acceptance of the rate is predicated upon the following conditions:

- No costs other than those incurred by the grantee were included in its indirect cost pool as finally accepted and that such incurred costs are allowable under the governing cost principles as outlined in OMB A-122 and A-87;
- The same costs that have been treated as indirect costs have not been claimed as direct costs;
- The information provided by the grantee that was used as a basis for acceptance of the agreed upon rate is not subsequently found to be materially inaccurate; and
- Similar types of costs have been accorded consistent treatment.

3. Bank Accounts

Upon receipt of the initial advance of grant funds, you must deposit the funds in an FDIC-insured institution, preferably one that is minority or woman-owned. If the balance in this bank account exceeds the FDIC limit of \$100,000, you should ask your bank for a letter of collateralization to protect the funds in excess of that limit.

Your checking account must bear interest. Interest earned on federal funds up to \$250 per year may be used by the grantee for administrative expenses. Once interest earned exceeds \$250 in one year, you must forward the amount in excess of \$250 to the Rural Development District Office on a quarterly basis.

At least two officials covered by your organization's fidelity bond insurance must sign all checks issued from TA grant funds. All approved check signers should be approved by your Board of Directors. It is a good idea to have at least three persons authorized to sign checks. This makes it more likely that two signers can be found when they are needed in a hurry. Only pre-printed and numbered checks should be used.

On a regular basis, the bank will send you a statement of the account, including beginning balance, all transactions, canceled checks, service or other charges levied by the bank, and final balance for the period covered by the statement. This statement should be received unopened and reviewed by a person who is not involved in the disbursement process. The statement should then be immediately reconciled with the check register and with the general ledger cash account(s).

With the exception of petty cash, all disbursements made using TA grant funds should be by check.

4. Required Books of Record

The following is a brief description of the books of record that should be maintained for an organization's fiscal year or accounting period to ensure proper management of 523 Self-Help TA Grant monies. Accounting records may be maintained by using a manual bookkeeping system or by a computerized system. If your organization owns a computer system, there are several reasonable accounting software packages available.

Cash Disbursements Journal -- This is similar to a check register, accounting for all checks written, but going a step further to show to which expense category each check is charged. All disbursements of Self-Help TA Grant monies should be recorded in this journal. Since banks normally provide pre-printed/pre-numbered checks, recording the individual disbursements in chronological order should be no problem. Checks should be recorded numerically on accounting worksheets with multiple columns so that the disbursements can be charged to the proper expense account category. Voided checks should also be recorded to ensure that all checks numbers are accounted for. After entering pertinent information -- date, payee, check number, and amount of check -- the amount should also be carried over and entered into the expense account category (or categories) that it falls within. This journal should be totaled monthly.

Cash Receipts Journal -- This journal is structured the same way as the Cash Disbursements Journal; the difference is that the entries are to income account categories rather than expense account categories. As TA Grant advance checks are received (or any other monies received for the organization's programs), they should be recorded here. This journal should also be totaled monthly.

General Journal – This is the book of record in which all non-cash transactions are recorded including entries for the capitalization of fixed assets or corrections for incorrect entries. Non-cash entries also occur when the books are "closed" at the end of the fiscal year/accounting period. At that time, total expenses are deducted from total revenue and the resulting profit or loss is added to the net assets from prior fiscal years as shown on the Balance Sheet. It is for these types of entries that the General Journal is necessary. A new General Journal should be started for each new fiscal year/accounting period.

General Ledger – This is the book of record that summarizes all transactions from the Cash Disbursements, Cash Receipts, and General Journals. The General Ledger should contain a separate ledger page for each of the various asset, liability, income and expense accounts. Totals from the other journals are posted monthly to their respective ledger pages in the General Ledger. In a manual system, all balances from the General Ledger are tallied on a monthly basis to make sure that total debits equal total credits. This report is called a trial balance. Other financial statements are then derived from the cumulative totals of each ledger page.

The General Ledger should also contain separate ledger pages for the Net Asset or Equity accounts. These accounts represent the cumulative net worth of your organization and are necessary for closing out the income and expense accounts at the end of the fiscal year. This is discussed later under the Net Asset section. If using a manual accounting system, new ledger sheets for the General Ledger should be started for a new fiscal year/accounting period.

Payroll Journal -- In addition to the salary expenses initially entered into the Cash Disbursements Journal, all payroll transactions should also be posted to the Payroll Journal. This journal should be maintained by pay period and include the following information:

- 1) Employee's name
- 2) Payroll check number
- 3) Date of check
- 4) Gross salary
- 5) Federal, state, and/or Local Tax withholding amounts
- 6) Other deduction amounts
- 7) Net salary

8) Any other applicable payroll information

The Payroll Journal should also include any cost allocation breakdown that applies to the payroll expenditures, clearly showing the different funding sources' portions. The journal should be totaled each month to show the total payroll expenditures, withholding, etc. As this will be your reference and documentation for tax payments and audits, it is important that the Payroll Journal be updated on a regular basis.

Individual Employee's Earnings Record -- Another payroll record that should be maintained for all employees is the Individual Employee's Earnings Record. As its title indicates, this is a record of the amounts each employee earns, as well as a record of tax withholdings and other deductions. A separate record should be kept for each current employee, as well as for those whose employment has been terminated.

The following should be included on the Individual Employee's Earnings Record:

- a) Employee's name, address, telephone number
- b) Job title
- c) Employee's Social Security number
- d) Tax exemption status
- e) Other deduction information
- f) Date of employment
(date of termination if applicable)
- g) Salary rate
- h) Individual paycheck information (gross salary, taxes, other deductions, and net salary)
- i) Employee's funding source (and/or salary cost allocation, if applicable)

All Individual Employee's Earnings Records should be kept on a calendar year basis. Salary information ("h" above) should be totaled at least quarterly for tax reporting purposes. These records will be the main source of information for employees' W-2 forms, which are prepared at the end of the calendar year.

5. Chart of Accounts

A formal listing of all the different accounts used by an organization is known as its "Chart of Accounts." A good chart of accounts is the cornerstone of a sound accounting system.

Every account used should be separated and listed according to the five basic accounting categories - Assets, Liabilities, Equity, Income, and Expenses. Assigning each category a different range of account numbers will simplify the procedures for drawing together financial statements. Each account within the different categories should be assigned numbers to coincide with the category it falls within, i.e. Assets (100's) -- Cash 101, Accounts Receivable 102, Equipment & Furniture 103; Liabilities (200's)-- Taxes Payable 201, Insurance Payable 202, Accounts Payable 203; and so on.

The number of accounts your organization uses depends on the size of your organization. One of the basic rules of accounting to remember when structuring your chart of accounts is the importance of grouping similar transactions together. Keep the chart as simple as possible.

If your chart is properly designed, the flow of your agency's accounting systems will be smooth and productive. A sample chart of accounts can be found as Appendix 1. Consider the lowest level of detail you will need in the reports generated from the accounting system when setting up the chart of accounts.

6. Net Asset Account (Formerly known as Fund Balance)

Nonprofit organizations use a "net asset" account as a representation of their net worth on financial statements. In a commercial organization's books, this term would coincide with the "capital" or "equity" of the organization. This is one area where accounting methods differ between nonprofits and commercial organizations.

The principal use for the Net Asset account becomes clear when the organization's books are to be closed at the end of the accounting period. The procedure of closing the books is simply the transfer of the ending balances in each of the income and expense accounts to the Net Asset for calculation of the net worth of your organization. A brief description of closing procedures follows:

- The first step in closing your organization's books is the Trial Balance, which should be prepared to ensure that the books are in balance. If they are not, they must be checked for posting errors or possible number transpositions. Adjusting entries should be made for any corrections. The books can not be closed if they do not balance.

- Income accounts will have credit balances at the end of the year. In order to close these accounts, they must be debited. Keeping the double entry system's rules in mind, a credit must also occur somewhere to offset this debit. This is where the Net Asset account comes into the picture. A credit for the total amount of the income accounts is posted to the Net Asset account, which in effect closes the income accounts by bringing the credit balances to zero.
- For the expense accounts, the same process is followed. Expense accounts will have debit balances so a credit must be posted in all expense accounts to bring these balances to zero. The Net Asset account would then be debited for the total amount of the expense account balances to offset the credits to those individual expense accounts.
- In order to simplify this procedure, a single journal entry is prepared in the General Journal rather than separate entries for all the different income and expense accounts. The difference between the total debits and credits would be the amount of excess income for the accounting period and would show as a credit to the Net Asset account. (Should there be a deficit, it will show as a debit to the Net Asset account.)
- By closing the books, you are actually transferring your net excess (or deficit) income into the Net Asset account on the Balance Sheet (Statement of Financial Position). This will give you a dollar figure as to your organization's net worth at the close of the accounting period.
- When the procedure of closing the books is completed, the Asset, Liability, and Net Asset accounts' balances are then carried over to the new books as beginning balances for the new accounting period. The books can be closed by your organization's bookkeeper or can be contracted out to a Certified Public Accountant (CPA).

7. CPA Certification

Rural Development Instruction 1944.411(f) (See Appendix 20), provides that before a self-help technical assistance grant can be approved, the grantee must agree that it will establish a proper accounting system that is in accordance with generally accepted accounting principles (GAAP) and that is certifiable by a certified public accountant. This is documented by the completion of SF-424B, "Assurances -- Non-Construction Programs".

Federal Administrative Requirements

By accepting federal grant funds, organizations agree to be bound by all applicable grant requirements regardless of whether or not the grantee is specifically notified of all of the provisions of those requirements.

There are numerous sources of federal grant requirements, starting with the U.S Constitution. Many government-wide requirements including nondiscrimination and equal opportunity are based on specific provisions of the Constitution. Federal Statutes and Executive Orders are also sources of grant requirements that apply to all recipients of federal funds regardless of the particular federal program or type of organization receiving the grant. These include laws on civil rights, nondiscrimination against people with disabilities, nondiscrimination for age, accessing agency records, and lobbying limitations. The Bureau of the Budget and the Treasury Department also issue regulations that address payment procedures for federal grants.

1. Office of Management and Budget

The Office of Management and Budget (OMB) is the principal source of government-wide administrative requirements affecting federal grants. OMB does not issue rules and regulations that directly require compliance by grantees. Instead, it issues directives in the form of circulars, bulletins and memoranda to communicate instructions and information to federal agencies and departments that award the funds. A Circular is used when the subject matter will have a continuing effect in excess of two years. The Circulars are identified with a letter “A” followed by a number (e.g. A-110). Every federal department must observe all applicable provisions of each Circular.

All self-help grantees must be able to show that their financial management system meets the standards outlined in circulars published by the Office of Management and Budget (OMB). OMB Circular A-110 provides uniform administrative requirements and OMB Circular A-122 provides cost principles for grants to nonprofit organizations. OMB Circular A-102 provides uniform administrative requirements and OMB Circular A-87 provides cost principles for grants to state, local, and federally-recognized tribal governments. We recommend that all grantees obtain and familiarize themselves with the appropriate OMB circulars. (See Appendix 18.)

In accordance with these circulars, a grantee's financial management system must provide:

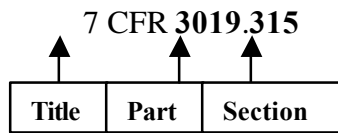
- a) Accurate, current, and complete disclosure of the financial results of each federally sponsored project or program.

- b) Records that adequately identify the source and use of funds for federally sponsored activities.
- c) Effective control over and accountability for all funds, property, and other assets.
- d) Adequate safeguards for all assets and assurance that they are used for authorized purposes.
- e) Comparison of actual outlays with budgeted amounts for each grant or other agreement.
- f) Procedures to minimize the time elapsing between the transfer of funds from the U. S. Treasury and the disbursement by the recipient, whenever funds are advanced by the federal government.
- g) Procedures for determining if costs are reasonable and allowable, and that they are distributed in accordance with applicable federal cost principles.
- h) Accounting records that are supported by source documentation.
- i) Examinations in the form of audits, which are done by qualified individuals who are independent of those who authorize the expenditures of federal funds, to produce unbiased opinions, conclusions, or judgments (if the organization's expenditure of federal funds exceeds the threshold in OMB A-133).
- j) A method to assure timely and appropriate resolution of audit findings and recommendations.

2. Code of Federal Regulations

The level of grant management requirements with which federally funded organizations are most familiar is that of federal agency-wide regulations and instructions. These administrative requirements usually incorporate the provisions of the OMB Circulars. The federal granting agencies explicitly adopt OMB requirements by “codifying” them into their own regulations. The regulations adopted by all executive departments and agencies in the federal government are compiled into the Code of Federal Regulations (CFR) and published annually in the *Federal Register*.

The purpose of the CFR is to present the official and complete text of agency regulations in one organized publication and to provide a comprehensive and convenient reference for all those who may need to know the content of these regulations. The CFR is divided into 50 titles that represent broad areas subject to federal regulation. Each title is divided into chapters that are assigned to agencies issuing regulations pertaining to that subject area. Each chapter is divided into parts and each part is then divided into sections – the basic unit of the CFR. A typical reference to the CFR includes the title, part and section as shown below:



To search the CFR online, organizations can go to:

<http://www.access.gpo.gov/nara/cfr/index.html>

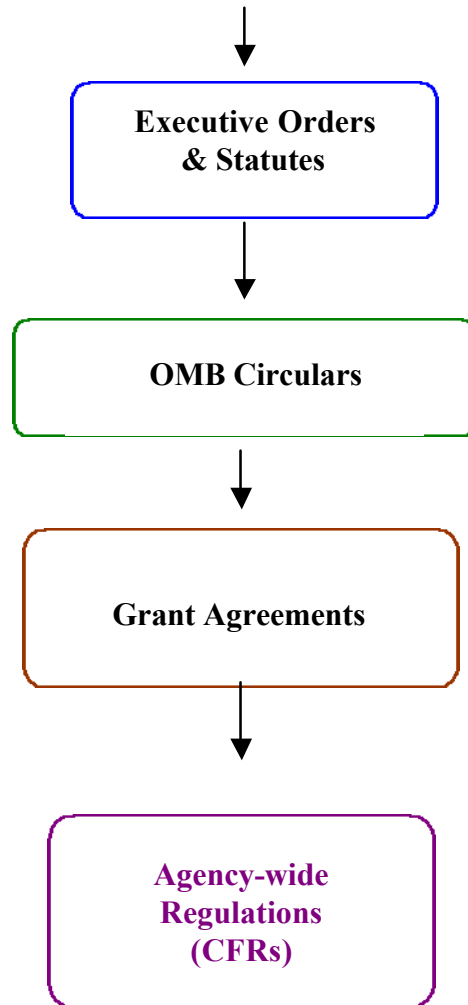
OMB issued the “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments” to provide consistency among 26 federal departments and agencies granting funds to state and local governments. This is also called the Government wide Common Rule. This requirement was codified by each agency. (See 7CFR 3016 for the USDA version.)

In 1976, OMB issued Circular A-110 to establish standards for federal agency administration of grants to institutions of higher education, hospitals and other nonprofit organizations. In 1993, significant revisions were made to the Circular and its implementation. Unlike the method used to implement the Government-wide Common Rule for state & local government grant administration, OMB gave federal agencies more flexibility for adopting A-110 requirements. Rather than mandating that federal agencies adopt the revised circular verbatim (as they did for the Common Rule), OMB required only that agencies codify the provisions in their regulations. This has caused some confusion for grantees that must determine whether their granting agency has deviated from OMB requirements by adopting their own language or provisions. In such situations, grantees should speak with their granting agency.

USDA codified and implemented A-110 in 7CFR3019 effective 8/24/95. The only deviation USDA made was to exempt grants and sub-grants under USDA entitlement programs from A-110 regulations. USDA also codified and implemented A-122 (Cost Principles) in 7 CFR 3015. These CFR sections are often referenced in USDA RD Instructions 1944-I that outline the requirements for recipients of Mutual Self-Help Technical Assistance grants.

The final level of grant requirements is found in the grant agreement itself. It may contain special conditions or requirements that aren’t included in any common source of grant regulations. Once a grantee accepts these conditions and requirements by signing the grant agreement, the organization is contractually bound to comply with the terms and conditions. The levels of grant requirements are depicted below.

U.S. Constitution



3. Financial Reporting

USDA RD Instruction 1944-I specifies what reporting forms are required for grantees to summarize expenditures made and to request advances of funds. The financial report forms Mutual Self-Help Housing grantees are required to complete for Rural Development are:

Request for Advance or Reimbursement, Form SF-270 (See Appendix 2). This form is usually completed monthly and submitted to the Rural Development Manager in original and two copies. The form is used to notify Rural Development of the amount of grant funds used during the previous month, the amount of unspent funds on hand, and the projected amount needed to cover expenses for the next month. Written justification should be forwarded with the request if the amount of the

request exceeds the projected need for the next 30 days. The form must be in the Rural Development Manager's office fifteen days prior to the beginning of the month. If the request is in order, Rural Development will try to have the advance check delivered on the first of the next month. This form is normally the only report of grant expenditures that Rural Development will require during the grant period.

Financial Status Report (short form), SF-269A (See Appendix 3). At grant closeout, the grantee must furnish this form to Rural Development within 90 days after the date of completion of the grant. This form shows the total expenditures and un-liquidated obligations for the grant period.

Monthly Fiscal Report (See Appendix 4). Self-Help grantees are encouraged to use some kind of tool to determine the financial status of their grant program on a monthly basis. A monthly comparison of grant-to-date or year-to-date disbursements with budgeted figures by line item will allow grantees to quickly see if and where budget or management changes need to be made. During quarterly review meetings, Rural Development will often ask to review the latest monthly fiscal report. It is suggested that this report also be presented to the Board of Directors on a regular basis. Because the Board is the ultimate authority in your organization, it must be well informed so that it can make wise and effective policy decisions.

4. SHARES

SHARES stands for the Self-Help Automated Reporting and Evaluation System. It is an internet-ready application designed to manage, track, evaluate, and report on the status of the self-help program. It will also share this information with all parties that provide assistance to this program. SHARES has two distinct components. One is an informational section that includes links to other web sites that may be helpful to an organization during the time the grant is active. The second component is an automated database.

The database is the application that allows family and grant information to be entered and reports to be generated and printed. Data will need to be entered on a regular basis since Rural Development personnel at all levels and the T & MA Contractor will be reviewing this data for monitoring, reporting, and statistical information purposes. On a monthly basis your T & MA Contractor will be using the information in the database to print a monthly report. There is a considerable amount of information that will need to be entered into this system by the person designated by the Project Director, usually the Group Coordinator. The information will include detailed borrower and lot information, construction progress and grant status. Although this will take time, the reports that this system is able to generate are extremely beneficial, both to the organization, the T & MA Contractors, Rural Development, and the overall program.

There is an entire manual dedicated to training for the use of this system. Request one from your T & MA Contractor if the organization has not yet received one.

Program Receipts

After establishing an accounting system and understanding the federal accounting requirements to which the 523 Grantee must adhere, the next step is receiving money from USDA-RD for your program.

As explained above, grant funds are advanced on a monthly basis, and normally not for a period longer than thirty days.

In planning for advances, it is prudent to base the advance on previous program expenditures for a month with the inclusion of special or unusual expenses, such as equipment purchases or audit expenses, for the next month. Extremely high advance requests should be well documented. In fact, all advance requests should be documented as to how the advance amount was calculated.

Once the TA check is received, a staff member not working in the accounting department of your agency should be responsible for entering the check into a "Cash Receipts Log." (A sample is attached as Appendix 6.) This staff member should also properly endorse the checks for deposit. Copies of the check should be made and filed with the Cash Receipts Log as well as forwarded to the proper accounting personnel. A staff person in the accounting department should then be responsible for the actual deposit in the bank. The customer copy of the deposit slip validated by the bank should then be attached to a copy of the check it covers and filed with all other cash receipts. This type of cash receipt safeguard should apply to all the cash receipts of your organization. It helps to eliminate

the possibility of fraud, error or abuse in your organization by separating duties and providing sufficient documentation for all transactions.

Program Expenditures

This section will address several areas that need to be tightly controlled to ensure that 523 Self-Help TA Grant monies are managed properly. Documentation for all expenditures cannot be stressed enough. Proper accounting procedures are vital to the operation of a successful program.

1. Ordering/Procurement Procedures

One staff member should be designated as responsible for all ordering and purchasing for the office, such as consumables, furniture, and equipment. All items to be purchased should be researched for the lowest possible price. More expensive items should go through a bidding process where at least three written quotations are obtained. Sales and discounts should be utilized whenever possible.

A purchase order or request form should be utilized to assure proper authorization for all purchases (See Appendix 7). Prior to submitting the purchase order for processing, budget line items and account balances should be checked to verify that sufficient monies are available for all purchases.

The purchase order should include the following:

- Vendor Name
- Date of Order
- Person Requesting Purchase
- Program and Account To Be Charged
(Any applicable account codes)
- Quantity Ordered
- Description
- Unit Price and Total Cost
- Signatures of Staff Member Requesting and
Authorizing Supervisor or Official
- Signature of Person Receiving Goods and Date

The purchase order should then be submitted for approval and processing. It should be retained in the accounting department to await reconciliation with the appropriate delivery slip and invoice.

Contracted services should be handled in the same fashion. Bids should be obtained for contracted services such as audits, legal services, consultant services, and architect fees. A written contract should be prepared whenever contracting for professional services. This contract should

include as much detail as possible -- services to be provided, cost of these services, time frame for services, and any other applicable items. As bills come in against the contract they should be compared to the contract to ensure that the services that were contracted for were actually performed.

2. Processing Payments/Checks

All bills that are to be paid, whether against a purchase order or a regular office expense (such as a telephone bill), should be checked for validity and accuracy. If applicable, prices should be checked against the authorized prices listed on the purchase order to assure compliance.

If an item was delivered or a purchase charged at a local store, there should be a delivery slip or receipt. This should be kept and attached to the invoice and paperwork that documents which check was used to pay the bill. No payments should be made from a vendor statement. All payments should be made from original invoices.

After the invoice is checked and verified, it should be coded to indicate the program(s) and/or account(s) that should be charged. The staff member responsible for the checking and coding should then initial it, signaling that it is ready to be paid. It should then be forwarded to the party responsible for the actual check processing.

It is recommended that a "Request for Payment" voucher be attached to all TA Grant related invoices that are to be processed for payment. This form should have the following information (See Appendix 8):

Vendor (or Payable To)
Date of Payment
Program and Account Code(s) to be Charged
Description
Amount to be Paid
Check Number (space to be filled in later)
Signature of Person Preparing Voucher
Signature(s) of Approving Official(s)

Once the request for payment voucher has been completed, a copy of the invoice, delivery slip or receipt, purchase order and/or any other applicable documentation should be attached to it. After the person preparing the voucher signs it, it should be forwarded to the authorized staff member(s) for approval and signature(s).

The voucher should then be forwarded to the staff member responsible for preparing the agency check and the check should be processed. As there is a space on the voucher for the check

number, it should be filled in to show which check paid what invoice. Copies of checks should be attached to the supporting documentation and filed in individual vendor files that are then filed alphabetically and by fiscal year. Checks ready to be signed should then be sent to the authorized signatories who will ensure that the check was properly prepared and then sign it. As a safeguard, no blank checks should be signed for any reason. This would leave the system open to potential abuses.

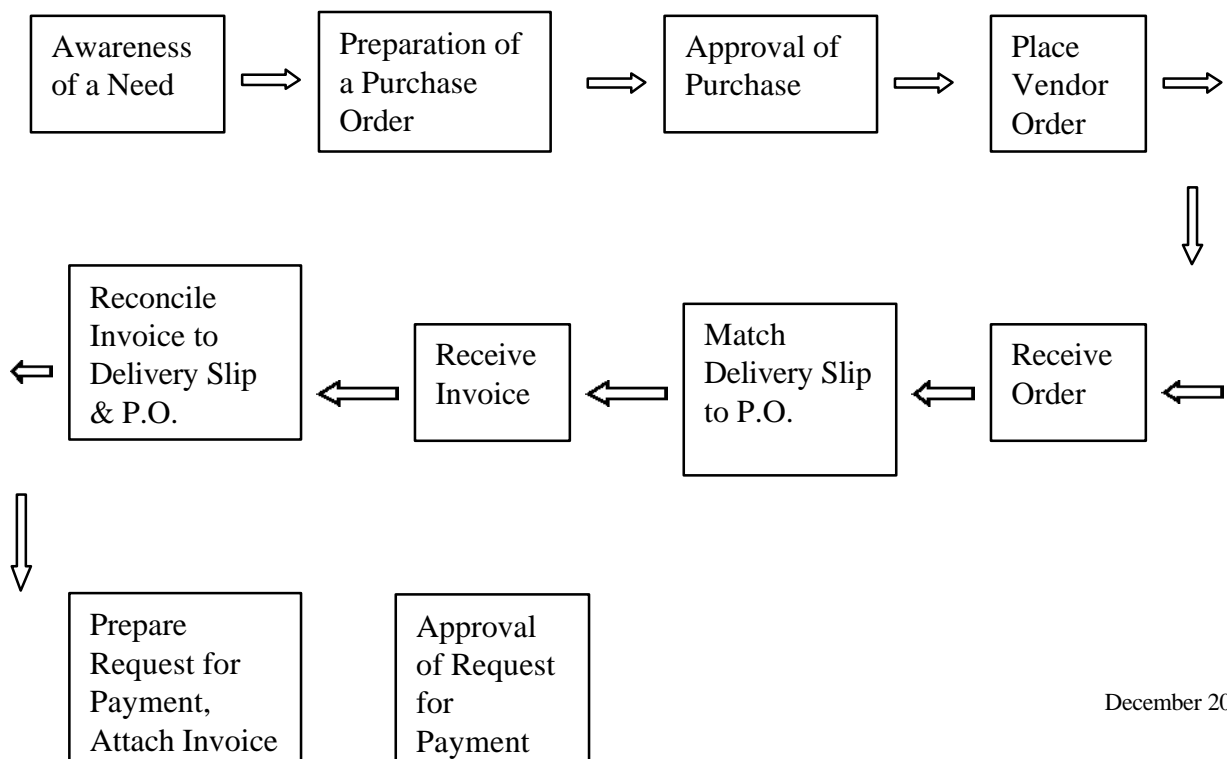
Once the checks have been signed, they should be checked once again for accuracy and the proper signatures. The staff member responsible for mailing the checks can do this.

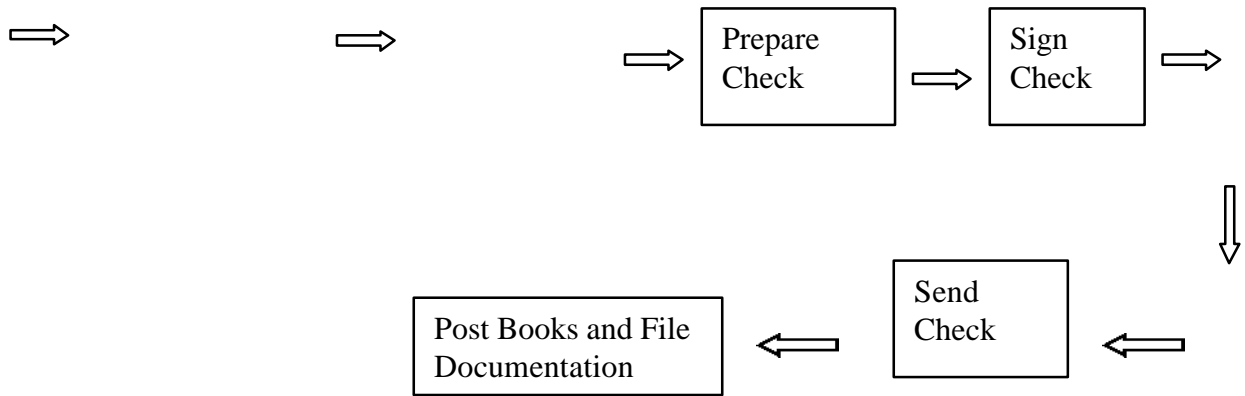
The next step is for the payment voucher, with other documentation attached, to be forwarded to the accounting staff member responsible for recording the checks in the Cash Disbursements Journal. Since all transactions should be by check, they should then be entered in the journal numerically, and posted to the proper expense account.

If there were any voided checks, a list should be provided so that the person responsible for the posting can insert the voided check numbers into the Cash Disbursements Journal. All check numbers must be accounted for.

Remember: There is no such thing as over documenting, especially when Federal dollars are involved!!

PURCHASE AND DISBURSEMENT PROCESS





3. Travel Expenditures

Some of your budget will be devoted to local and out-of-town travel expenses. During an audit of your TA Grant, an auditor will most likely do an in-depth audit of all travel expenditures.

Once again, documentation comes into play. All travel expenditures must be clearly documented. Receipts must be obtained, forms must be kept, and authorizations must be documented. All of these items will be addressed in this section.

a. Regulations for Travel -- OMB Circular A-122 "Cost Principles for Non-Profit Organizations," defines travel costs as "expenses for transportation, lodging, subsistence and related items incurred by employees who are in travel status on official business of the organization." For more information regarding allowable travel costs, please refer to OMB Circular A-122, and Chapter 301 of the Federal Travel Regulations. The Federal Travel Regulations should be available in your local Rural Development Office for your review if needed. You can also find them on the Internet at:

<http://www.policyworks.gov/org/main/mt/homepage/mtt/FTR/FTRHP.shtml>

b. Per Diem -- When employees of federally-funded organizations are in a travel status on official business away from the location of their agency, they are entitled to a per diem allowance in accordance with the Federal Travel Regulations based on the destination. The per diem rate includes a maximum amount for lodging expenses before hotel taxes. The employee should be reimbursed for actual lodging costs incurred up to the applicable maximum amounts authorized for each location. Receipts for lodging expenses are required.

The per diem rate also includes a fixed allowance for meals and incidental expenses (M&IE) that is

also determined by location. The M&IE rate, or fraction thereof, is payable to the traveler without itemization of expenses or receipts. The M&IE rate is calculated at 75% of the per diem rate for the first and last day that the employee is on travel status. The employee is paid 100% of the appropriate per diem rate for the balance of days on travel status. If meals are provided to the employee while on travel status, the employee must deduct a predetermined amount for those meals based on the per diem rate for that county.

When the employee obtains lodging from friends or relatives with or without charge, no part of the per diem allowance will be allowed for lodging unless the host actually incurs additional costs in accommodating the traveler. In such instances, the additional costs substantiated by the employee and determined to be reasonable by the agency may be allowed as a lodging expense.

When a destination within the continental United States is not specifically listed, the employee should use the standard CONUS rate for M&IE that is currently \$30 and the maximum lodging amount (excluding taxes) that is \$55. For travel to many other higher cost areas where the standard rate has been determined inadequate, higher rates have been authorized. Check with Rural Development or your T&MA Contractor or the website noted above to determine the current per diem rate for each location. The Federal government adjusts these rates annually.

- c. Local Travel/Mileage Reimbursement** -- Local travel can be authorized for reimbursement from your TA grant as long as it relates to the Self-Help program. Visits to construction sites, home interviews, and group meetings all fall within the local category.

Mileage reimbursement can be made for any local travel needed to expedite the job. Appendix 9 shows a sample mileage reimbursement form. This form should include the following: date, destination, purpose, funding source, odometer readings, time involved, total miles, and amount due. Also, receipts should be attached for toll and parking expenses that occur during local travel.

The rate at which mileage can be reimbursed may be set according to your organization's policies as long as it does not exceed the standard federal government rate. If an employee will be using two or more vehicles, the mileage reimbursement form should indicate which vehicle was used. This will help avoid confusion of possible overlapping odometer readings.

If the organization owns a vehicle that is used by employees on business, no local mileage should be paid for the use of that vehicle if the expenses for operating that vehicle, such as gas and insurance, are paid from program funds.

d. Other Travel -- In the Appendix Section of this Guide, you will find four sample forms of the type that should be used as documentation for out-of-town travel. The following is a brief description of each:

1. Travel Authorization Form (Appendix 10) -- This form should be completed prior to any out-of-town travel. If an advance is needed for the trip, it should be requested using this form. The following information should be included if your agency devises its own form: destination, purpose of trip, date of trip, any advance needed (with breakdown as to what it will be used for), signature of traveler, and an approval of supervisor and director.
2. Estimated Travel Expenses (Appendix 11) -- This form is used to compute an estimate of the total cost of an out-of-town trip. It is normally completed and attached to the Travel Authorization Form (Appendix 10).
3. Request for Travel Reimbursement (Appendix 12) -- This form should clearly document all expenses incurred on an out-of-town trip. It should have a clear breakdown of the daily expenditures by category. Once again, the purpose and funding source for the trip should be indicated. Any mileage expenses that show on this form must be backed up by odometer readings. Time and date of departure and return should also be included. Required trip expense receipts should be attached to the travel expense voucher. If an advance was given for the trip, it should also show on the travel expense voucher and be deducted from the expense reimbursement request.
4. Trip Report Form (Appendix 13) -- A detailed narrative of activities, accomplishments, and any required follow-up should be included on this form. It should clearly state the activities during each day of the trip, including hours worked. This form should be attached to and submitted with the travel expense voucher. Appropriate agendas should be attached to this form.

It is recommended that your organization use these sample forms for all out-of-town travel or devise ones including the information described above.

4. Payroll Expenditures

Salaries will probably be your largest grant expense, and is another area most likely to be scrutinized during an audit. All payroll expenditures should be fully documented. The Self-Help TA

Grant can only be charged for that portion of the total payroll that applies to the administration of the Mutual Self-Help Housing Program. Any fringe benefits that your organization offers to employees must also be proportioned in this way. For example: an employee spending 100% of the time working on self-help can be charged 100% to the self-help grant; if an employee only spends 50% of the time on self-help, only 50% of salary and fringe benefits can be charged to the Self-Help grant.

a. W-4 Form/Employer's Withholding Allowance Certificate -- A W-4 should be obtained from each employee showing the number of withholding allowances the employee claims. This form tells the person who prepares payroll how to withhold taxes from the employee's gross salary, based on the number of exempted allowances claimed. A new W-4 form should be completed by the employee if the withholding status is to be changed. W-4 forms should be retained in the employee's payroll file. If an employee claims more than 10 withholding allowances, or claims exemption from withholding, you should send IRS a copy of their W-4 form. Certain states may also require a W-4 form (or something similar) be retained for state tax withholding purposes. Proper state officials should be consulted to ensure that your organization is following local tax procedures and the correct calculation for withholding state taxes.

b. Time and Attendance Sheets -- Employees should be required to complete time and attendance sheets each pay period. Time sheets should clearly show the following:

- 1) Employee's Name
- 2) Pay period ending date
- 3) Hours worked daily **per funding source**
- 4) Total hours worked
- 5) Any leave or holiday hours taken
- 6) Employee's signature and date
- 7) Approving official's signature and date

As noted above in 3), time sheets must reflect where to charge each staff person's time, not just the total hours worked each day. If an employee's salary is charged to more than one program/funding source, it is essential that the time sheet reflect the hours worked per program/funding source. A sample time and attendance sheet (Appendix 14) is included to show how time worked and leave earned should be charged to different funding sources.

Since an organization's time and attendance records are the primary documentation for salary expenditures, it is essential that time sheets be completed in ink. If an error is made, it should be corrected by drawing a line through the error, writing the correction next to it, and initialing the change.

c. Payroll Preparation -- Once the time and attendance sheets are submitted to the staff member who prepares payroll, they should be verified for accuracy and proper approving signatures. The paycheck amounts may then be calculated.

Documentation for payroll checks should include a request for payment form attached to a worksheet showing the payroll computations with all deductions, including FICA, federal and state taxes. The check numbers to be used for the payroll checks should be written on the request for payment form. Once the payroll request for payment form has been approved, the checks can be prepared and sent for signatures.

d. Book Entries for Payroll Expenditures -- After the paychecks have been distributed, the request for payment form(s) used to initiate the checks should be forwarded to the staff member responsible for keeping the Payroll Journal and Individual Employee's Earnings Records.

The salary amounts, taxes withheld, other deductions, and net salary, along with the check number and date of check, should be entered into both the Payroll Journal and the earnings records.

As federal and local taxes come due, the amounts withheld can easily be extracted from the totals in the Payroll Journal. The Individual Employee's Earnings Record totals will make it easier to compute such items as unemployment insurance tax. (See Appendix 15 for a tax calendar.)

Circular E -- Employer's Tax Guide, available from any Internal Revenue Service Center, lists the regulations and rules for tax deposits. State and local tax offices provide their own tax withholding and payment rules. It is essential that both the Payroll Journal and the Individual Employee's Earnings Records be updated regularly.

5. Petty Cash Fund

A petty cash fund may be maintained to cover minor expenditures that occur in the daily operations of your organization. This fund should be for a set amount (usually between \$100 and \$200), and should be controlled by one staff member designated as custodian of the fund. This person would be responsible for assuring that, at any given time, the total cash in the fund plus any receipts for disbursements from the fund total the original account amount.

Petty cash expense voucher forms are available at any office supply store. A voucher should be attached to every receipt for disbursement from the petty cash fund. This voucher should include the amount, date, where the expense should be charged, what the expense was for, and signatures of the person receiving the cash as well as the supervisor approving the expenditures.

When the cash in the fund becomes low, it should be replenished by preparing a check payable to the designated custodian or to petty cash. This replenishment check should be for the total amount of cash spent from the fund and, when added to the available cash left, should bring the balance back to the original set amount. The petty cash expense vouchers should be totaled and charged to the appropriate expense accounts, **not** to the "Petty Cash" asset account.

Some points that should be emphasized about maintaining the petty cash fund follow:

- It should be kept locked in a box with access to it limited to the designated custodian.
- Someone other than the custodian of the fund should reconcile the account on a regular basis and at the end of the fiscal year.
- No other funds should be co-mingled with it.
- No employee should cash personal checks from petty cash or borrow money from it.
- Petty cash should only be used for allowable costs.
- A maximum amount per expenditure (usually \$25) should be established and documented in the accounting policies and procedures manual.

6. Common Disallowed Expenditures

Since the Self-Help TA Grant is federal money, there are restrictions on how the funds may be spent. Any expenditure must meet the grant purpose as defined in §1944.402, as well as in OMB's Circular A-122 "Cost Principles for Non-Profit Organizations" or Circular A-87 "Cost Principles for State, Local and Federally-Recognized Tribal Governments."

The §1944.405 lists ways the funds may be used including hiring personnel, travel, payment of office expenses, administrative costs, and purchasing specialty tools. (See Appendix 20) Some prohibited uses of funds, as listed in §1944.406, are:

- a) Hiring personnel for the purpose of performing any of the construction work for the participating families.

b) Buying real estate or building materials or other property of any kind for participating families; (This includes optioning sites for the families. Discretionary funds, not TA Grant funds, should be used for securing site options.)

c) Paying any debts, expenses, or costs that should be the responsibility of the participating families.

OMB Circulars A-122 & A-87, Appendix B, also describe costs that are allowable and unallowable under federal funding sources. For example, bad debts, contributions to other organizations, entertainment expenses, fines and penalties for late tax filings are listed as unallowable. Allowable expenses for advertising, insurance, meetings, etc., are described in detail in the OMB Circular A-122 for nonprofit organizations and OMB Circular A-87 for state and local governments. The Bookkeeper and Executive Director should become familiar with the appropriate OMB Circular. The following are examples of possible unallowable expenditures:

a) Any expenditure that is not well documented can be disallowed in an audit.

b) Travel outside of your target area without prior approval by Rural Development can be disallowed, if Rural Development determines the travel was not directly related to the self-help program.

c) Legal fees incurred for litigation, even when related to the self-help program, may be disallowed. Rural Development will review these costs on a case-by-case basis.

d) Any expenses not in the original grant budget or exceeding the original grant budget may be disallowed. Uses not provided for in the approved budget must be approved in writing by Rural Development in advance.

e) Any expense incurred before the execution of the TA Grant Agreement is not allowed unless approved by the funding agency.

The key is to receive prior written approval from the Rural Development State Office before disbursing any grant funds for expenditures not in your approved budget. Budget line item revisions should be requested from Rural Development to transfer funds from categories that will be under-spent. Distant travel and unique expenditures require Rural Development's approval before grant funds are expended.

Fixed Assets/Equipment

OMB Circular A-110, Subpart-A, General, paragraph L, defines "equipment" as "tangible nonexpendable personal property including exempt property charged directly to the award having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit." The amount

above which an equipment purchase must be capitalized and depreciated rather than expensed directly to a grant is called the capitalization threshold, in this case, \$5,000. An organization may use its own capitalization threshold provided that it does not exceed \$5,000. We recommend that the board of directors for each Self-Help TA Grantee review their current capitalization threshold. It should be high enough to allow purchases of equipment like computers to be expensed but below the \$5,000 limit as defined in OMB A-110.

Purchases of "equipment" (tools, furniture and equipment) whose unit cost fall below the capitalization threshold should be charged to your equipment expense line item. Purchases of supplies (including expendable tools, furniture and equipment) should be charged to your supplies line item.

OMB Circular A-110, Subpart C, sections .30-.37 describe the standards for management and disposition of property furnished by the Federal Government whose cost was charged to a project supported by a Federal award. It is advised that staff members who are responsible for such tasks as purchasing and inventory familiarize themselves with this circular. This section will address the proper bookkeeping entries and recommendations for a competent inventory system in regard to the purchase of non-expendable equipment, furniture, and power tools.

1. Book Entries

The generally accepted accounting principle (GAAP) for recording the purchase of non-expendable equipment, furniture, and power tools in excess of the capitalization threshold set by the agency is the Capitalization Method. (As mentioned above, allowable capitalization thresholds for federally-funded organizations are the lesser of \$5,000 or the organization's approved threshold.) Under this method, equipment is recorded as an asset when the purchase occurs. Funding sources pay for this purchase through a depreciation expense charged each year throughout the asset's useful life. The problem with this traditional method is that a grant period is frequently less than the useful life of an asset. As a result, the asset is not fully depreciated by the end of the grant under which it was purchased and a new funding source would have to be used to "fund" the remaining years of its useful life.

In order to charge the funding source for the full cost of a capital expense, the full cost of the equipment must be expensed to the grant when it is purchased. In order to show this asset on the balance sheet as well, a separate entry is made to record the item as an asset (capitalize), with an offsetting entry made to a net asset account entitled "Equipment Fund". The following is the entry to capitalize purchases of equipment:

(Asset) Equipment is debited.

(Net Asset) Equipment Fund is credited.

Entries should be made to these accounts as the purchases occur. Adjustments should also be made for disposal of equipment. All of these entries are made separately and are in addition to the equipment purchase expense account that is debited when the purchase occurs.

2. Inventory of Fixed Assets

As items are purchased, record the following information on an inventory spreadsheet or manual record:

- Date of purchase
- Item purchased
- Total cost
- Program or account charged
- Serial number
- Control number
- Location of item

The control number listed above refers to the number assigned to the item being inventoried that will refer you to the information on the inventory spreadsheet.

It is mandatory that the inventory spreadsheet be kept up-to-date. In addition to an inventory spreadsheet, the property should be labeled using property tags with the same control number. A physical inventory should be taken at least once a year to ensure that all property is in place, and that the total on the inventory spreadsheet can be tied back to the balances in the General Ledger's "Equipment" and "Equipment Fund" accounts.

3. Tool Inventory

Rural Development §1944-I states that 523 TA funds may be used for purchase, lease, or maintenance of power or specialty tools such as a power saw, electric drill, saber saw, ladders and scaffolds, which are needed by the participating families. The participating families, however, are expected to provide their own basic hand tools such as hammers and hand saws. Therefore, it is allowable for Self-Help Grantees to purchase specialty tools for use by the construction supervisor and all the families in the construction of their homes. This is an area that is closely scrutinized by auditors.

It is recommended that, in addition to maintaining an inventory of non-expendable tools as explained above, you maintain an inventory of most expendable construction tools purchased with grant funds to help in planning for future tool purchases and to facilitate preparation of your next budget. Tools purchased with 523 grant funds can NOT be leased to the participating 502 families.

Federal Tax Forms

This section will address several Federal forms that must be filed by your organization. In order to avoid penalty and interest charges from the Internal Revenue Service, it is recommended that these forms be prepared and filed on a timely basis. Copies should be kept in your files.

1. Form 941 -- Employer's Quarterly Federal Tax Return

This form is filed to ensure that taxpayers are complying with Federal tax laws. IRS's Circular E, "Employer's Tax Guide," explains the rules for withholding, paying, depositing, and reporting Federal Income tax and Social Security tax (FICA). It is recommended that you obtain a copy of this circular and follow the instructions for tax deposits and reports very closely.

The 941 form is a summary of taxes withheld and paid by an employer, including the employer's share of FICA & Medicare taxes. This form is filed quarterly and due by the last day of the month following the end of a quarter. If all taxes were deposited when due, you have 10 more days to file the 941 return.

2. Form 990 -- Return of Organization Exempt From Income Tax

This form summarizes the financial activity during an organization's fiscal year (accounting period). It is filed annually by all organizations that are determined to be "exempt" from income tax, such as under Section 501 of the Internal Revenue Code. The completed return must be filed by the 15th day of the 5th month after your fiscal year ends. It is recommended that you obtain a copy of the IRS instructions for this form and make sure your organization's return is filed on or before the due date. The Internal Revenue Service may assess a per day penalty for incomplete or late returns, so it is emphasized that care be taken when completing Form 990.

Form 990 returns filed with the Internal Revenue Service are available for public review on the Internet at www.guidestar.org. (See Appendix 25)

3. W-2 and W-3

The Form W-2, Wage and Tax Statement, is a summary of all wages paid to and taxes withheld from individual employees during a calendar year. It must be provided to employees (including those employees who may have terminated employment with your organization during the calendar year), no later than January 31 following the close of the calendar year.

The Form W-3, Transmittal of Income and Tax Statements, summarizes the total wages and federal taxes paid for all employees. It must be submitted to the Internal Revenue Service by February 28, with Copy A of all W-2 forms that were distributed to employees and former employees.

It is possible that you may be required to file other Information Returns, such as a 1099-MISC, to report certain types of payments made during the year. The Form 1099-MISC must be filed to report payments of \$600 or more to persons not paid as employees. Your local Internal Revenue Service Center should be able to inform you as to what other returns should be filed.

4. Federal Unemployment Compensation Tax (Form 940)

IRS exempt organizations, under provision 501(c)(3), are not required to pay Federal Unemployment Compensation Tax (FUTA). The IRS publication *Circular E -- Employer's Tax Guide* should be utilized as a reference as to whether your organization is required to pay this tax.

The laws for local and state income taxes and State Unemployment Compensation taxes vary from state-to-state. It is most likely that your organization will be liable for these taxes as well as other local taxes. Proper officials should be contacted for instruction and clarification of all state and local tax requirements.

5. Tax Calendar

The tax calendar, included as Appendix 15, indicates tax requirements throughout the year.

6. I-9 Forms

Under the Immigration Reform and Control Act of 1986, (IRCA), employers are required to document eligibility of all employees to work on the Immigration and Naturalization Service Form I-9, and are also prohibited from discriminating on the basis of national origin or U.S. citizenship. IRCA prohibits the employment of "unauthorized aliens" and requires all employers to verify that each of their employees is legally entitled to work. It is recommended that the original Form I-9's for all employees be kept in an I-9 file that can be given to INS auditors. Copies should be kept in each

individual employee personnel file. This form must be kept for at least three years from the date of employment or for one year after the employee leaves the job, whichever is later.

7. Tax Exempt Ruling

Your organization will receive a determination letter from the Internal Revenue Service recognizing your tax-exempt status. This is usually effective as of the date of formation of a non-profit organization. Once received, keep copies of this letter readily available as it will be used whenever you prepare an application for federal funding. You must apply for a final determination letter after the first five years of operation. The Internal Revenue Service will notify you when this application is due.

Insurance

Your organization should obtain and carry several types of insurances for coverage in case of fire, theft, or burglary, etc. If automobiles are used to carry out an organization's business, auto insurance coverage should also be obtained. Self-Help Housing Grantees should check with their insurance agent concerning other potential coverage such as construction and liability insurance. It is allowable to charge the §523 Self-Help TA Grant its fair portion of insurance costs. There are two types of insurance that are mandatory:

1. Worker's Compensation Insurance

The law requires that all employees be covered by Worker's Compensation Insurance. As an employer, your organization is required to retain this insurance. It provides monetary benefits to your employees should they be injured during the course of their job. Accidents can happen particularly at the job site. Accidents could involve the Construction Supervisor, Group Coordinator or even a Secretary who might be sent to the job site for some reason. This insurance must be paid entirely by the employer. It is based on an organization's actual payroll and for bookkeeping purposes should be classified as a fringe benefit.

2. Fidelity Bond Coverage

If your organization does not already carry fidelity bond coverage on those staff members involved in the financial operations of the office, it is mandatory that it be obtained. The amount of the bond should be at least equal to the maximum amount of funds from any and all sources that the

grantee will have in its possession or control at any time, including funds in bank accounts. Grantees should provide fidelity bond coverage for all persons who have access to funds. Coverage may be provided either for individual positions or persons, or through "blanket" coverage, providing protection for all appropriate employees and/or officials.

Internal Controls

While there are many important ingredients in an accounting system, financial excellence demands proper internal controls. Internal controls refer to the built-in system of accounting procedures, checks and balances, division of tasks, and safeguards that guarantee the fiscal integrity of the organization to the board of Directors, to the funding source (Rural Development), and to participant families. One of the first ingredients auditors look for when conducting an organizational audit, whether it is your local CPA or the Office of Inspector General, is proper internal controls. Such controls will diminish the possibility of willful fraud, abuse, and errors while offering management the most up-to-date and complete fiscal information enabling prompt, sound decision-making.

In designing an accounting system for a new grantee, or in revamping an existing system that may no longer be adequate, it is important to consider the different aspects of internal control.

1. Accounting Procedures

Procedures must be developed to match the organization's needs while meeting all standard accounting, funding source, and OMB requirements. Policies and procedures must be in writing, approved by the board of directors and enforced. All books of record must be utilized and kept current. Financial reports must accurately reflect the organization's fiscal position.

2. Check and Balances

It is important to build certain checks and balances into your accounting system. A simple example is having two persons authorized to approve bill paying and sign checks, with one or more of the board members as signatories. The Board of Directors can play an important part in checks and balances by reviewing and approving fiscal reports from the staff, approving purchases costing more than a specified amount, and approving policies related to fiscal management. (See Appendix 21 for sample interim financial statements to be presented to the Board of Directors on a regular basis.)

3. Division of Tasks

In designing or revamping an accounting system it is very important to pay attention to the division of tasks. While it may be easier to divide tasks among more people in a larger organization with a fiscal department, adequate division of tasks can be adopted even for smaller organizations. The goal is to ensure that no one person handles all of the phases of processing a transaction. For instance, the same person should not prepare a payment voucher, approve the voucher, sign the check, and reconcile the bank statement. Clear lines of staff responsibilities should be set forth in the written accounting procedures and in job descriptions.

4. Safeguards

An accounting system can have many different types of safeguards. One example is the routine conducting of inventories of equipment and purchases to ensure that what you purchased is still in the organization's possession. Another safeguard is the maintenance of adequate documentation for all expenditures. Timesheets, payroll records, copies of bills, receipts, authorizations for payment, odometer readings, and trip reports are examples of documentation that must be kept to assure the integrity of your program. Documentation and proper administrative forms are not mere paperwork, but are essential to the fiscal health of an organization. A final example of a safeguard is ensuring that all bank accounts are reconciled promptly and that financial reports are prepared and reviewed by the management staff and Board of Directors on a timely basis. Fiscal information is essential for the Executive Director and Board of Directors to carry out their role in decision making, setting of policy and goals, and reviewing corporate status.

Good fiscal policies establishing strong internal control will result in fiscal integrity, more efficient decision making, fewer errors, diminished threat of fraud, improved budgeting, and solid audits. Take time to review your internal controls. (See Appendices 16 & 17.)

Audits

Often the word "*audit*" strikes fear into the hearts of nonprofit staff because we all know that a bad audit could cause the downfall of an organization, the loss of future funds, or the loss of employment. Some fear or apprehension may be natural; however, it behooves us to view the inevitable audit as a positive learning experience.

Rural Development requires an audit of the 523 grant funds for every year the grantee has a self-help program in operation. If a grantee is required to have a single audit of their entire operation (based on thresholds established in OMB A-133), it should be performed within 90 days after the end of the grantee's fiscal year. If a grantee discontinues the self-help program entirely, a final audit of the self-help program must be performed within 90 days after the termination of the grant. If a grantee is funded by only one grant or is not required to have a single audit, the audit should be performed within 90 days of the grantee's fiscal year-end, grant period or termination of the grant. If a single-funded grantee is awarded a no-cost extension on their grant, they should check with their Rural Development State Office to determine if the extension period must be audited separately or if the audit of the final grant year may be delayed until after the extension period.

The audits, conducted by an independent CPA hired by the grantee, must be performed in accordance with Generally Accepted Government Auditing Standards (GAGAS), using the publication "Government Auditing Standards" published by the Comptroller General of the United States. Audits of all entities that expend federal funds must be performed in accordance with OMB Circular A-133, "Audits of Institutions of Higher Education and Other Non-profit Organizations".

In addition to the grant funds, audits must include borrower loan funds. The auditor will determine the number of borrower accounts to be audited. In incidences where it is difficult to determine the appropriate number of accounts to be audited, the auditor should be authorized by the State Rural Development Director to audit the lesser of 10 loans or 10 percent of total loans. The auditor should review how the loan funds were spent and make a determination that they were used for authorized purposes.

1. Procuring Audit Services

In the selection of an auditor and arranging for audit services, grantees should use their own procurement procedures, provided that the procurements conform to standards prescribed in Circular A-133 Subpart C, Section .305.

Audit services for self-help housing grantees can usually be procured by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services that do not cost a great amount of money. If small purchase procedures are used, price quotations should be obtained from an adequate number of qualified sources and some form of price analysis should be made. Consideration should also be given to such matters as integrity, record

of past performance, technical resources and experience in performing government and non-profit audits. (See Appendix 22 for a sample audit request for proposal.) Records sufficient to detail the history of each procurement should be maintained by grantees. Small audit firms and firms owned and controlled by socially and economically disadvantaged individuals should have maximum practicable opportunity to obtain audit contracts.

In order for an audit firm that is qualified to perform audits in accordance with the Government Auditing Standards to provide your organization with an estimate of audit costs, they need information about your organization and the program(s) to be audited, such as:

- Description of programs to be audited including time periods
- Type of accounting records maintained -- manual/computer, accrual/cash
- Total expenditures during the audit period for each program
- Number of checks issued during the audit period for each program
- Number of employees
- Number of pay periods per year
- Number of bank accounts
- Number of borrower loan accounts maintained
- Date records will be ready for audit
- Date audit should be completed
- Date final audit report should be completed

2. Preparing for an Audit

It is important to properly plan the physical arrangement for your audit. Choose a time when the Executive Director and fiscal staff will be present and not over-burdened with work. Plan to provide some working office space for auditors and easy access to files, books, and documentation. Make sure that staff are available to answer questions and provide information on a timely basis. The more convenience the organization provides, the less time the audit will take. The bill should reflect the savings.

Make sure that the organization schedules an entrance interview or a time when you can discuss what information the auditor will need for the audit. The auditor can provide you with a list and you can take time to adequately and comfortably pull together the information in an orderly manner. For the auditor to be prepared to do the audit, s/he should have access to the Rural

Development and OMB procedures and will require an understanding of how the unique self-help housing process works.

The following is a list of some items that the Grantee should have readily available for the auditors. Easy access to this information will greatly facilitate the audit.

- a. Organizational Chart showing distribution of responsibility of Grantee's staff.
- b. All written policies and procedures relating to the use of §523 grant funds and the supervision and maintenance of the §502 loan accounts.
- c. Formal listing of Rural Development responsibilities versus Grantee responsibilities.
- d. Minutes of all Board of Directors' meetings.
- e. Bylaws for the organization.
- f. Agreements and contracts with Rural Development.
- g. Insurance policies for the organization.
- h. Accounting records and reports pertaining to the self-help grant.
- i. Paid invoice files.
- j. Payroll records.
- k. Tax reports.
- l. Bank statements.
- m. Personnel files and policies.
- n. Correspondence with Rural Development regarding fiscal matters.
- o. Previous audit report.
- p. Updated listing of non-expendable office equipment and construction tool inventory, and controls on their use.
- q. Individual family files that include the accumulated documentation of activities from the initial loan application to completion of construction.

The following is a list of some things that you might do to prepare for your audit:

- a. Go through your paid invoice files and make sure that there is an invoice, bill, or other documentation for every check that has been written. This is a tedious job, but it's cheaper to do it than to have the auditor look for missing documents at his/her rate of pay.
- b. Work on your internal control policy. This is a major part of every audit. Auditors want to make sure that financial procedures are performed in an acceptable manner.
- c. If you have a petty cash system, make sure it is working. Someone other than the custodian of the funds should reconcile it regularly and at fiscal year end.

d. If you are the staff member in charge of the agency audit, one of your goals should be to keep the cost of the audit as low as possible.

The following items may be included in your audit report:

An **Administrative Finding** is an audit conclusion concerning deficiencies in the grantee's management or financial controls, procedures, policies or systems. Examples might be adjustments needed to accounting records, recommended accounting system changes, erroneous budget charges, or improper bill paying procedures.

A **Questioned Cost** is a cost for which the auditor believes there is substantial documentation to justify disallowance. Examples might be erroneous salary payments or overpayments to vendors.

A **Disallowed Cost** is an incorrect charge to a program not allowed by law, regulations, and/ or grant. Examples might be a contribution to the United Way or payment of a penalty on taxes paid late and charged to a federal grant.

Upon completion of the audit, the auditor should, at an exit interview, give the organization some general indication of the results of the audit. Also, they may outline specific findings that might cause you to alter some internal policies and procedures. This session should be an open exchange of information that will benefit your organization. If you disagree with any findings or recommendations, this is the time to discuss them and try to convince the auditor to include them in a management letter to the board of directors rather than a finding in the audit.

Organizations receiving an audit report should try to begin implementing the recommendations as soon as possible. Administrative findings will usually require adjustments to accounting records/reports or changes in procedures. Questioned costs or disallowed costs may require collections from the individuals who received the improper payments or reimbursements from some other source such as a fund raising effort.

A “clean” opinion from an audit does not mean that your organization is healthy. It merely means that the auditor feels that, based on a review of select documentation, the financial statements accurately reflect the financial position of the organization and that there were no instances of noncompliance with federal regulations.

Policies and Procedures

1. Accounting Policies & Procedures Manual

As has been mentioned throughout this guide, it is extremely important that your agency's accounting procedures be in written form and updated on a regular basis to reflect any major changes

in the procedures. It is our hope that this Financial Management Guide will provide the Self-Help Housing Grantees with the necessary information, requirements, and parameters by which to draft or revise an accounting manual. The purpose of an accounting manual is to document the flow of transactions, segregation of duties, and financial policies of the organization. The manual should be used by all employees as a reference and training document. Additionally, it should be read by new bookkeepers and any auditor in order to understand how the organization's accounting system works. A sample table of contents for an accounting manual follows:

Sample Table of Contents

- Introduction
- General Accounting System (including description of software)
- Chart of Accounts and an explanation of each line item
- Accounting Department Deadlines
- Cost Allocation Plan/Indirect Cost Rate (if applicable)
- Investment Policy
- Bank Accounts
- Requesting Funds From Grantor
- Cash Receipts
- Cash Disbursements
- Payroll/Timesheet Policy
- Procurement/Purchasing System
- Travel Cost
- Petty Cash
- Fixed Assets/Inventory
- Personnel

2. Policies for Your Computer

Many self-help housing grantees throughout the region have purchased computer hardware and are utilizing automated systems for accounting, financial reporting, and construction management.

Suggested administrative and financial policies to implement upon the purchase and installation of computer equipment and systems include but are not limited to:

1. Allocate adequate time for key staff personnel to become familiar with the operations manual and software manuals.
2. Assess the training that will be necessary and assure that adequate training resources will be available to make the system operational.
3. Always keep at least one back-up copy of software.
4. Place a back-up copy of software in a safe place, preferably off-site or in a fireproof safe.
5. Use an electrical surge protector for your equipment in case of electrical surge or outage.
6. Consider the purchase of a maintenance contract on your computer equipment after the warranty period has expired.
7. Run back-up copies of accounting and construction management information daily. Make this a routine action and a strict policy. Store these files off-site or in a fireproof safe.
8. Inventory your computer hardware and software and place a copy of the inventory in a safe place in case of fire or theft.
9. Increase the agency insurance to provide adequate coverage for the hardware and software upon purchase.
10. During the purchasing and implementation phase of your computer system, utilize the resource of your local CPA. S/He is very familiar with your accounting system and can often provide guidance about what to buy. Your CPA may have additional policies to suggest to ensure that proper safeguards are in place.

For a computer to be an effective time saver for your organization, you must have the proper equipment, applicable software, and a skilled operator. It must be able to yield the proper calculations, reports, trial balances, and data for it to be beneficial. Finally, it should work within the parameters of your existing accounting system. If changes must be made in accounting functions, careful thought must be given to assure that internal control, division of duties, and appropriate safeguards are intact.

3. Personnel Policies

Every self-help housing grantee funded by Rural Development should have written Personnel Policies, approved by their Board of Directors, which set forth operational standards for such items as hiring, conditions of employment, standards of conduct, grievance procedures, time and attendance, leave, and travel.

It is important that new grantees and any existing grantees that do not have personnel policies take the necessary steps to develop and implement them. Personnel policies protect the employer, the

employee, and the funding source by setting forth agreed upon policies and standards. Generally, Rural Development requires the personnel policies be in place before the self-help housing grant is made. Unwritten policies can lead to disorder, inconsistencies, dissension, and the potential for lawsuits.

Developing and approving personnel policies is usually the task of the Board of Directors. The role of the Board is to set organizational policy and goals while the staff carries out the day-to-day activities to achieve the goals. Developing personnel policies is not an overnight task. It takes time, thought, and much deliberation. Many samples are available from other self-help housing grantees, community action agencies, and other nonprofit organizations. A good starting point is the assembling of several samples to review the breadth of items covered and policy interpretations. A committee of the Board of Directors could review the samples along with appropriate staff and start drafting a copy tailored to the organization's needs and size.

Personnel policies evolve as the organization evolves. Changes, amendments, and additions will be necessary along the way. These amendments should be brought to the Board of Directors for approval.

The following is a listing of the types of items that should be included in personnel policies:

1. Organizational Authority

2. Hiring

Recruitment

Selection standards

General policy

Barriers to employment

3. Condition of Employment

Definition and status of employee

Probationary period

Employment contracts

Employee evaluation

Staff salary review

Supervision of staff

Unsatisfactory employee performance

Voluntary termination

Involuntary termination

Agency termination

4. Employment Standards of Conduct

Outside employment

Gifts, gratuities, or honorariums

Use of intoxicants or drugs

Care of documents

Use of property and equipment

Conduct on the job

5. Employee Grievance Procedures

6. Leave

Annual leave

Sick leave

Emergency leave

Leave without pay

Holidays

Maternity leave

Paternity leave

7. Fringe Benefits

8. Time and Attendance

Office hours and work hours

Timesheets and records

9. Travel

Local travel

Overnight travel

Authorization and trip reports

Reimbursements (mileage rate, lodging, and per diem)

10. Other Administrative Policies

Business telephone calls

Use of business calling card and credit card

Others as necessary

11. Organizational Chart

12. Determination of Non-exempt and Exempt Workers

Executive, administrative, and professional employees, outside sales, and employees in certain computer-related occupations are exempt from the provisions of the Fair Labor Standards Act. Because these exemptions are generally narrowly defined, employers should carefully check the exact terms and conditions for each by contacting local offices of the Wage and Hour Division listed in most telephone directories under U.S. Government, Department of Labor, Wage and Hour Division.

13. Overtime Pay for Non-Exempt Employees

The Fair Labor Standards Act (FLSA) establishes standards for minimum wages and overtime pay. These standards affect more than 100 million workers, both full-time and part-time private and public sectors. As a general rule, employers must pay time and one half the employee's regular rate for every hour over 40 worked by the employee in a workweek (29USC 207;29CFR'778.101).

Under the FLSA, overtime is computed on a weekly basis, not on a daily basis. Some states require overtime under their state wage-hour laws for hours worked over eight in a day. A few other states require overtime for some other specified period per day. However, outside of these states, an employer may schedule as many hours per day as necessary without paying overtime, as long as the total for the workweek does not exceed 40 hours. Overtime is accrued on a weekly basis even if an employee is paid on a biweekly or monthly basis.

The fundamental principle of overtime enforcement is that each workweek stands alone. The only exceptions involve, police, firefighters, other public safety personnel, and hospital/nursing home employees. A workweek is defined as seven consecutive 24 hour days. It need not be a calendar week. An employer may designate any workweek it desires. An employee's workweek may be changed, with advance notice to the employee, but only if the change is intended to be permanent. Workweeks may vary for employees in different locations, departments, or shifts.

An employer who has misclassified a non-exempt employee as exempt and pays the employee a salary can face substantial liability for unpaid overtime. Many employers don't maintain time sheets for salaried employees. In the event that a court finds one of your salaried employees should have been paid overtime, and in the absence of reliable time sheets, courts will generally accept the employee's testimony as to the hours he or she actually worked. That

could mean a penalty of several thousands dollars or worse, depending on the circumstances and the number of individuals involved.

The classification for most jobs is usually clear, but when you have a question on exempt versus nonexempt status, it pays to talk to an attorney before an attorney wants to talk to you.

4. Personnel Records

Personnel records and files can fall into disarray in an organization. These are typically not files that have to be maintained on a daily basis, and often they are forgotten. However, these records are of utmost importance to the organization and must be maintained in an orderly and complete manner. For instance, these records provide a vital link for an auditor to determine when a person was hired or when a raise was given. These files represent an employment history for each staff member, mapping out their journey with the organization.

Each staff member should have a personnel file that will contain pertinent information and documentation. All of the personnel files should be located in the same cabinet, which should be kept locked because the information therein is confidential. One primary staff person should be designated to have access to the personnel records.

The following is a list of the items that should be maintained in each staff member's personnel file:

1. Job application
2. Resume
3. Job description
4. Hiring letter or documentation
5. Employment contracts and amendments
6. Salary increase notification
7. Tax information including W-4(s)
8. Employment date/termination date
9. Performance evaluations
10. Emergency contact and doctor information
11. Personnel related memos or correspondence
12. Voluntary payroll withholding forms
13. Awards and citations
14. Medical insurance selection form

15. Copy of I-9

It is important to maintain these files on an up-to-date basis so that you do not get caught having to reconstruct information. For example, when an employee is promoted into a new position, the following items should be updated: new job description, new employment contract, new salary information, revised tax information, updated resume and employment application (if appropriate), and promotion letter.

If employees have contracts ending at different times because the organization has a variety of funding sources, it may be helpful for the Executive Director and chief fiscal staff to maintain a calendar list of when contracts or probationary periods end. Evaluations and contract renewals can then be planned for, rather than rushed or forgotten.

Please review your personnel records to assure that they are current and complete.

Budgets

All economic units – whether individuals, non-profit organizations, or governments – engage in financial planning and to a large extent, carry on these economic activities within a budgetary framework. Budgets may be voluminous formal documents or they may simply be the mental notes of an individual. Regardless of what they look like, budgets are essential tools of successful financial management and an integral part of the process of financial planning. After the organization's goals and objectives have been clearly defined, there remain four steps that are necessary to define the budgeting process fully:

1. Preparing the budget to be used as an operating plan for the relevant period
2. Comparing actual results with the budget forecast at regular intervals
3. Analyzing the variances of actual from budgeted performance
4. Deciding on what, if any, corrective action needs to be taken to eliminate the cause of the variance

The importance of planning into the future cannot be over-emphasized.

The grant agreement states that any uses of funds not provided for in the approved budget must be approved in writing by Rural Development in advance of the spending. When necessary, a request should be submitted to the Rural Development Manager for authority to move funds from a budget category that has excess funds to a category that will need additional funds. See Appendix 19 for a worksheet to use in preparing your 523 TA grant budget.

Grant Requirements

1. Extension or Revision of Grant Agreement

The State Director may authorize the Rural Development Manager to execute an amendment to the grant agreement for a time extension, modification of goals or an adjustment to the amount of the grant, whether it be an increase or decrease. Make sure that you receive a copy of that executed amendment from the Rural Development Manager. Grantees needing a revision to their grant agreement should submit complete justification to their Rural Development Manager, including a revised budget if requesting an increase or decrease in the amount of the grant. Additional guidance is provided in USDA RD Instruction 1944-I Section 1944.420.

2. Grantee Self-Evaluation

USDA RD Instruction 1944-I Section 1944.427 requires that annually, or more often, the Board of Directors will evaluate their own self-help program. Exhibit E in 1944-I is provided for that purpose (See Appendix 26.) It is also recommended that they review their personnel policies, any audits that have been conducted, and other reports to determine if they need to make adjustments in order to prevent fraud and abuse, and meet the goals of the current grant agreement.

The Board of Directors, not the self-help program staff, should carry out the evaluation. We recommend that the Board designate one or two board members to perform the evaluation. The completed evaluations should be presented to the Board and formally accepted by it. It is highly desirable that a summary be presented to staff and families, with opportunities for discussions and suggestions.

3. Grant Closeout

There are a number of tasks that your organization must complete at the end of your 523 TA grant as described in USDA RD Instruction 1944-I Section 1944.426. These include closing out all invoices and contracts with subcontractors. You must also submit a Financial Status Report SF-269A (See Appendix 3) and refund all grant funds that will not be needed for closeout within 90 days of the completion date of the grant. (See Appendix 24 for 523 TA Grant Closeout Procedures checklist.)

USDA RD will also conduct a final grantee evaluation prior to the last month of the 523 TA grant period. The report should conclude whether or not the organization is eligible for grant renewal.

This requirement is described in USDA RD Instruction 1944-I Section 1944.419 entitled “Final Grantee Evaluation” (See Appendix 24 for more information on this evaluation).

Closing Summary

All Self-Help housing grantees must establish financial management systems and policies in order to accurately account for their 523 TA grant funds. The systems and policies established must conform to generally accepted accounting principles (GAAP) and meet Rural Development’s requirements and those set forth by the Office of Management and Budget (OMB).

The procedures, guides, and checklists offered in this financial management guide are recommended as minimum standards of control. While conditions may vary among grantees, each can adapt the principles outlined in this guide to establish, supplement or review their own accounting system to insure that all aspects of their self-help housing operation are based upon sound fiscal practices.

Ultimately, the self-help grantee, participating families and Rural Development will benefit from established financial controls that prevent potential fraud, error and abuse and provide a framework for regular analysis of monies spent.

List of Appendices

- Appendix 1.** Sample Chart of Accounts
- Appendix 2.** Request for Advance or Reimbursement (SF 270)
- Appendix 3.** Financial Status Report (SF 269A)
- Appendix 4.** Sample Monthly Budget Comparison Report
- Appendix 5.** Budget Revision Worksheet
- Appendix 6.** Cash Receipts Log
- Appendix 7.** Purchase Order
- Appendix 8.** Request for Payment
- Appendix 9.** Local Mileage Reimbursement Form
- Appendix 10.** Travel Authorization Form
- Appendix 11.** Estimated Travel Expenses Form
- Appendix 12.** Request for Travel Reimbursement
- Appendix 13.** Trip Report Form
- Appendix 14.** Sample Time Sheet
- Appendix 15.** Tax Calendar
- Appendix 16.** Checklists for Internal Control
- Appendix 17.** Article on Internal Control
- Appendix 18.** Summary of OMB Circulars A-110, A-122, A-133, A-87 and A-102
- Appendix 19.** Budget Feasibility Workbook
- Appendix 20.** RD Instruction 1944-1 Sections 1944.405, 1944.406, and 1944.411
- Appendix 21.** Sample financial statements
- Appendix 22.** Sample audit request for proposal (RFP)
- Appendix 23.** List of U.S. Department of Labor (DOL) Regional Cost Negotiators
- Appendix 24.** 523 TA Grant Closeout Procedures checklist & Final Grantee Evaluation summary
- Appendix 25.** *What Happens to my 990?*
- Appendix 26.** RD Instruction 1944-I Exhibit E Guidance for Recipients of Self-Help Technical Assistance Grants

SAMPLE

CHART OF ACCOUNTS

<u>Assets (100 Series)</u>		<u>Income (400 Series)</u>	
101	Cash	401	Grant Income
102	Petty Cash	402	Contract Income
103	Accounts Receivable	403	Interest Income
104	Prepaid Expenses	404	Miscellaneous Income
105	Equipment and Furniture		
106	Other Assets		
<u>Liabilities (200 Series)</u>		<u>Expenses (500 Series)</u>	
201	Accounts Payable	501	Salaries
202	Federal Withholding Tax Payable	502	Fringe Benefits
203	State Withholding Tax Payable	503	Travel
204	City Withholding Tax Payable	504	Equipment
205	Loans Payable	505	Supplies
206	Other Payables	506	Contractual
		507	Other Costs
		508	Indirect Costs
<u>Net Assets (300 Series)</u>			
301	Unrestricted Net Assets		
302	Temporarily Restricted Net Assets		
303	Permanently Restricted Net Assets		

Federal Forms

To obtain a copy of OMB Standard Form 269A, go to the following website:

- OMB Standard Form 269A “Financial Status Report”:
<http://www.whitehouse.gov/omb/grants/sf269a.pdf>

Appendix 2

Federal Forms

To obtain a copy of OMB Standard Form 269A, go to the following website:

- OMB Standard Form 269A “Financial Status Report”:
<http://www.whitehouse.gov/omb/grants/sf269a.pdf>

Appendix 3

ACME HOUSING CORPORATION
BUDGET COMPARISON REPORT
 FOR THE PERIOD ENDING SEPTEMBER 30, 20XX

	CURRENT 9/30/XX	YEAR-TO-DATE 7/1/XX –9/30/XX	ANNUAL BUDGET	YTD % OF BUDGET	REMAINING BALANCE
REVENUE					
Unrestricted Revenue:					
Grant Revenue	\$5,000.00	\$6,000.00	\$25,000.00	24.0%	\$19,000.00
Contributions Released from Restriction	1,000.00	1,000.00	10,000.00	10.0%	9,000.00
Development Fees	5,000.00	8,000.00	25,000.00	32.0%	17,000.00
Management Income	4,000.00	12,000.00	48,000.00	25.0%	36,000.00
Total Unrestricted Revenue	\$15,000.00	\$27,000.00	\$108,000.00		\$81,000.00
Temporarily Restricted Revenue					

BUDGET REVISION WORKSHEET

	Original Approved Budget A.	Adjustment B.	Revised Budget (A. + B.) C.	Difference D.
REVENUE:				
Grants	\$100,000		\$100,000	\$0
Contributions				
Fee for Service				
Fundraising				
Total	\$100,000	\$0	\$100,000	\$0
EXPENSES:				
Salaries	\$50,000	\$5,000	\$55,000	(\$5,000)
Fringe Benefits	\$14,000	\$1,250	\$15,250	(\$1,250)
Rent	\$10,000	\$0	\$10,000	\$0
Supplies	\$5,000	(\$1,000)	\$4,000	\$1,000
Postage	\$6,000	(\$3,000)	\$3,000	\$3,000
Travel	\$4,000	(\$1,000)	\$3,000	\$1,000
Telephone	\$6,000	(\$1,000)	\$5,000	\$1,000
Printing	\$3,000	(\$250)	\$2,750	\$250
Training	\$2,000	\$0	\$2,000	\$0
Total	\$100,000	\$0	\$100,000	\$0
Excess (Deficiency)	\$0	\$0	\$0	\$0

Appendix 5

CASH RECEIPTS LOG

	DATE	SOURCE OF CHECK	AMOUNT	REMARKS
1			\$	
2			\$	
3			\$	
4			\$	
5			\$	
6			\$	
7			\$	
8			\$	
9			\$	
10			\$	
11			\$	
12			\$	
13			\$	
14			\$	
15			\$	
16			\$	
17			\$	
18			\$	
19			\$	
20			\$	
21			\$	
22			\$	
23			\$	
24			\$	
25			\$	
26			\$	
27			\$	
28			\$	
29			\$	
30			\$	
31			\$	
32			\$	
33			\$	
34			\$	
35			\$	

Prepared By: _____

Date: _____

Approved By: _____

Date: _____

Local Mileage Reimbursement Form*

Name: _____

Month/Year: _____

Date	Odometer Reading	Starting Point - Destination Purpose	# of Miles	Cost of Miles (@\$.365/mi)	Parking/Toll Cost	Total Cost	Charge To:	Trip Report Submitted? (Yes,No,N/A)
	BEGIN:							
	END:							
	BEGIN:							
	END:							
	END:							
	BEGIN:							
	END:							
	BEGIN:							
	END:							
TOTALS:								
TOTAL REIMBURSEMENT DUE:						\$		

REQUESTED BY: _____

DATE: _____

APPROVED BY: _____

DATE: _____

RECEIVED BY: _____

DATE: _____

MAILED BY: _____ or DELIVERED BY: _____

DATE: _____

FOR ACCOUNTING USE ONLY:		VOUCHER NO: _____		VENDOR NO: _____	
ACCOUNT NUMBER	AMOUNT	ACCOUNT NUMBER	AMOUNT	ACCOUNT NUMBER	AMOUNT
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

*To be used only for reimbursement of use of personal car for trips under 200 miles. Authorization for travel is not required for local trips but required for trips out of town. If per diem or other costs have been incurred, a

Financial Management Guide for Federally-Funded Organizations

Request for Travel Reimbursement must be used in place of this form.

Appendix 9

AUTHORIZATION FOR TRAVEL AND ADVANCE REQUEST FORM

Name of Traveler _____ Date _____

Funding Source _____

Destination _____

Purpose of Trip _____

Date & Time
of Departure _____

Date & Time
Return _____

A travel advance for this trip is necessary? Yes No

Date check is needed (after 12 p.m.): _____

- 1. Per Diem:
 Number of days _____
- 2. Mileage _____
- 3. Taxi (approximate amount) _____
- 4. Parking, tolls, etc. _____
- 5. Other (explain) _____
- Total Amount _____
- Amount Approved (80%) _____

I REQUEST AUTHORIZATION FOR THE PROPOSED TRAVEL OUTLINED ABOVE.

SIGNATURE OF TRAVELER _____

DATE: _____

APPROVED BY _____

DATE: _____

NOTE: SUBMIT YOUR REQUEST AS SOON AS AGENDA/ARRANGEMENTS ARE KNOWN.

Appendix 10

ESTIMATED TRAVEL EXPENSES

Name of Traveler _____ Date _____

Funding Source _____

Destination _____

Purpose of Trip _____

Date & Time
of Departure _____

Date & Time
Return _____

<u>DATE</u>	<u>EXPENSES</u>	<u>AMOUNT</u>	<u>HOW PAID</u>
	Per Diem Per Traveler		
	1) _____		
	2) _____		
	3) _____		
	4) _____		
	Air Fare		
	_____ Travelers x \$ _____		
	Rental Car		
	Hotel		
	Limo/Mileage		
	Registration Fees		
	Parking		
	Other		
	TOTAL		

PREPARED BY _____ DATE _____

APPROVED BY

DATE

Appendix 11

Request for Travel Reimbursement

Requested:		Signature:		Date:							
P. O. #:	Date:	Authorization: Yes: <input type="checkbox"/> No: <input type="checkbox"/>		Trip Report: Yes: <input type="checkbox"/> No: <input type="checkbox"/>							
Departure Date:		Time:		Return Date:							
Time:		Time:									
Destination(s) (city, county and state)			# of Days	Per Diem Hotel	Per Diem Meals	Tot. Per Diem					
1.						\$0.00					
2.						\$0.00					
3.						\$0.00					
Transportation	Gas	Parking & Tolls	Beginning OD	Ending OD	Miles	Sub. Tot. Miles	Taxi/Bus				
					0	\$0.00					
Total Transportation							\$0.00				
Airfare	Ticket #		Amount	Prepaid							
#1				<input type="checkbox"/>							
#2				<input type="checkbox"/>							
#3				<input type="checkbox"/>							
Total Airfare							\$0.00				
Car Rental	Rental Agreement #		Total Amount	Days	Prepaid	Ins. Accru.	Ins. Amt.	Sub. Tot.			
#1					<input type="checkbox"/>	\$0.00	\$0.00	\$0.00			
#2					<input type="checkbox"/>	\$0.00	\$0.00	\$0.00			
#3					<input type="checkbox"/>	\$0.00	\$0.00	\$0.00			
Total Car Rental									\$0.00		
Hotel	Days	Amount per day	Tax per day	Sub. Tot.	RCAC Prepaid	P.D. Days	P.D. Meals	Adjust.	Sub. Tot.	Hotel&Meals	
#1				\$0.00	<input type="checkbox"/>	0.00	\$0.00		\$0.00	\$0.00	
#2				\$0.00	<input type="checkbox"/>	0.00	\$0.00		\$0.00	\$0.00	
#3				\$0.00	<input type="checkbox"/>	0.00	\$0.00		\$0.00	\$0.00	
Tot. Per Diem				\$0.00		0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Other Costs	Description	Amount	Description	Amount	Description	Amount					
Phone Calls											
Total Other Costs											\$0.00
Total Expense		\$0.00	Airfare Advance		Other		Net Reimbursement Due				\$0.00
Comments and Explanations:											
FOR ACCOUNTING USE			Rec. by:			Date:		Mail by:			Date:
Voucher No.					Vendor No.						
Account Number		Amount	Account Number		Amount	Account Number		Amount			

Appendix 12

TRIP REPORT FORM

Name of Traveler _____ Date _____

Funding Source _____

Destination _____

Lodging Arrangements _____

Method of Travel _____

Purpose of Trip _____

Date & Time
of Departure _____

Date & Time
Return _____

Narrative of Activities, Accomplishments, and Required Follow-Up:

Use 2nd page if more space is needed and attach appropriate agendas.

Submitted by _____ Date ____/____/____

Approved by _____ Date ____/____/____

Appendix 13

**ACME HOUSING, INC.
Sample Timesheet**

Employee: _____

Month and year: _____

Program	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
Program	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31

TOTAL PAYABLE HOURS _____

Allocation of Costs table		
CODE	% of time	\$ Charged

Program Code	Program Name
100	Unrestricted
105	Indirect
200	Head Start
560	523 TA Grant #1
570	523 TA Grant #1
580	Weatherization
590	HOME Admir
600	Bank of America Grant

Deductions	
Social Security	\$ _____
Medicare	\$ _____
Federal withholding	\$ _____
State withholding	\$ _____
Total Deductions	\$ _____
GROSS WAGES	\$ _____
LESS TOTAL DEDUCTIONS	\$ _____
NET PAY	\$ _____

Date of check: _____
Check #: _____
Amount of check: _____

Employee's signature _____
Supervisor's signature _____

TAX CALENDAR

If any date shown falls on a Saturday, Sunday, or legal holiday use the next regular workday.

BY JANUARY 31 or WHEN EMPLOYMENT ENDS:

Give each employee a completed **Form W-2, Wage and Tax Statement**.

BY JANUARY 31:

Federal Unemployment Tax (FUTA) – File **Form 940 Employer’s Annual Federal Unemployment (FUTA) Tax Return** if you are required to file FUTA. If you deposited all the tax when due, you have 10 more days to file the return.

BY FEBRUARY 15:

Ask for a new **Form W-4, Employee’s Withholding Allowance Certificate**, from each employee who claimed total exemption from withholding during the prior year.

BY FEBRUARY 28:

Income Tax Withholding – File **Form W-3, Transmittal of Income and Tax Statements**, with the Social Security Administration and include Copy A of all **Forms W-2** you gave employees or recipients for the year before.

BY APRIL 30, JULY 31, OCTOBER 31, AND JANUARY 31:

File **Form 941, Employer’s Quarterly Federal Tax Return**, or **Form 941E, Quarterly Return on Withheld Federal Income Tax**, and pay any undeposited income and Social Security Taxes. If you deposited all the taxes when due, you have 10 more days to file the return. Also, deposit Federal unemployment tax due if it is more than \$100.

BEFORE DECEMBER 1:

Income Tax Withholding – Ask for a new form W-4 from each employee whose withholding allowances will change for the next year.

BY 15TH DAY OF FIFTH MONTH FOLLOWING CLOSE OF ACCOUNTING PERIOD (Fiscal Year):

File **Form 990, Return of Organization Exempt From Income Tax**.

CHECKLISTS FOR INTERNAL CONTROL

The following checklists for internal control are provided as a suggested guide for Boards and Executive Directors in assessing the adequacy of the organization's business management capabilities. The checklists are not all-inclusive, but can serve as a source for on-going evaluation, as necessary. Some of these checklist items obviously cannot apply to very small organizations. The types of problems continually cited in audit and inspection reports indicate that greater attention should be given to the business management competence of recipient organizations. Proper internal control procedures will provide greater assurance that grant awards will be adequately managed.

A. PERSONNEL MANAGEMENT

- Does the position classification system:
 1. Differentiate between levels of responsibility and complexity of work?
 2. Require position descriptions and job titles?
 3. Identify position requirements?
 4. Call for periodically reviewing and updating position descriptions?
 5. Divide duties among employees responsible for the procurement, approval, verification (pre-audit) and disbursement functions of expenditure transactions?
- Does the recruitment and selection system:
 1. Establish controls to ensure consistency with the budget plan?
 2. Establish procedures for applicant interviews, reference checks and final selection by an appropriate official?
 3. Evaluate the effectiveness of the compliance with Title VI of the Civil Rights Act of 1964, as amended?
- Is the compensation determination based on analysis of:
 1. Job Requirements?
 2. Comparability with similar work in the local labor market?
 3. Periodic review of pay scales?

4. Fringe benefits comparable to other similar organizations

Appendix 16

- Does the file and records system include all official documents related to the employment of each staff member and other persons participating in grant supported activities? (Such records should be maintained in an orderly file system, which is capable of providing necessary information to accountants and auditors, as well as employees. Among the documents, which would be included in these, are actions related to hiring, wages and deductions, promotions, commendations, and adverse actions.)

B. PAYROLL

- Is the payroll checked at regular intervals against the personnel records?
- Are clerical operations involved in the preparation of payroll checks double-checked before checks are distributed?
- Are the functions involved in the preparation of payroll distributed among a number of employees, i.e. two signatories on requests for payments and checks?
- Is a separate payroll bank account is maintained, is it reconciled by an employee independent of all other payroll preparation functions?
- Does the procedure followed in reconciling the payroll bank account include the checking of names on payroll checks?
- Are payroll checks distributed by someone other than person who prepares payrolls?
- Are payroll checks always prepared after receipt of approved time and attendance reports and based on those reports?

C. ACCOUNTING

- Is the accounting routine set out in an accounting manual?
- For small recipients, is the financial system designed, at the minimum, so that no one person has access to all financial operations, procedures, and records?
- Are sources and application of federal and non-federal funds identified in the accounting system?
 5. Authorizations?
 6. Funds received?
 7. Assets?
 8. Grant-related income?

- Are individual cost elements in chart-of-accounts reconciled to the cost categories in the approved budget?
- Does the accounting system identify and segregate unallowable costs?
- Are accounting records supported by source documentation?
- Are separate program activities or program accounts documented in the accounting system?
- Are transactions recorded and posted in the accounting books and records as frequently as possible, but at least every thirty days?
- Is the accounting function completely separated from procurement (purchasing) and receiving?
- Are general journal entries approved by a responsible employee?

D. BUDGET

- Are there procedures to determine the allow ability, allocability, and reasonable of costs? Are the procedures verified and/or approved by a responsible official?
- If costs have been transferred within the approved budget, are the transfers supported by justification or documentation?
- Was prior approval obtained on cost requiring same?
- Were any obligations for the current budget period incurred prior to the effective date?
- Are budgeted costs compared with actual cost on a regular basis?
- Is action taken when the comparisons disclose problems?
- Are budgetary controls in place to preclude incurring obligations in excess of total funds available for (1) grant and (2) budget category?

E. CASH MANAGEMENT

- Are advances of grant funds in excess of amounts needed?

- Are separate or special purpose bank accounts controlled? (Special accounts may be used as needed but should be under same control as the regular accounts.)
- Are all cash receipts immediately recorded in a cash receipts log?
- Are cash receipt books properly controlled and safeguarded?
- Are validated duplicate deposit slips obtained for each deposit?
- For small recipients, are certain functions such as receipt of bank statements, preparation of bank reconciliations, etc., carried out by independent bookkeepers or others for internal control purposes?
- Are bank statements received directly, unopened by the person who prepares the bank reconciliation?
- Are bank statements reconciled at least monthly?
- Are paid checks examined for date, name, cancellation, and endorsements at the time the reconciliation is prepared?
- Does supporting data accompany checks when they are submitted for signature?

Appendix 16

- Are vouchers or supporting documents stamped "Paid" and is the date paid, check number, expense classification shown?
- Are invoices or vouchers approved in advance by the responsible official?
- Is the sequence of check numbers accounted for when bank account is reconciled?
- Are voided checks properly mutilated and retained for subsequent examination?
- Are blank checks properly controlled?
- Is the practice of drawing checks payable to "cash," "petty cash," "bearer," etc. prohibited?
- Are authorized signatures on checks limited to persons who do not have direct access to accounting records or to petty cash?
- Is the issuance of checks on only verbal authority prohibited?
- Is the signing of blank checks prohibited?
- Is responsibility for any petty cash funds vested in only one person?
- Are signed vouchers prepared for all petty cash disbursements?

- Are the amounts of petty cash funds limited so that reimbursement is required at relatively short intervals (not over two weeks)?
- Is petty cash kept locked at all times when not in use?
- Are employee loans prohibited, other than those through an established credit fund?
- Are employee travel advances accounted for promptly?

F. PROCUREMENT (PURCHASING)

- Are the organization's purchasing practices in writing?
- Is the responsibility for procurement assigned to one individual?
- Are pre-numbered purchase orders used?
- Are invoices checked in the accounting office against purchase orders and receiving reports?
- Is there definite evidence of responsibility for verifying invoices as to prices, extensions, additions, freight charges, discounts, etc.?
- Is the budget account coding double-checked prior to disbursement?
- Are vouchers examined to ascertain completeness of attachments and required approvals?
- Are voided purchase orders mutilated and retained for future examination?
- When competitive quotations are required in accordance with procurement policy, are they properly obtained?
- Are expenditure transaction files maintained in such a manner that documents supporting any transaction can be easily located?
- Are goods and services received prior to payment?
- Are small and/or minority businesses used as sources of supplies and services?
- Have sole source procurements been approved?
- Have a price or cost analysis been performed on procurements?
- Has a lease vs. purchase analysis been made before procuring equipment?

G. PROPERTY MANAGEMENT

- Are the organization's property policies in writing?
- Are the proper classifications made between equipment and supplies and reconciled to the budget?
- If equipment is on loan or shared with other organizations, are costs allocated proportionally?

- Is a complete physical inventory of non-expendable property taken periodically?
- Are the results reconciled with the property records?
- Is non-expendable property properly tagged?

Internal Control

One way to ensure that you stay in business

By: David Ebenezer, RCAC Accountant

It's certainly not common for a bookkeeper to be hauled off to jail, but don't think it never happens. Nonprofit agencies, large and small, are occasionally the victims of incompetent or illegal handling of money or other assets. And the board of directors can and has been found liable for the loss of government funds. A system of internal controls is your best insurance against fraud, theft and simple mismanagement. If you don't have internal controls, or if yours aren't sufficient for the job, this article by RCAC's David Ebenezer will help you to set up your system.

Let's suppose that you suffer a massive heart attack while you are at work. You are airlifted to a hospital where you are denied treatment because you have no health insurance. Of course, your payroll check stubs show that health insurance payments were deducted from your salary each pay period. Further investigation into the situation reveals that the bookkeeper had been funneling your deductions, along with those of other employees, into a personal account.

Or, you are the bookkeeper of a small agency. The year-end corporate audit confirms what you had suspected all year long—the executive director and the construction supervisor have been channeling funds for personal use through a bogus family account.

Finally, assume for a moment that you are the treasurer of the board of directors of a nonprofit agency. The Internal Revenue Service is threatening to attach your wages for the tax delinquency of the agency. Although no one stole the money, the employee withholding taxes were never paid. These situations may seem novelistic; they are not. Each happened. Whether you are a supervisor, a subordinate or may be even just a colleague of the person committing the irresponsible act, there is a very real chance of your victimization as well. And, anything might happen to you as a result—from being questioned by an OIG auditor, to losing your job, to spending time behind bars. Your options are very limited once an illegal act has been committed. Fortunately, there is a whole range of control measures that could be taken to prevent such situations from occurring in your organization. What is common to each of these situations is that no one checked or monitored what was going on; in other words, investigation into the situation reveals that there was little or no control. This concept of control measures has been termed "internal control" by accounting professionals.

Internal control is the process of regulating the activities of an organization in such a way that precautionary measures are taken by management to monitor compliance of established corporate policies, to secure the reliability of financial records and to safeguard the assets. In the words of CPAs Malvern Gross ' Jr. and William Warshauer, Jr. from their book *Financial and Accounting Guide for Nonprofit Organizations*, "Internal control is a system of procedures and cross-checking which in the absence of collusion minimizes the likelihood of misappropriation of assets or misstatement of the accounts and maximizes the likelihood of detection if it occurs."

Purpose of internal control

In a very broad sense, internal control means checking up on activities to ensure they are going as planned. And when there are significant deviations, controls mean taking the necessary action to correct them. It is certainly admirable to trust employees, yet it is quite foolish to trust them so much as to not have any controls. Remember that people are often under financial pressures and as a result, even the most honest and loyal employee might be tempted to perform an act which would be unthinkable under ordinary conditions. But most people will think twice before doing something illegal if they know that there is a good possibility of being caught.

Internal controls do not provide a bonafide protection from embezzlement or any other kind of fraudulent act, but they do present a way to promptly discover such illegal deeds. They provide a system of checks and balances whereby unintentional or negligent errors due to human failure can also be detected early. In the nonprofit sector, we survive by means of public funds, and as such, need to be all the more careful since we have a moral responsibility to the general public. As if that weren't enough, we are all eligible for an audit by the US Auditor General's office.

Appendix 17

Types of Internal Control

Internal control can be broken down into two parts: "administrative controls" and "accounting controls." Each is a necessary part of any strong internal control system; they are not mutually exclusive.

Administrative controls are those that only have an indirect effect on the financial statements and the accounting processes. These are measures which usually apply to the operational efficiency and compliance with set policies and procedures for the entire organization. Administrative controls aim for operational efficiency and encourage adherence to prescribed policies. For example, one administrative control is to require employees to fill out time cards each week. Another could be training for staff development, such as the use of computers, or in other areas such as team work, communication, drug abuse awareness, etc.

Accounting controls: These controls have a direct impact on the financial statements and the accounting processes. These controls are the ones which:

- Safeguard the assets;
- Ensure reliable accounting information and records; and
- Enable the management of the organization to assure expenditures are properly authorized and made in accordance with the appropriate contractual or grant requirements.

Simply put, accounting controls are those relating to management's responsibility in maintaining the assets entrusted to the organization and for providing information on the financial condition of the organization.

As mentioned earlier, both types of controls are essential in any internal control system. Nevertheless, for the purposes of this article, we will limit our scope to accounting controls only.

What are Internal Accounting Controls?

To achieve the objectives of accounting controls, an accounting system needs certain components. They are:

Authorization procedures: This requirement assures that transactions occurring in the organization are authorized by a person who has *no personal interest* in the transaction. This feature should also ensure that the people who authorize are acting within the scope of their authority. For instance, the policies should authorize check signatories and maximum amounts for which they can sign or authorize.

Checks and balances: This aspect is a key ingredient in an accounting system. Checks and balances may involve supervision in some transactions and mere overlapping of duties on other occasions. For example, all the checks might be signed by two signatories. Another could be that the board of directors approves purchases costing over a specified amount or even the fact that the board of directors review and approve the financial reports periodically.

Separation of duties: In separating duties, the organization assigns responsibilities to different people so that no one person carries out a transaction from start to finish. When the various steps of any transaction are performed by a number of people, rather than by one person, it is considerably more difficult to commit a fraudulent act. To illustrate, if cash disbursements require only one signatory to sign checks, it is simple for sole signatories to write and sign checks themselves. On the other hand, when two signatories are required, this simple form of fraud is nearly eliminated (as long as the signatories *look at what they sign*). For smaller agencies, one or more board members can be used as signatories to get around the problems of separation of duties within a small staff. Some organizations use signature stamps. Such stamps warrant their own set of procedures to protect from misuse.

Documentation procedures: This feature requires "decisive evidence" to support the claim that a transaction took place. For example, when you submit a request for reimbursement, you are claiming that you incurred certain specific expenses. You must support these claims, usually by providing receipts. For travel, this might include hotel, car rental and gasoline receipts or charge slips. These receipts document and substantiate your claim.

Your organization must also document any agreements you reach with vendors and other organizations. A signed contract is the best evidence of any such agreement. This documents your expenses, and also helps settle any questions regarding performance under the contracts.

The importance of maintaining detailed records of financial transactions can never be over emphasized. The more documentation or back up material you have, the better off you are when the auditors you come knocking at your door.

You should develop a "pack rat" mentality to successfully satisfy this requirement. Without the necessary corroborating paperwork, accounting records (information) are useless.

Competent personnel: The success of an internal control system rests on the people involved and their ability to understand and perform their duties as assigned. As such, the staff needs to be adequately trained and systematically supervised. Unreasonable or high expectations can totally "demotivate" employees, ultimately resulting in noncompliance. Set up controls to challenge and stretch the employees toward higher performance (excellence). Yet they (the staff) should not feel that too much is being expected of them. Further, staff needs to understand the controls—why and how they should be applied. A system or procedure that is hard to comprehend or seems pointless can, in itself, cause unnecessary errors or cause employees to simply ignore the controls.

Access to assets: Your organization should emphasize that assets must be used with care. This requirement applies directly to the corporate files and other significant documents. As appropriate, lock up assets used intermittently by the entire staff. Assign a person to check them out and inspect them upon return. Use sign out lists to track use, return and condition. Check out items might include construction equipment, audiovisual equipment and corporate files.

Finally, tag equipment as agency property, assign each piece a unique inventory number and do an annual inventory noting condition.

Accounting records: These records involve prompt and accurate recording and reporting of all financial transactions. Proper and adequate record keeping establishes and preserves the integrity and credibility of the resulting account reports. Expenses incurred and income earned/received should be booked as and when they occur. Reconcile bank accounts promptly in order to correct any discrepancies that might be present between the bank records and the books in the office.

Set up safety measures in maintaining records. For instance, use prenumbered checks to pay bills and payroll expenses. Second, as discussed earlier, require adequate documentation before bills are paid. Third, use budgets (an itemized summary of projected expenses and income) to monitor spending habits and patterns in accordance with the appropriate income. The use of budgets can help keep an organization from overspending and enable it to plan future activity.

Fidelity insurance: No system of internal control can provide total protection against losses from dishonest employees. As a result, the agency should bond employees who handle cash receipts or have control over other assets. Such an insurance contract provides

reimbursement for losses resulting from fraud or embezzlement. This insurance coverage is not a substitute for internal control. However, it is a vital part of the internal control system in protecting your organization. For example, the employee who was denied medical treatment in our earlier illustration was eventually provided the appropriate medical care because the organization had fidelity insurance coverage for the bookkeeper.

Furthermore, it is a wise idea to insure your organization against fire or other catastrophic events. Under such critical situations, you need coverage to be able to meet payroll and other bills until the organization can stand on its own feet.

Off site back up information: This is simply a precautionary measure that should be taken to maintain duplicate copies of the organizational physical assets and indirectly to documents, most current and year to date fiscal data, and other significant files either in diskettes and/or on paper, some place away from the office. In the event of an emergency, these back up files will ensure that you have the basic information with which the current fiscal status can be recreated. Do not overlook or underestimate this measure—realistically plan for the continued existence of the organization even through disastrous circumstances. Back up information is vital in order to receive any compensation from the insurance company.

Independent annual corporate audit: The organization's books (accounting records) must be audited by external auditors at the end of each fiscal year. The internal control system will be examined as a part of this year end audit for compliance to set policies and procedures. One by product of this examination is a list of recommendations or suggestions provided by the auditors to improve the existing internal control system. The audit may also reveal certain fraudulent transactions which may not be very obvious to the executive director, the board of directors and the accounting staff.

Who's responsible?

For an internal control system to succeed, everyone's cooperation is needed. The bulk of the responsibility, however, falls upon management and the board. Management must be involved in design and implementation of the internal control system, management must oversee the system's operation, and management will bear the brunt of any system failure (along with the board). Management is also responsible for setting a good example in operating the internal control system. This includes not circumventing it for the sake of convenience. Should this

happen, the rest of the agency will soon pick up the same attitude, and the system will suffer.

Each board member has a fiduciary responsibility to manage and direct the agency. As fiduciaries, they act on behalf of the general public and the government (the funder). They must exercise "reasonable" judgment in making decisions. To fulfill their responsibilities, at the very least board members must:

- Review reports carefully and clarify any questions with the management;
- Attend all board meetings and actively participate in all discussions and decisions; and
- Avoid making any decisions based upon personal interest and motive.

Board members are the comprehensive overseers of the agency. They delegate the responsibility of day-to-day operations and decision making to the executive director, but retain responsibility for those decisions.

The entire system of internal control must be documented in a reference manual. This manual should include a clear definition of responsibility for each employee and all accounting procedures; in short, it should explain and instruct when and how the accounting procedures should be performed and also who would do it. Make this "accounting procedures handbook" available to all who participate in the accounting functions. Update it as and when new procedures are introduced or old procedures are modified. Such a handbook would add instant credibility to an organization and it will also show your funding sources that you are serious about doing business with them.

Suggest corrective action: An ideal internal control system not only indicates deviations, but also suggests corrective actions to take to rectify the variant situation. In other words, it should not only point out the problem but the solution as well. This can be done by establishing "If...then...else..." guidelines in the accounting procedures handbook. A simple example for this measure is the requirement for the staff to submit original receipts along with their request for reimbursement. Let's suppose an em-

ployee loses a cab receipt. The procedures handbook might say, "Request for reimbursements are to be substantiated with original receipts in order to be reimbursed, but in case a staff member loses a receipt, he/she can turn in a written statement in lieu of the receipt."

An internal control system is, in many ways, like a burglar alarm system in a home. It is meant to detect and deter "intruders," but people can and do get around the system. The internal control system is nothing more than a preventive mechanism. It can alert others if there has been a willful defalcation, a negligent mistake, a careless error, or any instance which is somewhere in between.

For success, the organization needs a systematic and structured management of its assets—people, funds and equipment. This is simply not possible without internal controls. Taken from a different perspective, for a public agency to not have internal controls is effectively mismanagement of funds—government funds. The risks should be obvious.

Getting started

Your first step to establishing an internal control system might be to request your corporate accountant or auditor to recommend policies to adopt for your internal control system. If you already have policies in place, get them reviewed for changes and additions.

If you do not currently have an auditor, get one. Any agency receiving government funds needs to be audited yearly. You should use a request for proposals and get bids before choosing your auditor. Look for a firm with government and/or nonprofit agency experience, as there are considerable differences in performing such an audit.

Contact other, similar agencies and find out what internal controls they use. Consider adopting ones that seem appropriate to your situation.

A good book to begin with is *Financial and Accounting Guide for Nonprofit Organizations*, by Malvern Gross Jr. and William Warshauer Jr. This has good information on internal controls.

Begin today!

Twelve Key Components of an Effective Fiscal System

1. Internal controls—checks and balances and separation of duties. The objectives of internal controls systems are to provide management with reasonable assurance that:
 - Assets are safeguarded against loss from unauthorized use or disposition.
 - Expenditures of federal funds are consistent with laws, regulations and policies. Resources supplied by funding agencies are safeguarded against waste, loss or misuse.
 - Transactions are executed in accordance with management's authorization.
 - Reliable and complete information on the use of funds is maintained and fairly reported to the various funding sources.
2. Prepare an overall budget as well as program-specific budgets. Use these budgets to monitor the financial position of the agency as a whole in addition to the specific programs.
3. Ensure that the internal controls system developed and implemented by the agency track all transactions, from the source documentation to the actual final cash disbursement or receipt of cash.
4. The two key words in accounting are reasonable and consistent. Make certain that all financial transactions are reasonable and are treated in a consistent manner, particularly for those items that involve more than one funding source.
5. Use a chart of accounts that complies with the fund accounting requirements of the funding sources. Managers should be aware of the specific funding restrictions required by each funding source.
6. Financial systems should be modified, changed and revised periodically to accommodate growth, new developments and changing requirements.
7. The board and key staff members should be actively involved in developing the budget and monitoring the agency's financial position.
8. Be familiar with the key Office of Management and Budget (OMB) circulars, including OMB A-110, A-122 and the newly issued OMB A-133.
9. All financial systems require attention to detail.
10. Develop an understanding of the key financial statements, particularly the balance sheet and the revenue/expense, or income, statement. Be familiar enough that you can critically evaluate the financial position of the agency.
11. There are a number of methods, techniques and systems that can be applied by an agency when developing its accounting system; there is no single correct combination. Develop the system which best meets your needs.
12. Be careful to select an auditor who is familiar with nonprofit accounting. Ask other agencies for referrals or suggestions.

—Paul Alhgeiz

Appendix 17

OMB CIRCULARS

<i>No.</i>	<i>Title</i>	<i>Latest Revision</i>
	System of Circulars and Bulletins to Executive Departments and Establishments	8/7/52
A-11	Preparation and Submission of Budget Estimates	11/10/99
A-16	Coordination of Surveying, Mapping & Related Spatial Data Activities	10/19/90
A-19	Legislative Coordination & Clearance	9/20/79
A-21	Cost Principles for Educational Institutions	10/27/98
A-25	User Charges	7/8/93
A-34	Instructions on Budget Execution	10/19/99
A-45	Rental and Construction of Government Quarters	10/20/93
A-50	Audit Follow-up	9/29/82
A-76	Performance of Commercial Activities	6/14/99
A-87	Cost Principles for State, Local and Indian Tribal Governments	8/29/97
A-89	Catalog of Federal Domestic Assistance	8/17/84
A-94	Discount Rates to be Used in Evaluating Time-Distributed Costs and Benefits	10/29/92
A-97	Specialized or Technical Services for State and Local Governments	3/27/81
A-102	Grants and Cooperative Agreements with State and Local Governments	8/29/97
A-109	Major System Acquisitions	4/5/76
A-110	Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations	9/30/99
A-119	Federal Participation in the Development and Use of Voluntary Standards	2/10/98
A-122	Cost Principles for Non-Profit Organizations	6/1/98
A-123	Management Accountability and Control	6/21/95
A-125	Rescinded and replaced by Prompt Payment regulations at 5 CFR Part 1315	
A-126	Improving the Management and Use of Government Aircraft	5/22/92
A-127	Financial Management Systems	7/23/93
A-129	Managing Federal Credit Programs	1/11/93
A-130	Management of Federal Information Resources	2/8/96

A-131	Value Engineering	5/21/93
A-133	Audits of States, Local Governments, and Non-Profit Organizations Appendix A: Data Collection Form (SF-SAC) Appendix B: March 2000 Compliance Supplement	6/24/97
A-134	Financial Accounting Principles and Standards	5/20/93
A-135	Management of Federal Advisory Committees	10/05/94

Appendix 18

OMB CIRCULAR A-110

- Subject:** “Uniform Administrative Requirements for Grants & Agreements with Institutions of Higher Education, Hospitals & Other Nonprofit Organizations”
- Purpose:** **Circular A-110** establishes consistency and uniformity among federal agencies in the administration of federal grants and agreements.
- Applicable to:** The provisions of **Circular A-110** are to be applied by federal agencies to *institutions of higher education, hospitals and other nonprofit organizations* that are recipients of federal awards. The provisions also apply to sub-recipients performing substantive work under grants and agreements that are passed through or awarded by the primary recipient. In addition, this circular applies to *sub-awards* of federal funds made by state & local governments to organizations covered by the circular.
- Content:** **Circular A-110** is divided into five sections:
- Subpart A** describes the general purpose of **Circular A-110** and defines terms to be used in the other sections.
- Subpart B - Pre-Award Requirements** outlines public notice requirements as well as the forms (SF-424 series) and instructions to be used in applying for federal awards.
- Subpart C - Post-Award Requirements** is the largest section of this circular. The following are the major areas outlined in this section:
1. Financial and program management requirements including:
 - The ability to track the source and application of federal funds;
 - The need for control over property, funds & other assets;
 - The ability to produce budget-to-actual comparisons;
 - The existence of written cost allocation procedures;
 - The need for documentation to support accounting records;

- The need for fidelity bond coverage;
 - Bank account requirements;
 - Forms to use to request advances/reimbursement (SF-270);
 - Program income requirements;
 - Budget revision guidelines and incurring of pre-award costs;
 - Audit requirements (**Circular A-133**);
 - Allowable cost principles (**Circulars A-87, A-122, or A-21**)
 - Period of availability of funds in which authorized pre-award costs are discussed
2. Property standards that set uniform requirements for the management and disposition of property furnished by the federal government whose cost was charged to a project supported by a federal award. Requirements described include insurance coverage and inventory records. These records must be accurately maintained and should include a description of the equipment, serial number, the source of the funds used to purchase the equipment, the acquisition date, location, unit cost and any disposition information. A physical inventory must be taken every two years.
 3. Procurement standards for the procurement of supplies and other expendable property, equipment, real property and services paid for with federal funds. These standards include requirements for codes of conduct, written procurement procedures, and subcontract administration.
 4. Reports and records outlines the required procedures for monitoring and reporting the recipient's financial and program performance. Standard reporting forms (SF-269, SF-272) and record retention requirements are described here.
 5. Termination & enforcement includes uniform suspension, termination, and enforcement of compliance procedures if a recipient materially fails to comply with the terms and conditions of an award.

Subpart D - After-the-Award Requirements outlines the closeout procedures and other procedures for subsequent disallowances and adjustments. Closeout procedures include submitting reports within 90 calendar days after the date of completion of the award and refunding any balances of un-obligated cash.

Appendix 18

Appendix A consists of a list of provisions that must be included in *all* contracts awarded by a recipient:

- Equal Employment Opportunity
- Copeland Anti-Kickback Act
- Davis Bacon Act
- Contract Work Hours & Safety Standards Act
- Rights to Inventions Made Under a Contract or Agreement
- Clean Air Act
- Byrd Anti-Lobbying Amendment
- Debarment & Suspension

Date of last revision: August 29, 1997

OMB CIRCULAR A-122

Subject: “Cost Principles for Nonprofit Organizations”

Purpose: **Circular A-122** establishes principles for determining costs of grants, contracts and other agreements with *nonprofit organizations* so that the federal government bears its fair share of allowable costs.

(Similar principles are outlined in **Circular A-21** for colleges and universities and in **Circular A-87** for state, local and federally-recognized Indian tribal governments).

Applicable to: **These principles are to be used by all federal agencies to determine the cost of work performed by nonprofit organizations under a federal award (e.g. grants, cooperative agreements, cost reimbursement contracts). All cost reimbursement sub-awards are also subject to the appropriate federal cost principles (see Purpose).**

Content: **This circular is divided into three attachments:**

Attachment A – General Principles

A covers:

- Basic cost principles including:
 - total costs
 - allow-ability of costs
 - reasonable costs
 - allocable costs
 - applicable credits
- *Direct* and *indirect* costs definitions and various acceptable methods of allocating indirect costs.

Different types of indirect cost rates and the general process by which a nonprofit organization submits its indirect cost rate proposal.

Attachment B

Attachment B is a list of certain items of cost and the principles to be applied to determine if those costs can be charged to a federal award, whether or not the cost is treated as direct or indirect. The costs listed are:

1. Advertising/public relations
2. Alcoholic beverages
3. Bad debts
4. Bid & proposal costs
5. Bonding costs
6. Communication costs
7. Comp. for personal services
8. Contingency provisions
9. Contributions
10. Defense & prosecution
11. Depreciation & use
12. Donations
13. Employee morale costs
14. Entertainment costs
15. Equipment/capital expend.
16. Fines & penalties
17. Fringe benefits
18. Goods for personal use
19. Housing/living expenses
20. Idle facilities
21. Research & development
22. Insurance
23. Interest & fund raising costs
24. Labor relations costs
25. Lobbying
26. Losses on other awards
27. Maintenance & repair costs
28. Materials & supplies
29. Meetings & conferences
30. Dues/subscriptions
31. Organization costs
32. Overtime, extra-pay shift
33. Page charges in journals
34. Participant support costs
35. Patent costs
36. Pension plans
37. Plant security costs
38. Pre-award costs
39. Professional service costs
40. Disposition of assets
41. Publication/printing costs
42. Rearrangement/alteration
43. Re-conversion costs
44. Recruiting costs
45. Relocation costs
46. Rental costs
47. Royalties
48. Selling & marketing
49. Severance pay
50. Service facilities
51. Taxes
52. Termination costs
53. Training & education cost
54. Transportation costs
55. Travel costs
56. Trustees

Attachment C

Attachment C is a list of nonprofit organizations that are not subject to this circular. Because of their size and nature of operations, these nonprofits can be considered similar to commercial concerns and must operate under federal cost principles applicable to commercial concerns rather than nonprofit organizations.

Date of last revision: June 1, 1998

- Latest revisions:**
- Increase the capitalization threshold per unit cost from \$500 to the lesser amount used for financial statement purposes or \$5,000 (to bring it into conformity with **Circulars A-87 & A-110**);
 - Allow interest on debt incurred after September 29, 1995 if the debt is used to newly acquire or replace capital assets used in support of sponsored agreements (subject to specific conditions);
 - Clarify the treatment of the following cost items:
 - Alcoholic beverages
 - Advertising & public relations
 - Organization-furnished automobiles
 - Defense & prosecution of criminal & civil proceedings
 - Housing & living expenses
 - Insurance
 - Memberships
 - Selling or marketing of goods & services
 - Severance pay for foreign nationals

OMB CIRCULAR A-133

- Subject:** “Audits of States, Local Governments & Nonprofit Organizations”
- Purpose:** **Circular A-133** sets the standards for consistency and uniformity among federal agencies for the audit of non-federal entities (states, local governments, & nonprofit organizations) that expend federal awards.
- Applicable to:** **Audits of *state and local governments and nonprofit organizations* for fiscal years beginning after June 30, 1996.**
- Content:** Circular A-133 is divided into five subparts:
- Subpart A** consists primarily of definitions of terms including GAAP, internal control, major program, questioned cost, single audit and sub-recipient.
- Subpart B** describes audit requirements including expenditure thresholds, frequency of audits, audit costs and program-specific audits.
- Subpart C** outlines auditee (recipient of federal funds) responsibilities. These include maintaining internal controls, auditor selection, preparation of financial statements and schedules of federal awards, report submission, and follow-up of audit findings.
- Subpart D** describes the audit responsibilities of federal agencies and pass through entities for the federal awards they make.
- Subpart E**, the largest section of the circular, outlines the auditor’s responsibilities. The scope of the audit, which must include a review of *financial statements, internal controls, program compliance and audit findings follow-up*, is described. Other responsibilities of the auditor included in this section include audit reporting, audit findings, retention of audit working papers and the criteria for determining major programs, federal program risk and low-risk auditees.

Date of last revision: June 30, 1997

- Latest revisions:**
- Rescinds **Circular A-128** (“Audits of State & Local Governments”) and applies **Circular A-133** to state & local governments as well as to nonprofit organizations;
 - Increases the threshold for when an entity is required to have an A-133 audit from \$25,000 in federal awards received to \$300,000 in federal awards expended per year;
 - Shortens the due date for audit report submission from 13 months to nine months;
 - Streamlines filing requirements and adds a data collection form;
 - Introduces a risk-based approach for determining major programs to be audited rather than using only the amount of the federal award;
 - Provides guidance for program-specific audits.

OMB CIRCULAR A-87

Subject:	“Cost Principles for State, Local & Indian Tribal Governments”
Purpose:	Circular A-87 establishes principles for determining costs for Federal awards carried out through grants, cost reimbursement contracts and other agreements with State and local governments and federally-recognized Indian tribal governments . Similar principles are outlined in Circular A-21 for colleges and universities and in Circular A-122 for non-profit organizations.
Applicable to:	<p>These principles and standards were established to provide a uniform approach for determining costs and to promote effective program delivery, efficiency and better relationships between governmental units and the Federal government. These principles are for determining allowable costs only.</p> <p>For costs charged indirectly or otherwise covered by cost allocation plans, this Circular applies to cost allocation plans and indirect cost proposals submitted or prepared for a governmental unit’s fiscal year that begins on or after September 1, 1995.</p>
Content:	<p>This circular is divided into five attachments:</p> <p>1. Attachment A – General Principles for Determining Allowable Cost</p> <p>This attachment describes the purpose and application of this Circular and outlines basic guidelines that determine the allowability and allocability of certain costs including the concepts of total and reasonable costs. Direct and indirect costs are defined. Certification requirements for cost allocation plans and indirect cost rate proposals are also outlined.</p>

2. Attachment B - Selected Items of Cost

Attachment B is a list of certain items of cost and the principles to be applied to determine if those costs can be charged to a Federal award, whether or not the cost is treated as direct or indirect. The costs listed are:

- | | |
|--|---|
| 1. Accounting | 20. Fines & penalties |
| 2. Advertising and public relations costs | 21. Fundraising & Investment |
| 3. Advisory councils | 22. Disposition of property |
| 4. Alcoholic beverages | 23. General government expenses |
| 5. Audit services | 24. Idle facilities |
| 6. Automatic electronic data processing | 25. Insurance & indemnification |
| 7. Bad debts | 26. Interest |
| 8. Bonding costs | 27. Lobbying |
| 9. Budgeting | 28. Maintenance & repairs |
| 10. Communications | 29. Materials & supplies |
| 11. Compensation for personnel services | 30. Memberships & subscriptions |
| a. General | 31. Motor pools |
| b. Reasonableness | 32. Pre-award costs |
| c. Unallowable costs | 33. Professional service costs |
| d. Fringe Benefits | 34. Proposal costs |
| e. Pension plan costs | 35. Publication & printing costs |
| f. Post-retirement health benefits | 36. Rearrangements & alterations |
| g. Severance Pay | 37. Re-conversion costs |
| h. Support of salaries & wages | 38. Rental costs |
| i. Donated services | 39. Taxes |
| 12. Contingencies | 40. Training |
| 13. Contributions and donations | 41. Travel costs |
| 14. Defense & prosecution of criminal
& civil proceedings, and claims | 42. Under recovery of costs under
Federal agreements |
| 15. Depreciation & use allowances | |
| 16. Disbursing service | |
| 17. Employee morale, health & welfare costs | |
| 18. Entertainment | |
| 19. Equipment & other capital expenditures | |

	<p>3. Attachment C – State/Local-Wide Central Service Cost Allocation Plans</p> <p>Most governmental units provide certain services on a centralized basis. These services might include motor pools, computer centers, purchasing and accounting. A central service cost allocation plan provides a process by which these central service costs can be identified and assigned to benefited activities on a reasonable and consistent basis.</p> <p>This attachment includes definitions of relevant terms as well as submission and documentation requirements for this type of cost allocation plan. The process for negotiation and approval of central service plans is also described.</p>
	<p>4. Attachment D – Public Assistance Cost Allocation Plans</p> <p>Federally financed programs administered by State public assistance agencies are funded predominantly by the Department of Health and Human Services. HHS has published requirement for the development, documentation, submission, negotiation and approval of public assistance cost allocation plans. This attachment extends these requirements to all Federal agencies whose programs are administered by a State public assistance agency. This type of cost allocation plan is described in this attachment.</p>
	<p>5. Attachment E – State and Local Indirect Cost Rate Proposals</p> <p>This attachment defines different types of indirect cost allocation methods and the general process by which a governmental unit submits its indirect cost rate proposal. Other topics addressed in this attachment include fringe benefit rates, indirect cost allocations not using rates and the appeals process if a dispute arises in the negotiation of an indirect cost rate.</p>
<p>Date of last revision:</p>	<p>May 4, 1995</p>

OMB CIRCULAR A-102

Subject: “Grants & Cooperative Agreements with State & Local Governments”

Purpose: **Circular A-102** establishes consistency and uniformity among Federal agencies in the management of grants and cooperative agreements with **State, local and federally recognized Indian tribal governments**. This Circular is similar to Circular A-110 that establishes similar provisions for institutions of higher education, hospitals and other non-profit organizations what receive Federal awards.

Content: Circular A-102 is **divided into three sections:**

1. **Pre-Award Policies** includes the following subsections:

The use of grants, contracts and cooperative agreements

This subsection describes the difference between grants cooperative agreements and contracts. Grants or cooperative agreements are used when the principal purpose of a transaction is to accomplish a public purpose of support or stimulation authorized by Federal statute. Contracts are used when the principal purpose is acquisition of property or services for the direct benefit or use of the Federal Government.

Advance Public Notice and Priority Setting

This section describes how the public is notified of Federal funding priorities.

Standard Forms for Applying for Grants and Cooperative Agreements

The application process including appropriate forms is outlined in this section. Other topics discussed in the section include notification of grantees, treatment of carryover balances, the waiver of “single” State agency requirements, and the use of the metric system of measurement.

2. **Post-Award Policies** addresses the requirements for a grantee’s financial management system. Reporting requirements including the use of Federal Form SF-269, Financial Status Report is outlined. Procurement requirements and the treatment of program income are also described. The final subsection includes a discussion of the authorization of conditional exemptions from certain provisions of OMB Circular A-87, A-122 & A-110.

3. **After-the-grant Policies** described the closeout procedures for Federal grantees.

Appendix 19

PRELIMINARY BUDGET PREPARATION

The following guides are estimates and averages for preliminary parameters. If actual or estimates are already known for your area, they should be used. Many budget items will vary greatly for different parts of the country and also because some grantees will be able to obtain some non-federal funding and/or in-kind contributions for their self-help program.

Your pre-application budget and final application budget, while following the same format will require a more detailed analysis and therefore may require different amounts.

Preliminary Budget Guide:

Step 1

Estimate the number of employees (full- and part-time) needed to operate your program. Establish an estimate salary for each position for the proposed period of your grant based on salaries organizations in your area pay their employees for similar type positions.

Step 2

Other budget items can be estimated as follows:

Fringe Benefits	25%-30% of the Total Salary
Travel Expenses	5%-10% of the Total Salary
Equipment	2%- 5% of the Total Salary
Supplies	1%- 3% of the Total Salary
Contractual	3%- 5% of the Total Salary
Other Misc. Expenses	15%-20% of the Total Salary

PRELIMINARY BUDGET WORKSHEET

	1st Year	2nd Year
A. Personnel Salaries		
Executive/Project Director	_____	_____
Group Worker/Loan Packager	_____	_____
Secretary/Bookkeeper	_____	_____
Construction Supervisor	_____	_____

Note: Consider a cost of living and/or merit increase for your employees.

TOTAL Personnel \$_____ \$_____

B. Fringe Benefits		
Worker's Compensation	_____	_____
FICA	_____	_____
Health Insurance	_____	_____
Unemployment Insurance	_____	_____

TOTAL Fringe Benefits \$ _____ \$ _____

Appendix 19

	1st Year	2nd Year
C. Travel		
Local Travel Reimbursement	_____	_____
Out-of-Town Travel	_____	_____
Other	_____	_____

Note: Current government mileage
Rate is \$.36 per mile.

TOTAL Travel \$ _____ \$ _____

D. Equipment

Office Equipment		
Desks	_____	_____
Chairs	_____	_____
File Cabinets	_____	_____
Bookcases	_____	_____
Computers	_____	_____
Other Office Machines	_____	_____
Subtotal Equipment	\$ _____	\$ _____

Note: Purchase of office equipment is
permissible when the grantee
determines it to be more economical
than renting (1944-I, section 1944.405(b)).

Power or Specialty Tools		
Power Saws	_____	_____
Electric Drills	_____	_____
Saber Saws	_____	_____
Ladders	_____	_____
Scaffolds	_____	_____
Others	_____	_____
Subtotal Equipment	\$ _____	\$ _____

Note: The participating families
are expected to provide their
own hand tools, such as hammers
and handsaws (1944-I, section 1944.405(e)).

TOTAL Equipment \$ _____ \$ _____

E. Supplies		
Letterhead and Envelopes	_____	_____
Pens and Pencils	_____	_____
	1st Year	2nd Year
Other Office Supplies	_____	_____
TOTAL Supplies	\$ _____	\$ _____

F. Contractual		
Auditing and/or Accounting	_____	_____
Legal Services	_____	_____
Sponsor Services	_____	_____
Architectural/Engineering	_____	_____

Note: You can pay sponsors from grant funds only if the sponsor can provide services that will reduce the overall cost of assistance (1944-I, section 1944.405(h))

TOTAL Contractual	\$ _____	\$ _____
--------------------------	-----------------	-----------------

G. Other Costs		
Rent	_____	_____
Utilities:		
Gas	_____	_____
Electric	_____	_____
Water	_____	_____
Other	_____	_____
Telephone:		
Basic Services	_____	_____
Long Distance	_____	_____
Mobile Phones	_____	_____
Installation	_____	_____
Maintenance		
Janitorial Service	_____	_____
Repair Fund	_____	_____
Postage		
Postage	_____	_____
Annual Fee for Bulk Mail Permit	_____	_____
Bulk Mail Postage Estimate	_____	_____
Publications and Subscriptions		
Annual Subscription Fees	_____	_____
Books, Pamphlets, etc.	_____	_____
Printing, Copying, Advertising	_____	_____
Insurance		
Liability	_____	_____
Other	_____	_____

Training
Staff/Board Training _____
Appendix 19

1st Year **2nd Year**

Note: Training cost may include the costs of travel and per diem to attend in or out of state training (1944-I, section 1944.405(g))

TOTAL Other Costs \$ _____ \$ _____

H. Indirect Costs

TOTAL Indirect Costs \$ _____ \$ _____

TOTALS (PER YEAR) \$ _____ \$ _____

TOTAL (BOTH YEARS) \$ _____

Appendix 19

BUDGET ANALYSIS

Formula A

1. **Total Budget /Max. TA Cost/House = Max. # of Proposed Homes**

$$\underline{\hspace{2cm}} / \underline{\hspace{2cm}} = \underline{\hspace{2cm}}$$

2. **Max. TA Cost/House x # of Houses Proposed = Maximum TA Budget**

$$\underline{\hspace{2cm}} \times \underline{\hspace{2cm}} = \underline{\hspace{2cm}}$$

Formula B

1. **Total Budget / Max Ta Cost/House = Max. # of Proposed Houses**

$$\underline{\hspace{2cm}} / \underline{\hspace{2cm}} = \underline{\hspace{2cm}}$$

2. **Max. TA Cost/House x # of Houses Proposed = Maximum TA Budget**

$$\underline{\hspace{2cm}} \times \underline{\hspace{2cm}} = \underline{\hspace{2cm}}$$

How do these total maximums compare with your total preliminary budget and proposed number of homes? If not enough funds would be available under either of these formulas you must increase the number of homes to be built, decrease the amount of some budget items or determine that your program is not feasible.

Part 1944 - HOUSING

Subpart I - Self-Help Technical Assistance Grants

Table of Contents

<u>Sec.</u>	<u>Page</u>
1944.401 Objective.	1
1944.402 Grant purposes.	1
1944.403 Definitions.	2
(a) Agreement.	2
(b) Agreement period (or grant period).	2
(c) Date of completion.	2
(d) Direct costs.	2
(e) Disallowed costs.	2
(f) Equivalent units.	2
(g) Equivalent value of a modest house.	2
(h) Indirect costs.	2
(i) Mutual self-help.	3
(j) Organization.	3
(k) Participating family.	3
(l) Self-help.	3
(m) Sponsor.	3
(n) Technical assistance.	4
(o) Termination of a grant.	4
1944.404 Eligibility.	4
1944.405 Authorized use of grant funds.	5
1944.406 Prohibited use of grant funds.	7
1944.407 Limitations.	7
1944.408 [Reserved]	8
1944.409 Executive Order 12372.	8
1944.410 Processing pre-applications, applications, and completing grant docket.	8
(a) Form SF-424, "Application for Federal Assistance."	8
(b) Pre-application review.	10
(c) Form AD-622, "Notice of Pre-application Review Action."	11
(d) Self-help technical assistance grant predevelopment agreement.	12
(e) Form SF-424, "Application for Federal Assistance."	12
1944.411 Conditions for approving a grant.	13
1944.412 Docket preparation.	14

Appendix 20

RD Instruction 1944-I
Table of Contents (Con.)
Page 2

<u>Sec.</u>		<u>Page</u>
1944.413	Grant approval.	15
	(a) Approval of grant.	15
	(b) Cancellation of an approved grant.	15
	(c) Disapproval of grant.	16
1944.414	[Reserved]	16
1944.415	Grant approval and other approving authorities.	16
1944.416	Grant closing.	17
1944.417	Servicing actions after grant closing.	17
1944.418	[Reserved]	19
1944.419	Final grantee evaluation.	20
1944.420	Extension or revision of the grant agreement.	21
1944.421	Refunding of an existing grantee.	21
1944.422	Audit and other report requirements.	21
	(a) Nonprofit organizations and others.	22
	(b) State and local governments and Indian tribes.	22
1944.423	Loan packaging and 502 RH application submittal.	23
1944.424	Dwelling construction and standards.	23
1944.425	Handling and accounting for borrower loan funds.	24
1944.426	Grant closeout.	24
	(a) Grant purposes completed.	24
	(b) Grant purposes not completed.	25
	(c) Grant suspension.	25
	(d) Grant termination.	26
1944.427	Grantee self-evaluation.	26
1944.428	- 1944.449 [Reserved]	27
1944.450	OMB Control Number.	27
Exhibit A	Self-Help Technical Assistance Grant Agreement.	
Exhibit B	Evaluation Report of Self-Help Technical Assistance (TA) Grants.	
Exhibit B-1	Instructions for Preparation of Evaluation Report of Self-Help Technical Assistance Grants.	
Exhibit B-2	Breakdown of Construction Development for Determining Percentage Construction Completed.	
Exhibit B-3	Pre-Construction and Construction Phase Breakdown.	
Exhibit C	Amendment to Self-Help Technical Assistance Grant Agreement	
Exhibit D	Self-Help Technical Assistance Grant Predevelopment Agreement.	
Exhibit E	Guidance for Recipients of Self-Help Technical Assistance Grants.	
Exhibit F	Site Option Loan to Technical Assistance Grantees.	

Part 1944 - HOUSING

Section 1944.405 Authorized use of grant funds.

- (a) Payment of salaries of personnel as authorized in the Agreement.
- (b) Payment of necessary and reasonable office expenses such as office rental, office utilities, and office equipment rental. The purchase of office equipment is permissible when the grantee determines it to be more economical than renting. As a general rule, these types of expenses would be classified as indirect costs in multiple funded organizations.
- (c) Purchase of office supplies such as paper, pens, pencils, and trade magazines.
- (d) Payment of necessary employee benefit costs including but not limited to items such as Worker's Compensation, employer's share of social security, health benefits, and a reasonable tax deferred pension plan for permanent employees.
- (e) Purchase, lease, or maintenance of power or specialty tools such as a power saw, electric drill, saber saw, ladders, and scaffolds, which are needed by the participating families. The participating families, however, are expected to provide their own hand tools such as hammers and handsaws.
- (f) Payment of liability insurance and special purpose audit costs associated with self-help activities. These would be considered direct costs, even though the grantee's general liability insurance cost and the cost of audits for the organization are generally indirect costs.
- (g) Payment of reasonable fees for training of grantee personnel including board members. This may include the cost of travel and per diem to attend in or out-of-State training as authorized by the board of directors and, when necessary, for the employee to do the current job. These costs are generally direct costs.
- (h) Payment of services rendered by a sponsor or other organization after the grant is closed and when it is determined the sponsor can provide the necessary services which will result in an overall reduction in the cost of assistance. Typically, this will be limited to new grantees and an existing grantee for the period of time that its size or activity does not justify a full staff. A full staff is a full or part-time director, project worker, secretary-bookkeeper, and a construction supervisor. This type of cost is generally direct.
- (i) Payment of certain consulting and legal costs required in the administration of the grant if such service is not available without cost. This does not include legal expenses for claims against the Federal Government. (Legal costs that may be incurred by the organization for the benefit of the participating families may be paid with prior approval of the State Director).
- (j) Payments of the cost of an accountant to set up an accounting system and perform audits that may be required. Generally, these costs are indirect.
- (k) Payments of reasonable expenses of board members for attending regular or special board meetings. These costs are indirect.

Note: The grantee's approved line item budget will supersede 1944.405 if expenditures are not included in the budget.

Section 1944.406 Prohibited use of grant funds.

- (a) Hiring personnel specifically for the purpose of performing any of the construction work for participating families in the self-help projects.
- (b) Buying real estate or building materials or other property of any kind for participating families.
- (c) Paying any debts, expenses, or costs which should be the responsibility of the participating families in the self-help projects.
- (d) Paying for training of an employee as authorized by Attachment B of OMB Circular A-122.
- (e) Paying costs other than approved indirect (including salaries) that are not directly related to helping very low- and low-income families obtain housing consistent with the objectives of this program.

Section 1944.411 Conditions for approving a grant.

A grant may be approved for an eligible applicant when the conditions in the letter of conditions are met and the following conditions are present:

- (a) The applicant has or can hire, or contract directly or indirectly with, qualified people to carry out its responsibilities in administering the grant.
- (b) The applicant has met all of the conditions listed in §1944.410(e) of this subpart.**
- (c) The grantee furnishes a signed statement that it complies with the requirements of the Departmental Regulations found in 7 CFR Part 3015 and Part 3016.
- (d) A resolution has been adopted by the board of directors which authorizes the appropriate officer to execute Exhibit A of this subpart and Form RD 400-4, "Assurance Agreement." (Revised 04-24-91, PN 163.)
- (e) The grantee has fidelity bonding as covered in 7 CFR Part 3015 if a nonprofit organization or, if a State or local government, to the extent required in 7 CFR Part 3016.
- (f) The grantee has agreed by completing SF-424B, "Assurances-Non Construction Programs," that it will establish a recordkeeping system that is certifiable by a certified public accountant that it adequately meets the Agreement. (Revised 04-24-91, PN 163.)
- (g) The grantee has established an interest bearing checking account on which at least two bonded officials will sign all checks issued and understands that interest earned in excess of \$250.00 annually must be submitted to FmHA quarterly. (The use of minority depository institutions is encouraged.)
- (h) The grantee has developed an agreement to be executed by the grantee and the self-help participants which clearly sets forth what is expected of each and has incorporated Exhibit B-2 of this subpart which clearly shows what work is expected of the participating family.

Appendix 20

ACME HOUSING CORPORATION
STATEMENT OF FINANCIAL POSITION
June 30, 19XX and 19XY

ASSETS:	<u>19XX</u>	<u>19XY</u>
Cash & Cash equivalents	\$75	\$460
Accounts and interest receivable	2,130	1,670
Inventories and prepaid expenses	610	1,000
Developer fee receivable	3,025	2,700
Short-term investments	1,400	1,000
Projects under construction	5,210	4,560
Land, buildings and equipment	61,700	63,590
Long-term investments	<u>218,070</u>	<u>203,500</u>
Total Assets	<u>\$292,220</u>	<u>\$278,480</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$2,570	\$1,050
Current portion of long-term debt		650
Grants payable	875	1,300
Construction loans	1,685	1,140
Long term debt	<u>5,500</u>	<u>8,200</u>
Total Liabilities	<u>10,630</u>	<u>12,340</u>
 NET ASSETS:		
Unrestricted	115,198	103,670
Temporarily restricted	24,372	25,470
Permanently restricted	142,020	137,000
Total net assets	<u>281,590</u>	<u>266,140</u>
Total Liabilities and Net Assets	<u>\$292,220</u>	<u>\$278,480</u>

Appendix 21

ACME HOUSING CORPORATION
STATEMENT OF ACTIVITY
Year Ended June 30, 19XX

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Contributions & Grant Income	\$8,640	\$8,110	\$280	\$17,030
Development Fees	5400			5400
Investment income	5600	2580	120	8300
Management income	8500			8500
Net unrealized and realized gains on long-term investments	578	2952	4620	8150
Other	150			150
Net assets released from restrictions				
Satisfaction of program restrictions	11990	(11990)		0
Satisfaction of equipment acquisition restrictions	1500	(1500)		0
Expiration of time restrictions	1250	(1250)		0
Total revenues, gains and other support	<u>43,608</u>	<u>(1,098)</u>	<u>5,020</u>	<u>47,530</u>
Expenses and losses:				
Development	13,100			13,100
Property Management	8,540			8,540
Technical Assistance	5,760			5,760
Management and general	2,420			2,420
Fundraising	2,260			2,260
Total expenses	<u>32,080</u>	<u>0</u>	<u>0</u>	<u>32,080</u>
Change in net assets	11,528	(1,098)	5,020	15,450
Net assets at beginning of year	<u>103,670</u>	<u>25,470</u>	<u>137,000</u>	<u>266,140</u>
Net assets at end of year	<u>\$115,198</u>	<u>\$24,372</u>	<u>\$142,020</u>	<u>\$281,590</u>

ACME HOUSING CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
 Year Ended June 30, 19XX

	<u>Development</u>	<u>Property Management</u>	<u>Technical Assistance</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel:						
Salaries and wages	\$7,205	\$4,697	\$3,168	\$1,331	\$0	\$16,401
Payroll taxes	524	342	230	97		1193
Insurance	503	328	221	93		1145
Training	24	16	10	4		54
						0
Total personnel	\$8,256	\$5,382	\$3,630	\$1,525	\$0	\$18,793
Other:						
Project expenses	147	96	65	27		335
Professional fees	1169	762	514	216		2662
Insurance	630	411	277	116		1434
Rent	958	624	421	177		2180
Utilities	83	54	36	15		188
Telephone	218	142	96	40		497
Office expense	295	192	130	54		670
Dues and publicator	77	50	34	14		176
Equipment maintena	556	363	245	103		1266
Travel	103	67	45	19		234
Board expense	101	66	44	19		230
Public relations	17	11	7	3		38
Depreciation	318	207	140	59		723
Miscellaneous	173	112	76	32	2260	2653
Total Other	\$4,844	\$3,158	\$2,130	\$895	\$2,260	\$13,285
Total Expenses	\$13,100	\$8,540	\$5,760	\$2,420	\$2,260	\$32,080

SAMPLE AUDIT RFP

[AUDIT FIRM CONTACT PERSON]
[AUDIT FIRM NAME]
[AUDIT FIRM ADDRESS]

DEAR [AUDIT FIRM CONTACT PERSON]:

[ORGANIZATION] invites you to submit a proposal for the preparation of its yearly audited financial statement and related information for the three year period beginning with the fiscal year ending [EXACT DATE OF FISCAL YEAR END] The audited financial statement must be prepared according to [CITE SPECIFIC AUDIT REQUIREMENTS HERE].

[NAME OF NONPROFIT] provides [BRIEF DESCRIPTION OF SERVICES. ADD ANY ADDITIONAL AUDIT-RELATED REQUIREMENTS, (FOR EXAMPLE, OMB A-133 AUDIT REQUIREMENTS) AND SPECIFY UNIQUE NEEDS SUCH AS BOND COVENANT CERTIFICATIONS, ETC.].

We require the following services:

- Yearly financial audit
- Preparation of IRS Form 990
- Preparation of [STATE PUBLIC CHARITY TAX RETURN, IF ANY]
- Other compliance-related work
- Management letter

All of the above must be completed within [NUMBER] days of the end of each fiscal year. In addition, we require that an exit conference be held with senior management to discuss a draft version of the financial report, and that the auditors meet at least yearly with the Finance Sub-Committee of the board of directors.

All audit proposals must include: a) evidence of qualifications to provide the above services; b) a detailed work-plan, including timelines and tasks to be carried out by auditors and [ORGANIZATION]'s staff; c) resumes of key audit team members; d) a proposed audit budget including total number of hours by staff level and corresponding rates; e) at least three references from comparable audit clients. Please include a separate schedule of hourly fees for each staff level for management consulting services.

[NUMBER] copies of each proposal must be received at the address above by 5:00 p.m. on [DUE DATE]. [ORGANIZATION] staff will be available to discuss details of this RFP and of the accounting system by telephone or in person at any mutually convenient time prior to that date.

The [ORGANIZATION]'s Finance Committee will review all proposals and make a recommendation regarding choice of auditors to the full board of directors approximately [NUMBER] weeks after the deadline.

If you have any questions or would like further clarification of any aspect of this request for auditing services please contact [ORGANIZATION CONTACT] at [PHONE NUMBER]. We look forward to receiving your proposal.

Sincerely,

Taken from: *Streetsmart Financial Basics for Nonprofit Managers* by Thomas A. McLaughlin, 1995

Appendix 22

**Office of The Assistant Secretary for Administration & Management
Indirect Cost Rate Determination Guide
Cost Principles and Procedures for Non-Profit Organizations**

Listing of U.S. Department of Labor, Office of Cost Determination
Addresses and Telephone Numbers

A. Listing of DOL Regional Cost Negotiators

<u>Address</u>	<u>States Covered</u>
Cost Negotiator: Ann Marie McLaughlin 799 East 4th Street South Boston, MA 02127 Tel: (617)269-5893 Fax: (617)269-8503	Connecticut, Maine, Massachusetts, New Hampshire, Vermont, Rhode Island
Cost Negotiator: Steve Cosminiski P.O. Box 509 Perkasie, PA 18944 Tel: (215) 257-8712 Fax: (215) 257-8994	New York, New Jersey, Pennsylvania, Puerto Rico, Delaware, Maryland, Virginia, West Virginia, Virgin Islands
Cost Negotiator: Philip Zahnd 111 Zahnd Way Florence, AL 35634 Tel: (256) 272-0075 Fax: (256) 272-0085	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee
Cost Negotiator: Ron Goolsby 230 South Dearborn Street	Illinois, Indiana, Iowa, Kansas,

Financial Management Guide for Federally-Funded Organizations

10th Floor
Chicago, Illinois 60604-1505

Tel: (312) 886-5247
Fax: (312) 353-0127

Michigan,
Minnesota,
Missouri, Nebraska,
Ohio, and
Wisconsin

Appendix 23

Cost Negotiator: Carol McKone
P.O. Box 821067
Ft. Worth, Texas 76182

Tel: (817) 281-1503
Fax: (817) 281-1530

Arkansas, Louisiana,
Kentucky,
Oklahoma, Texas,
Colorado, Nevada,
Arizona, & New
Mexico

Cost Negotiator: Walter Saulter
P.O. Box 490
Suisun City, CA 94585

Tel: (707) 864-3981
Fax: (707) 864-6147

Hawaii & California
(Except L.A. City &
County)

Cost Negotiator: Arthur Campbell
P.O. Box 3433
WA 98056

Tel: (425) 271-3848
Fax: (425) 271-5295

Alaska, Idaho,
Oregon, Renton,
Washington, Montana,
Wyoming, North
Dakota, South
Dakota, Utah, &
California (only L.A. City &
County)

B. Listing of DOL National Office Cost Negotiators

Room S-5518
200 Constitution Ave., N.W.
Washington, DC 20210-0001

Tel: (202) 693-4100
Fax: (202) 693-4099

Cost Negotiators:

Steve Garfinkel, Director
Joseph Fasceski, Deputy Director
Casimer Carros
Melanie Inguillo
Floyd Jones
Victor Lopez
Damon Tomchick
Laura Patton-Watson

523 TA GRANT CLOSEOUT PROCEDURES

- Prepare for and review the report from the final evaluation of the program conducted by USDA RD. (See Final Grantee Evaluation summary.)
- Close out staff and contractor billings to the grant with the exception of resources needed for the closeout.
- Submit Form SF-269A and all other financial and performance-related reports to USDA RD within 90 days following the expiration/termination date of the grant.
- An accounting for all property acquired with the 523 grant funds should be submitted along with the SF-269A. If this is the final 523 TA grant to be awarded to the organization, all equipment must be properly disposed of by either donating it to another nonprofit or selling it and remitting the proceeds to an approved RD designee. If the organization will be awarded another 523 grant, an inventory should still be conducted of all equipment and tools purchased with 523 grant funds.
- Refund to USDA RD any un-obligated balance of cash advanced to the organization that will not be needed for closeout.
- Submit a request for payment (SF-270) for any allowable reimbursable costs not covered by previous payments/advances.
- Submit an audit conducted according to generally accepted government auditing standards (GAGAS) no later than 90 days following the end of the grant period if the program will not continue after the end date of the current 523 grant. The audit
- should include a review of borrower 502 loan funds (the lesser of 10% or 10 loans).

- Make sure that all 502 loan bank accounts have been cleared with all residual funds disposed of according to USDA procedures.

- Retain program records for three years from the date of submission of the final SF-270.

- Retain nonexpendable property records for three years after the final disposition of the property.

(The above closeout procedures are drawn from the following documents: Subpart D of OMB Circular A-110; 7CFR3015.120 (Closeout), 7CFR3019.71 (Closeout Procedures); 1944.419 (Final grantee evaluation); 1944.422 (Audit and other reporting requirements); 1944.426 (Grant closeout); and Handbook II Part X (Grant Closeout).

Final Grantee Evaluation

Prior to the last month of the grant period, USDA Rural Development will conduct a final evaluation of the program. The report should conclude whether or not the organization would be eligible for renewal. This is a quantitative evaluation of the grantee to determine if it met the following goals:

1. Assisted the projected number of families to obtain adequate housing (# of completed homes);
2. Met the goal of assisting very low-income families (% of VLI served);
3. Kept the costs within the guides set in 1944.407 (“Limitations”) (cumulative TA costs per equivalent unit);
4. Met the family labor requirement outlined in 1944.411(h) (“Conditions for approving a grant”) (family labor tasks);
5. Met the other objectives outlined in the grant agreement.

The evaluation is a narrative made up of three parts - findings, recommendations and overall rating – that is sent to the State Director. The overall ratings are:

- OUTSTANDING – Met or exceeded all goals
- ACCEPTABLE – Met or exceeded all but 2 goals of the first 4 goals
- UNACCEPTABLE – Failed to obtain “acceptable” rating

What Happens to My 990?

By: June Otow, Corporate Development Manager, Rural Community Assistance Corporation, and Judy Monteux, Accounting Manager, Rural Community Assistance Corporation

When it comes to reporting to the Internal Revenue Service (IRS), there's no easy way out. But do you, as a tax-exempt organization, have to file a 990? Not only is that answer "yes," but the information must be made public, and the public will soon have access to it on the Internet. In this article, RCAC's June Otow and Judy Monteux talk about the why's and how's of 990s.

More of a pain-in-the-you-know-what than anything else, you might wonder why you, as a nonprofit organization, should have to file a *Form 990*, "Return of Organization Exempt from Income Tax," with the Internal Revenue Service (IRS) each year. After all, we have no "profit" to report or taxes to pay.

For starters, virtually all tax-exempt organizations are required to file some form of annual information return to the IRS. The only exceptions are churches and other religious organizations, very small tax-exempt organizations (gross annual receipts under \$25,000) and certain state institutions.

These annual returns, like any tax returns, include information on your organization's income and expenses, and financial status. This is not their sole purpose, however. The tax-exempt organization must also describe its program service accomplishments and report its expenses on a functional basis; that is, expenses allocated to program, management and fundraising. A *Form 990 Schedule A* must be completed in which the organization reports on the compensation of the five highest paid employees and five highest paid consultants as well as on any transfers, transactions and relationships with other organizations. Tax-exempt organizations that have more than \$1,000 in unrelated business income must also file a *Form 990-T*, "Exempt Organization Business Income Tax Return."

Form 990 must be filed by the 15th day of the fifth month after the end of the organization's fiscal year (May 15th for calendar year organizations). There is a penalty of \$20 per day for failure to file or failure to provide accurate information, with a maximum penalty (for one return) not to exceed the lesser of \$10,000 or five percent of the organization's annual gross receipts. You can request an extension, just as you would for your individual return, but the application for extension must be made before the *Form 990* filing deadline for your organization.

How accurate was your last return? Researchers say that returns sometimes include math errors, are filled out incorrectly or are incomplete. Accountants for the Public Interest has published a guide, *Filing Nonprofit Tax Forms* (\$9.95 a copy; 202/347-1668) to help non-profit organizations fill out forms correctly and completely.

There is a very big reason beyond the threat of a hefty penalty for paying close attention to the accuracy of the *Form 990s* filed for your organization. Tax-exempt organizations must make their last three annual information returns (*990's*) and their approved application for recognition of exemption available for public inspection during the organization's regular business hours.

The Taxpayers Bill of Rights 2, passed in August, 1996, requires nonprofit organizations to give "take home copies" of their annual *990's* to anyone who requests them in person or by mail, and may charge recipients a reasonable fee for doing so. On September 25, 1997, the IRS issued proposed regulations setting conditions for how tax-exempt organizations can make their 990 "widely available," and not be required to provide copies in response to individual requests.

Appendix 25

The 990 may be the public's primary source of information about your organization and with the electronic age upon us, your 990 will be much more accessible to the public. The day is coming when you will approach a local bank for a contribution and by the time you sit down with them to discuss your request, they will already know how large your budget is, how much you spend on salaries and fundraising, and whether you lobby legislation. You will call a foundation for an appointment and before you are off the phone, they will know what you paid your five highest paid employees and consultants, and where last year's budget went. This information will come almost instantly from the Internet.

It is predicted that by the time you fill out your 990 for 1997, systems will be in place for most of the information on that form to be available on the Internet. According to a recent article in *Foundation News and Commentary*, the IRS has executed a contract with the Urban Institute to turn over five years' worth (1996-2001) of *Form 990s* filed by all nonprofit organizations and private foundations on CD-ROM, with the intention of making them more accessible to the public. The CD-ROM format will make it *very* easy for the IRS to fill requests from anyone for the forms. The contract between the IRS and the Urban Institute includes a plan to post some 990 information on the World Wide Web. The Urban Institute has contracted with Philanthropic Research, Inc. to digitize the information so that it may be easily manipulated. The Urban Institute will use the data to publish reports on nonprofit trends while Philanthropic Research, Inc. will publish individual profiles of nonprofit organizations on their website for potential donors, media reports and the curious public.

Is your 990 already on the web? Check out <http://www.guidestar.org>. Will anyone look it up or care what you reported? We don't know. But, with everyone jumping on the information super highway, it would behoove all nonprofit organizations to pay careful attention to their 990 returns. Journalists, researchers, job seekers, fundraisers, potential donors and watchdog organizations will all have access to it.

(This article was based on "A New Age for 990s" published in the *Foundation News and Commentary*, September/October 1997.)

Appendix 25

RD Instruction 1944-I
Exhibit E

**GUIDANCE FOR RECIPIENTS OF
SELF-HELP TECHNICAL ASSISTANCE GRANTS
(SECTION 523 OF HOUSING ACT OF 1949)**

7 CFR Part 1944, Subpart I provides the specific details of this grant program. The following is a list of some functions of the grant recipients taken from this subpart. With the list are questions we request to be answered by the recipients to reduce the potential for fraud, waste, unauthorized use or mismanagement of these grant funds. We suggest the Board of Directors answer these questions every six months by conducting their own review. Paid staff should not be permitted to complete this evaluation.

A. Family Labor Contribution

- | | | |
|---|-----|----|
| 1. Does your organization maintain a list of each family and a running total of hours worked (when and on what activity)? | Yes | No |
| 2. Are there records of discussions with participating families counseling them when the family contribution is falling behind? | Yes | No |
| 3. Are there obstacles which prevent the family from performing the required tasks? | Yes | No |

B. Use of Grant Funds

- | | | |
|--|-----|----|
| 1. Were grant funds used to pay salaries or other expenses of personnel not directly associated with this grant? | Yes | No |
| 2. Were grant funds used to pay for construction work for participating families? | Yes | No |
| 3. Were all purchases or rentals (item and cost) of office equipment authorized? | Yes | No |
| 4. Are all office expenses authorized by 7 CFR Part 1944, Subpart I? | Yes | No |
| 5. Was a record of long distance telephone calls maintained and was that log and telephone checked? | Yes | No |
| 6. Was all travel and mileage incurred for official | Yes | No |

business and properly authorized in advance?

- | | | |
|--|-----|----|
| 7. Were mileage and per diem rates within authorized levels? | Yes | No |
| 8. Were participating families charged for use of tools? | Yes | No |
| 9. Were grant funds expended to train grant personnel? | Yes | No |
| 10. Was training appropriate for the individual trainee? | Yes | No |
| 11. Were any technical or consultant services obtained for participating families? | Yes | No |
| 12. Were the provided technical or consultant services appropriate in type and cost? | Yes | No |

C. Financial Responsibilities

- | | | |
|--|-----|----|
| 1. Does each invoice paid by the grant recipient match the purchase order? | Yes | No |
| 2. Does each invoice paid by the borrower and Rural Development match the purchase order? | Yes | No |
| 3. Were purchases made from the appropriate vendors? | Yes | No |
| 4. Are the invoices and itemized statements totaled for materials purchased for individual families? | Yes | No |
| 5. Is there a record of deposits and withdrawals to account for all loan funds? | Yes | No |
| 6. Are checks from grant funds signed by the Board Treasurer and Executive Director? | Yes | No |
| 7. Are grant funds deposited in an interest bearing account? | Yes | No |
| 8. Are checks from loan funds prepared by the grant recipient for the borrower's and lender's signature? | Yes | No |
| 9. Are checks from loan funds accompanied by accurate invoices? | Yes | No |

- | | | |
|---|-----|----|
| 10. Are any borrower loan funds including interest, deposited in grantee accounts? | Yes | No |
| 11. Are checks from loan funds submitted to Rural Development more often than once every 30 days? | Yes | No |
| 12. Is the reconciliation of bank statements for both grant and loan funds completed on a monthly basis? | Yes | No |
| 13. If the person who issues the checks also reconciles them, does the Executive Director review this activity? | Yes | No |
| 14. Are materials purchased in bulk approved by the Executive Director? | Yes | No |
| 15. Was the amount of materials determined by both the Executive Director and construction staff? | Yes | No |
| 16. Were any participating families consulted about the purchase of materials? | Yes | No |
| 17. Were savings accomplished by the bulk purchase method? | Yes | No |
| 18. Did the Executive Director review the purchase order and the ultimate use of the materials? | Yes | No |
| 19. Are materials covered by insurance when stored by grantee? | Yes | No |

D. Reporting

- | | | |
|---|-----|----|
| 1. Are "Requests for Advance or Reimbursement" made once monthly to the Rural Development District Office? | Yes | No |
| 2. Has the grant recipient engaged a certified public Accountant (CPA) or CPA firm to review their operations on a regular basis: (Annually is preferable but every two years and at the end of the grant period are requirements)? | Yes | No |
| 3. Are the quarterly evaluation reports submitted on time to the County Supervisor? | Yes | No |

What, if any, problems exist that need to be corrected for effective management of the grant project?

Date

President, Board of Directors

(Period covered by report _____)

Appendix 26

RD Instruction 1944-I

Exhibit E

Page 4

ANSWER KEY

The following answers should help your organization in assessing its vulnerability to fraud, waste, and abuse. You should take actions to correct practices that now generate an answer different from the key.

<u>Question</u>	<u>Answer</u>		
A. 1	yes	D. 2	yes
A. 2	yes	D. 3	yes
A. 3	yes		
B. 1	no		
B. 2	no		
B. 3	yes		
B. 4	yes		
B. 5	yes		
B. 6	yes		
B. 7	yes		
B. 8	no		
B. 9	yes		
B. 10	yes		
B. 11	yes		
B. 12	yes		
C. 1	yes		
C. 2	yes		
C. 3	yes		
C. 4	yes		
C. 5	yes		
C. 6	yes		
C. 7	no		
C. 8	yes		
C. 9	yes		
C. 10	no		
C. 11	no		
C. 12	yes		
C. 13	yes		
C. 14	yes		
C. 15	yes		
C. 16	yes		
C. 17	yes		
C. 18	yes		
C. 19	yes		

D. 1 yes

Appendix 26