

IL-NET Sample FISCAL POLICIES AND PROCEDURES HANDBOOK

A Set of Policies and Procedures with Annotations for Use in Training for Centers for Independent Living

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Preface

Centers for independent living (CILs) indicated a need for policy examples they could use to guide the development or strengthening of their fiscal policies and procedures. This handbook was created in response to their request. There is no area of nonprofit management that is more critical than the proper management of financial resources. Policies and procedures are required for compliance and are a necessary internal control for any organization. Having good written policies and procedures may not ensure the success of an organization, but will go a long way toward facilitating that success.

Most CILs are recipients of federal funds, whether through Title VII of the Rehabilitation Act, as amended, or through other federal agencies or programs. This handbook incorporates requirements to which nonprofit organizations must adhere in the management and allocation of federal funds. In addition, CILs are required to conduct resource development, and many operate—or will operate—with funding from multiple agencies and programs beyond federal funding. This handbook incorporates what are fundamental practices for any nonprofit in its financial management.

It is essential that the board adopt policies and practices, and that staff be trained in them. With board policies and practices and trained staff, CILs are prepared to address other requirements that may be imposed by other funders.

The handbook references the following federal regulations and guidance:

- 45 CFR Part 75 Uniform Administrative Requirements, Cost Principles and Audit Requirements for HHS Awards, which incorporate and interpret Uniform Guidance.
- The Rehabilitation Act as amended and as detailed in 45 CFR Part 1329.
- Technical guidance from the U.S. Department of Health and Human Services, Administration for Community Living (ACL).

Specific references to regulations and guidelines are shown in footnotes and in the appendixes. Footnotes are also used to highlight other helpful information. There are several terms you should become familiar with. "Non-federal entities" means your organization and other organizations that receive federal funding but aren't federal agencies. "Object of expenditure" refers to a service or a group of services for a specific population. A different set of services or a different population signal a different object of expenditure.

We hope you find this handbook useful and we welcome your feedback for future improvements.

Tips for Using This Handbook

Modify These Examples to Fit Your CIL

Use this handbook to help ensure that your CIL's financial policies provide a comprehensive context for sound fiscal management. Review the material carefully, consider your CIL's circumstances and tailor the policies and add specific procedures accordingly, and then adopt those that apply to your CIL. Without specific procedures you will be hard-pressed to demonstrate how the policy is used.

To illustrate examples of policies for CILs, we have created a fictitious CIL, PENN CIL, and crafted generic policies that would be meaningful in many different circumstances. These policies address fundamental principles of financial management. No set of example policies can be applied in any organization without careful thought and revision to meet the specific requirements of the organization.

In almost all cases, the example policies will need to be modified, including dollar amounts. Do not just duplicate the examples. Duplicating them without careful thought as to how your own CIL operates will be counterproductive. Without modifications, the examples will be a poor fit for your CIL. For example, your staff may have different titles, or the size of your budget may determine whether your CIL contracts with an outside auditor for a federal compliance audit or a financial statement audit.

You will also need to detail the procedures – the specific steps necessary for you to effectively implement the policy. At a minimum these would include the titles of the responsible staff, timelines for completion, and references to specific forms. The procedures should be detailed enough that a staff or board member can pick them up and know what actions need to take place in the absence of the assigned staff.

Do not adopt what you cannot follow. Any external review of your CIL, by either your Designated State Entity or by the Office of Independent Living Programs, will examine not only your written policies, but also your implementation of them. Make sure that you fully implement any policy and procedures you adopt.

Recommendations for Developing Policies and Maintaining a Policy Manual

Before developing a policies and procedures manual, your board of directors must establish the procedures the board and staff will use to fashion new policies and procedures or revise existing ones. Policies and procedures will require review and updating on a regular basis. Doing this routinely is preferred to only reviewing them when there is a problem. You can take the following steps as you prepare for, develop and adopt new policies or revise old ones:

- Establish a board finance committee if your organization doesn't already have one.

- Ensure board and staff are fully engaged in the development process. The more support and involvement there is from board members and key staff members, the easier it will be to both adopt and implement your policies and procedures.
- Determine roles and responsibilities for board committees, the board, executive director, and accountant or bookkeeper in developing policies, developing the specific procedures, and implementing the requirements.
- Determine a process for review and approval, including final approval by the full board.
- Ensure that board minutes reflect the date of adoption of the policies and procedures and of any revisions.
- Ensure the financial management policies and procedures document shows the date of adoption or revision by the full board. Show the adoption date on the cover page and in headers or footers of additional pages. It is useful for the policy document to list dates of revisions as they occur, in addition to the original adoption date, to show your continual efforts at sound financial management.
- Establish a time period in which the policies and procedures document will be reviewed and updated. For example, annual review might be appropriate.
- Schedule initial and periodic training for all staff whose job responsibilities will be affected by the policies, procedures, and regulations. Your review and training will help you to make sure the procedures remain current and doable.

Additional Resources

You are encouraged to review examples of policies on an ongoing basis to keep up with changes and best practice approaches to financial management. Additional resources for developing policies are shown in Appendix VII Policy Development Resources. Along with resources for financial policies, you will find references for personnel and whistleblower policies and other useful materials.

There are many resources for sound financial management by nonprofits. The requirements for federal grants are uniform across all similar agencies, so resources or samples from other nonprofit management groups may be useful to you.

Example Fiscal Policies and Procedures for PENN CIL (a fictional CIL)

Introduction

PENN CIL¹ is a 501(c)(3) nonprofit organization that provides services to and supports community inclusion for people with disabilities. The Center for Independent Living (CIL) was created by people with disabilities seeking full integration into society. PENN CIL accomplishes its mission by empowering people with disabilities with the practical skills and self-confidence to take control over their lives and become active members of the community. PENN CIL also works to promote access and change within society and responds with programs and services to meet the needs of people of all ages with a wide range of disabilities.

This set of policies and procedures to be followed at PENN CIL are established to ensure that financial statements conform to generally accepted accounting principles; assets are safeguarded; regulations and guidelines of funders and donors are followed; and that finances are managed with accuracy, efficiency, and transparency.

As a nonprofit recipient of federal grant funds, PENN CIL will comply with the 45 CFR Part 75 Uniform Administrative Requirements, Cost Principles and Audit Requirements for HHS Awards to ensure costs are reasonable, allowable, and properly allocated.²

Following these policies and procedures will help safeguard the CIL's assets and ensure that they are used for appropriate purposes based on organizational mission, objectives, the requirements of funders, other applicable rules and regulations, and best practices for nonprofit organizations.

Consistency with Independent Living Program Purpose and Philosophy

All activities, operations, and spending shall be consistent with the independent living requirements in Title VII, Chapter 1, Part C of the Rehabilitation Act, as amended; will be consistent with the IL program purpose and philosophy, including in the delivery of IL core services and other IL services; and will meet the requirements of all federal grants as indicated in 45 CFR 75.

¹ If the CIL administers more than one 501(c)(3) entity, the policy manual should specify the legal names of the organizations that it covers.

² Many CILs receive much of their funding from the federal government. As nonprofit organizations receiving that funding through HHS, this places them under the requirements of Uniform Administrative Requirements. The principles are designed so that the federal government bears only its share of costs except where restricted or prohibited by law. See Appendix II.

Board, Staff and Consultant Responsibilities

The following is a list of parties who have fiscal, administrative, or accounting responsibilities, and their respective duties:

Board of Directors (and Committees)

- Set, oversee and clearly articulate the organization's vision, mission, and values.
- Provide leadership and strategic direction for the mission, budget, and development of initiatives that sustain the CIL.
- Issue a code of ethics and mandate compliance with the code. Show no tolerance for dishonesty or ethical misconduct. Question unusual transactions or activities, and support appropriate training.
- Adopt and adhere to a conflict of interest policy.
- Review and approve a consolidated annual budget including all the organization's income and expenses prior to the beginning of the fiscal year. Review and approve any subsequent budget modifications.
- Ensure that modifications for grant funds are made in accordance with requirements of the Notice of Grant Award between the CIL and the Administration for Community Living, Office of Independent Living Programs (ACL/OILP) and other funders.³
- Appoint board members who have signing authority and establish the limits or circumstances that require dual signatures of the executive director and other parties.
- Ensure all expenditures of federal funds by PENN CIL are adequately documented and allowable, that those expenditures are allocable and reasonable according to federal cost principles, and that the organization meets all applicable federal requirements.
- Review periodic financial and programmatic reports. Conduct such reviews no less frequently than once each quarter.
- Develop and approve the job description for the executive director.
- Select a qualified executive director and communicate this selection to funders and the community. Secure approval of the funder when required.

³ CILs may want to insert "...regarding Part C funds, prior approval from Administration for Community Living is obtained, and regarding Part B Funds, the Designated State Entity (DSE) pre-approval of budget modifications is obtained, in accordance with requirements of the contract between the CIL and the DSE," etc.

- Hire the executive director and establish the salary and benefits for the position. The salary should be based on both responsibilities and comparative information from other CILs in the state or other organizations in the community.
- Review the executive director's performance annually using board approved criteria and establish salary increases if appropriate.
- Review and approve internal controls, accounting policies and procedures, records retention/destruction, and other applicable policies.
- Serve as a resource to the executive director in implementing internal controls.
- Assess risk periodically, determine the adequacy of internal controls and determine the types and amounts of insurance coverage required for the organization.
- Review and approve contracts with third parties if those contracts are for \$25,000 or more.⁴
- Verify that purchases of supplies or services of between \$10,000 and \$24,999 adhere to the procurement standards set by policy, and that potential conflicts of interest are addressed.
- Assign a member(s) to co-sign any check in excess of \$2,500, as established by the board, or when a check is made out to the executive director.⁵
- Assign a member(s) to review and approve all expenses reimbursable to the executive director or charged directly by the executive director, such as the detail on any credit card issued to the executive director, before payment of the charges.
- Determine whether the CIL should have a federal compliance audit under Uniform Administrative Requirements⁶ and, if so, select and contract with the auditor. Require that the auditor report any findings to the board or the audit committee.
- Interact with the auditors as a responsibility of the board or an audit committee.
- Determine whether the CIL should have a financial statement audit (based on current Charities Bureau, funder, or internal requirements) and, if so, assure this is

⁴ This is the amount established as requiring approval by the organization. Uniform Administrative Requirements do require specific procurement policies and practices for different levels of purchases or contracts, and at \$250,000 or more, formal bids are required. You can set the amount lower, but not higher.

⁵ This is a good example of a policy that will be implemented differently in different organizations; for some this amount is too high, and you may want to adjust to fit your CIL's culture. Many boards want to see those practices at much lower levels—some at \$3,500, some at \$500.

⁶ This is required when \$750,000 or more of federal funds are expended in a fiscal year. If expenditures are less than \$750,000, a single federal audit under this section cannot be paid for with federal funds. A financial statement audit is permissible.

budgeted, allocated, and pre-approved by the funders. The board is responsible to select, contract with, and hear the report from the auditor.

- Review the CIL's compliance to all fiscal policies and procedures periodically.
- Assure that whistleblower protection policies are in place for anyone reporting suspected illegal acts, waste, fraud or abuse of funds.
- Verify the CIL is not involved in any impermissible political activities or lobbying activities.⁷

Executive Director

- Provide continuous leadership in the implementation of the mission, strategic direction, budget, and objectives set by the board of directors.
- Ensure that a comprehensive, accurate budget and subsequent modifications are developed annually and presented to the board of directors for review and approval.
- Review key monthly financial reports (such as balance sheet, income and expense report, and budget comparison).
- Present key financial and programmatic reports to the board of directors. Present reports at least quarterly.⁸ Provide complete and accurate explanations of the reports. Describe any changes, discrepancies or variances in any of the reports, including the budget comparison report. Highlight any aspects of the reports or the organization's financial position of which the board should be aware in fulfilling its leadership role.
- Review and approve all program expenditures to verify that they are reasonable, allowable, and properly allocated.
- Review and approve invoices and reimbursement requests and other supporting documentation.
- Review and sign or co-sign checks. Return these to someone other than the check preparer to mail the checks.
- Review payroll journals (time worked and pay rates by individual) to ensure hours worked, distribution of hours, and rates are complete and accurate.

⁷ As outlined in HHS regulations 75.410 and 75.450. See Appendix II.

⁸ Many organizations present reports to the board each month. Some present reports at quarterly meetings and provide written reports each month in the interim. Still others have an active finance committee that reviews the reports in detail and provides summary and/or comment information to the board to facilitate understanding by all board members.

- Review bank statements regularly, including checks, electronic payments, transfers, and other transactions to identify any irregularities.
- Review documentation for drawdowns prior to initiation to ensure accuracy.
- Ensure that adherence to all internal controls is thorough and complete.
- Initiate donor thank-you letter acknowledgements and maintain donor records.
- Review insurance with the board of directors on an annual basis. Ensure that the CIL has proper liability, fire and theft, workers' compensation, disability, Directors and Officers, and other appropriate coverage. Report to the board on the organization's insurance status and recommend changes as needed.
- Review the bank account(s) monthly or appoint someone who does not prepare checks to do this. Determine if the payee on the actual check matches the ledger and that any missing check numbers in the ledger have been voided and do not appear as payments on the account.

Accountant (Bookkeeper)

- Prepare monthly financial reports including a balance sheet, income and expense report, budget comparison, and other key financial reports for review by the executive director, the finance committee, and board of directors.
- Reconcile the bank account.
- Enter various transactions into the accounting system, such as deposits, payroll, in-kind donations, and debit or credit card transactions.
- Calculate drawdowns based on allowable, allocable, and reasonable expenses. Retain itemized documentation for each drawdown in either paper or electronic files.
- Prepare checks for payments of all expenses for the period, and provide the unsigned check with the backup documentation and an addressed envelope to the executive director for signing and processing.
- Back up accounting data on-site and off-site weekly or monthly.
- Classify receipts, expenditures, and payroll properly by account and object of expenditure, including indirect costs and proper cost allocation.
- Assure that the history of determining an expense to be reasonable and necessary is preserved along with the receipts.
- Prepare 1099s and W2s annually and provide them to vendors and employees as required by the Internal Revenue Service.

- Perform an initial review of timesheets for executive director approval.
- Prepare payroll information for payroll services and provide to the executive director with supporting documentation for approval.
- Review or prepare all federal and state quarterly and annual payroll tax reports, and confirm payroll service's deposits.
- Prepare documentation required for workers' compensation insurance audits.

Outside CPA

- Prepare annual nonprofit organization filings.⁹
- Perform audits or reviews of the CIL's financial statements.¹⁰
- Perform a compliance audit in accordance with 45 CFR §75.501, when required, and advise the organization regarding internal controls.

Financial Procedures and Controls

The sub-sections below contain PENN CIL's procedures to be followed and controls to be maintained for financial transactions.

Security of Financial Information and Other Records

Financial management records, electronic and printed, will be secured at all times. Access to those records will be restricted to those whose job responsibilities require access.

Access to the accounting system will be limited to those whose job responsibilities require such access. Each individual will have his or her own password for the system. If security requirements of the accounting system provide for different levels of access to separate users, the access rights of each individual will be based on their job-related level of need for access.

Consumer records, donor records, and personnel records will be kept in a secure area or on secured computers with access limited to those whose job responsibilities require access.

⁹ Most nonprofits engage an outside CPA firm to prepare these filings, such as the federal 990 report.

¹⁰ As required by regulations or determined by the board, a separate outside CPA firm may be engaged to perform audits or reviews of the CIL's financial statements.

Segregation of Responsibilities

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

Cash Receipts

Blank checks, checks or cash held for deposit, and checks held for employees or vendors will be kept in a locked area with access limited to those whose job responsibilities require access.

Cash receipts generally come from the following sources:

- Contracts and grants (federal and other)
- Direct donor contributions
- Resource development activities

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

- 1) Stamp the back of any checks received "For Deposit Only."
- 2) Count any cash received.¹¹
- 3) Complete a deposit slip.
- 4) Make a photocopy, or electronic copy of any checks received and any accompanying documentation.
- 5) Make timely bank deposits at least once each week.¹²
- 6) Obtain an office copy of the receipted bank deposit.
- 7) Provide a copy of the checks and deposit slip and receipt (or check scanning report) to the accountant to record in the accounting system.

Under no circumstance shall the accountant (bookkeeper) perform any of the above seven tasks, so that segregation of duties can be maintained.

¹¹ If the CIL routinely receives significant amounts of cash, a procedure should be established in which more than one person counts and verifies the receipt. This should also be the case in any fund raising activities where cash or checks are received.

¹² Consider the use of check scanning equipment to make electronic deposits.

Federal Drawdowns

Drawdowns from the federal government or other funders will be made to cover the amounts that have been expended and not previously vouchered and other amounts that will be paid shortly after draws are received. Federal funders prefer drawdowns for reimbursement. However, if advances are required, they will be supported by documented, allowable, and reimbursable costs and will be expended as soon as administratively possible after they are received. The accountant will calculate and document the draw needed to cover these amounts.¹³

PENN CIL will seek cash advances limited to the minimum amounts needed. Advances will be timed to be in accordance with the CIL's actual, immediate cash requirements in carrying out the purpose of the approved program or project. Any federal advances received must be deposited into an interest-bearing account.

It is the policy of this organization, consistent with federal regulation, to not draw down federal funds in advance of costs in order to manage cash flow.

PENN CIL will minimize the time that elapses between the transfer of funds to PENN CIL from the U.S. Treasury and the payment of related expenses as follows:¹⁴

- The accountant will prepare a list of payroll and accounts payable supported by documentation, such as approved invoices with allocations to each grant source, and present this information to the executive director.¹⁵
- The executive director will identify checks to be written, after ensuring that costs are reasonable, allowable, and properly allocated.
- The executive director will draw the direct deposit funds for the actual amount needed to cover only those checks allocated to that grant.

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

Expense Allocations

Payroll and other costs that benefit a single program or cost objective¹⁶ shall **be assigned** solely to that program or cost objective. Costs that benefit more than one

¹³ When expending funds from the Administration for Community Living, the CIL will comply with Uniform Administrative Requirements Sec. 75.305, the Payment section of the UAR.

¹⁴ This addresses requirements of Uniform Administrative Requirements Sec. 75.305(b).

¹⁵ This example fits a smaller organization; in larger CILs, another staff member may be designated to perform this function.

¹⁶ *Cost objective* means a program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capital projects, etc. A cost objective may be a major function of the non-federal entity, a particular service or project, for a specific population or federal award, or an indirect

program or cost objective, but not all programs uniformly, will be assigned to the programs benefited. Most expenses that benefit more than one program or function (typically administration, rent and other occupancy costs, and minor expenditures such as shared supplies) are allocated to each program or department using a shared cost method, based on PENN CIL's Indirect Cost Rate approved by the cognizant federal agency^{17,18}.

All expenditures of federal funds must be adequately documented to be considered allowable.

Check Preparation and Signatures

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

Outgoing checks require one signature from the approved list of check signers. The list of potential signers is approved by the board of directors, and signature cards are updated as required with PENN CIL's banking institution. Changes to the list of names must be approved by the board. The approved list must include, at a minimum, the treasurer, president, and executive director.¹⁹

All disbursements will be supported by adequate documentation such as time sheets for time worked, invoices and/or check requests for other disbursements and reimbursements. In no case will expenditures be made without the supporting documentation being reviewed and approved.

Invoices that are received electronically are printed, and are subject to the same review, approval, and processing procedures as paper invoices that are received.

Signed checks must be mailed by a staff or board member other than the person who prepared them.

(Facilities & Administrative (F&A)) cost activity, as described in subpart E of this part. See also *Final cost objective* and *Intermediate cost objective*.

¹⁷ In most cases, the U.S. Department of Health and Human Services Indirect Cost Group.

¹⁸ All Part C funded CILs, regardless of their size, are required to obtain an approved Indirect Cost Rate unless they can allocate everything directly to each of their cost objectives (and can prove it, which is highly unlikely) or qualify for and request the 10% de minimis rate. See Appendix III. The Designated State Entity may require a cost allocation plan in lieu of the Indirect Cost Rate for state grants, only if no federal grants are received directly.

¹⁹ To improve controls over disbursements, many CILs require two signatures or an additional approval on all checks over a certain dollar amount (such as \$2500 or \$5000). In such cases, it is good practice to specify that amount in the financial policy manual. If there is not a sufficient number of financial administrative staff, a board member may be required to provide the second signature. Exceptions may be made for certain large recurring checks such as rent, utilities, or staff benefits. An electronic service such as Bill.com may be utilized for approval rather than a signature.

Checks will be pre-numbered in sequential order. Access to unused checks is limited to individuals authorized to prepare checks (i.e., the bookkeeper). All voided checks should be retained and defaced with the signature portion of the check removed. All checks should be accounted for.

Bank Reconciliations

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

Payroll and Time and Effort Reporting Procedures

HHS regulations 45 CFR §75.430 have guidance about allowable staff pay and documentation of how that is allocated between funding sources.

It is the policy of PENN CIL to require every staff member to document all their time spent in each of the projects where their time is allocated. The allocation of time will be adjusted to match this actual, after-the-fact recording of time. (See Appendix IV.)

PENN CIL uses personnel activity reports (PARs) to document work performed.

Payroll Procedures

Time sheets in the form of a PAR will be completed by each employee to accurately account for all time worked during each payroll period. After approval of time sheets, the accountant will call in/enter time worked into the payroll processing system.²⁰

The payroll service will prepare checks or electronic deposits and a record of payroll by person. The executive director will review the record of payroll by person for accuracy, including proper rates, hours, and allocation. Checks for payroll and contracted workers are sealed in envelopes by the executive director, and held by the executive director in a locked area for distribution.²¹

Debit and Credit Card Procedures

PENN CIL has debit, credit, and store charge cards that can be used subject to the following requirements:

²⁰ Some CILs don't choose to use payroll processing, but others require this outside assurance of proper payroll procedures. One of the most common misuses of funds is the failure to pay workers' compensation insurance, and to remit payroll taxes and withholdings on a timely basis. These payments can be set up to happen automatically with a reputable payroll processing bureau or service.

²¹ Direct deposit is another option to consider, which if used requires the distribution of a copy of the payroll information to each employee.

Use of Cards by the Executive Director

The executive director of PENN CIL is authorized to utilize debit, credit, and store charge cards, subject to a limit of \$1,500²², for the purchase or payment of allowable costs/expenses related to the normal operation of the programs and services of the CIL. This includes but is not limited to:

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

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

Use of Cards by Other Management Staff

Other management staff may use cards for the purchase or payment of cost/expense related to the normal operation of the programs and services of the CIL with (1) prior approval from the executive director, and (2) subject to a \$300 limit²³. Prior approval may be received in writing, by email, or over the phone. If approval is by phone, the date, time of approval, and type and amount of the expenditure approved will be noted by the executive director and made part of the supporting documentation.

As soon as possible after the expenditure, anyone using the card(s) will produce the original receipt and other documentation related to the expense for internal processing and submission first to the staff member's supervisor for review and signature and then, after approval, to the accountant. If the item(s) purchased arrive by mail, delivery from the store or delivery by the purchaser, two individuals will inventory the items compared to the invoice to assure that all items were received by the CIL. The documentation and/or accompanying notes will explain the nature of the item(s) purchased in a way that permits verification that the item is reasonable, necessary, and allowable, and specify the program(s) or function(s) to which it should be allocated.

Application for additional credit cards

New applications for credit require the approval of both the board treasurer and the executive director.

²² Fill in your CIL's board-approved amount.

²³ Ibid.

Debit Card Purchases Are Limited to the Following Areas:

- postage
- travel
- supplies
- equipment

Lost or Stolen Cards

If a debit or credit card is lost or stolen, the person designated with responsibility for the card must report the loss or theft to the executive director immediately. The executive director will within one business day contact the bank to cancel the card and request a different card. The executive director will document the circumstances and when the bank was contacted, and the resolution of the request, and determine if other steps are needed based upon the circumstances related to the lost or stolen card.

Credit Card Codes and Passwords

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

Misuse of Credit or Debit Cards

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

Travel

Travel outside of the local area can be reimbursed to staff, board, volunteers, and consumers (if provided as part of a consumer's IL goals such as education/community participation). This includes travel necessary for participation in state/regional committees or task forces, attending workshops, conferences or other trainings, advocacy, development and/or networking activities.²⁴

²⁴ For CILs that do not maintain their own vehicles, local staff travel for CIL business (such as travel to the home of a consumer for IL skills training) may be covered and the policy should address this kind of travel. CILs that provide vehicles should have documentation of the purpose of travel for proper allocation of expense.

Pre-Approval of Travel

All reimbursable travel must be allowable, allocable, reasonable, and necessary to achieve the purposes of the CIL and the involved funding sources, in accordance with federal cost principles, the CIL's approved budget, and these travel policies and procedures; and must be pre-approved by the individual's immediate supervisor and/or the executive director. The approving individual has authority to specify the mode of travel that will be reimbursed, and preference will always be given to the mode that is the most economic and efficient (e.g., coach rather than first class airfare). Any reasonable accommodation needs will be considered in this determination.

Reimbursement and Documentation

Documentation for the cost of and purpose for travel must be submitted for reimbursement. A travel reimbursement request with supporting documentation must be submitted within 30 days of travel.

Reimbursement for approved business use of personal vehicles will be based on rates established by PENN CIL that do not exceed the federal approved rate.

Per Diem

Meals for out-of-area travel will be reimbursed at rates that do not exceed the federal per diem rates that are documented on the U.S. General Services Administration Per Diem Rate Lookup Website <http://www.gsa.gov/portal/category/100120>.

To receive Per Diem reimbursement for meals associated with out-of-area travel, travel must begin before or be inclusive of 7:00 am (for breakfast), 10:00 am – 1:00pm (for lunch) and/or end after 7:00 pm (for dinner).

Accounting for Donated Services

The objective of accounting for donated services is to comply with generally accepted accounting principles and with requirements for annual filings. PENN CIL will also track and document in-kind items that qualify for Grant Matching.²⁵

Fair value will be determined at the date of the gift.²⁶ Services will only be recorded as donations if:

²⁵ Often, funding agencies require matching funds or in-kind contributions from the grantee. Some funding agencies allow grantees to include non-cash donations as part of their matching funds or in-kind contribution. Goods that may be counted include land, buildings, and equipment (such as computers or office equipment for direct use, or wheelchairs or other equipment that will be provided to consumers), and rent-free space.

²⁶ Independent Sector annually provides an estimate of the value of an hour of donated services on their website https://www.independentsector.org/volunteer_time

- Services are performed as part of PENN CIL’s programs or services, and would otherwise be performed by paid personnel.
- PENN CIL has control over the activities of the donors of the services.
- PENN CIL has a clearly measurable basis for the amount claimed. The following in-kind items will be recorded in the accounting system:
 - Items intended to be used or controlled by the CIL (for example: a computer or copier that would be used by the CIL; or adaptive equipment, the use of which the CIL oversees).
 - Donated use of items or facilities, such as real estate.
 - Donated services that are key to the CIL’s operations, programs or services and have been performed by specialists (such as review of contracts by an attorney).

Financial Reports

All expenditures are to be incurred and paid in accordance with a budget approved by the board of directors.

The following financial statements are prepared monthly and provided to the board of directors for review:

Balance Sheet

- Assets (what we have)
- Liabilities (what we owe)
- Net assets (what's left)

The balance sheet is created as of a particular point in time, typically month-end.

Net assets will be classified as restricted by donors, designated by the board for use in certain areas, or as available for use where needed.

Statement of Income and Expenses and Budget Comparisons

These statements report grants and contributions received and income earned, as well as expenses for payroll and for products and services received. Reports will be generated for a period of time such as a month and/or year-to-date and may be compared to the prior year, and/or to budgeted amounts. The board will regularly review these statements.

Other Financial Reports

Quarterly, a Federal Financial Report (FFR) must be submitted to the Grant Solutions before the next quarter's Part C funds can be drawn. An accurate form SF-425 will be submitted to ACL by December 31 each year. Other financial reports will be prepared for review as requested by the board of directors, or its finance or audit committee including:

- Cash flow report
- Dashboard report (key asset and liability accounts and operating results)
- Cash flow forecast
- An aging of accounts payable²⁷
- An aging of accounts receivable²⁸

Information Technology Controls

Information technology controls are created to protect confidential information, preserve financial data, and operate efficiently.

The CIL will properly protect its electronic information with the following procedures:

- Servers and workstations will use only operating systems that are currently supported. Operating system patches and updates will be installed promptly.
- Backups of important data will be made and stored off-site or in the cloud periodically.²⁹
- IT security training will be provided to staff at least once a year. Training will include cybersecurity and social engineering awareness (such as how to recognize and avoid risky email attachments, questionable downloads, and fake voicemail messages).
- Workstations will be set for automatic log off after a certain time period.
- Backups will be verified at least quarterly to make sure they are working.
- Surge protectors will be used on all computers and UPS/battery backups will be used on the server.

²⁷ Usually important if paying bills on time is a concern.

²⁸ Usually important if billing on time or receiving funds from fee-for-service programs on time is a concern.

²⁹ Typically, this is daily or weekly.

- Access to computers with confidential information will be limited to those needing access required for the performance of job duties.
- PENN CIL may provide tablets or computers for use when working from home. These must be secured and cannot be used for personal use by either the staff member or others in the household.
- Access will be immediately removed when someone leaves or is terminated.
- Secure passwords will be used and changed at least quarterly.³⁰
- Up-to-date anti-virus protection, ad-blocking, and anti-spam software will be used.
- Any remote devices such as laptops, smartphones or notepads that are integrated with the computer system will be secured with passwords and/or encrypted, and set up to allow remote deletion of confidential information.
- Hard drives will be defragmented periodically, error logs will be reviewed for potential problems, and problems will be remedied.
- License and warranty information will be maintained in a secure central location.

Purchasing Policy

PENN CIL's policy has the following objectives to ensure compliance:

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

Overview

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

³⁰ At present, many consider passwords that are updated monthly or quarterly and that consist of 8-15 characters, including one or more numbers and special characters, to be relatively secure; however, the security landscape is changing rapidly and the CIL should adhere to current best practices.

Responsibility for Purchasing

All purchases in excess of \$300 will be approved by the executive director.

Ethical Conduct in Purchasing

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

Conflicts of Interest Prohibited

Employees and members of the board of directors have an obligation to conduct business within guidelines that prohibit actual or potential conflicts of interest. This policy establishes only the framework within which the CIL will operate. The purpose of these guidelines is to provide general direction for all employees and members of the board of directors. Employees are expected to seek further clarification from their supervisor on issues related to the subject of acceptable standards of operation if any question arises. Board members, as well as any employees involved in the procurement/purchasing process, are expected to disclose any potential conflict of interest and to remove themselves from discussion and decision making in any item of business in which they have a conflict of interest.

Conflict of Interest

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

No “presumption of guilt” is created by the mere existence of a relationship with an outside firm. However, when the individual has any influence on transactions involving purchases, contracts, or leases, it is imperative that they disclose it to the executive director, or, in the case of a board member or the executive director, to the full board, the presence of a potential conflict. The disclosure should be made as soon as possible so that safeguards can be implemented to protect all parties. Personal gain is prohibited. Transactions are prohibited where the individual, partner or relative has significant ownership in a firm with which the CIL does business. Any kickback, bribe, substantial gift, or special consideration to an individual or relative as a result of any transaction or business dealings involving the CIL in which the individual has influence, is prohibited.

Any employee found guilty of a conflict will be subject to disciplinary action. Actual or potential conflicts of interest involving federally funded activities must be reported to the federal awarding agency.³¹

Procurement Under State or Federal Awards

Procurement of goods and services that will be charged to state or federal awards received by the CIL is subject to all of the policies above, and to HHS regulations found at 45 CFR §75.327 and §75.329 including the following:

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

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

- Purchases shall be treated consistently as direct or indirect costs.
- Purchases treated as direct or indirect cost cannot also be used to meet cost sharing or matching requirements.
- Costs charged to federal and other awards shall be net of any applicable credits.
- Costs charged to federal and similar awards shall be allowable based on guidance.³²
- Costs shall be determined in conformity with U.S. generally accepted accounting principles.
- Contractors that develop or draft specifications, requirements, statements of work, or invitations for bids or requests for proposals will be excluded from competing for such procurements. Potential contractors are not allowed to influence any aspect of the purchasing process in any way.
- All solicitations shall include a clear and accurate description of the technical requirements for the material, product, or service to be procured.

³¹ Uniform Administrative Requirements Sec. 75.113.

³² Uniform Administrative Requirements Sec. 75.420 through 75.475.

- Documentation for purchases will be sufficient for an independent person to determine what was purchased, and for what purpose.
- Documentation for purchases shall be kept for at least 5 years and shall document the rationale for the method of procurement, the selection of the contract type, contractor selection/rejection and basis for the contract price and verification that the contractor is not suspended or debarred.

Competition

Purchases shall be conducted in a manner that facilitates competition.

No action shall be taken to limit competition such as:

- Placing unreasonable qualifying requirements on firms.
- Requiring unnecessary experience or excessive bonding.
- Specifying a brand name instead of allowing an equal product to be offered.
- Any arbitrary action in the procurement process.

Purchase solicitation shall identify requirements that are to be fulfilled, and shall incorporate a clear and accurate description of the item or service to be procured.

Purchase Thresholds

Requirements vary based on the size of the purchase.

Micro purchases of supplies or services are those that do not exceed \$10,000 in a given year (these limits may be updated periodically³³).

Small purchase requirements apply when purchases are between \$10,000 and \$250,000.

- Micro purchases shall be distributed among qualified suppliers but don't generally require competitive quotations. In order, however, to prove the purchase is reasonable, comparative prices may be secured and retained.
- Small purchases (between \$10,000 and \$250,000 in a given year) will be made only after price or rate quotations are obtained from two or more qualified sources. Prices can be obtained from published or online price lists.

Purchases in excess of the Simplified Acquisition Threshold, including services, equipment or supplies, and purchases, leased or contracted for, require a cost or price analysis. A cost analysis evaluates cost components and a price analysis evaluates the total price. These purchases shall be made only after receiving, whenever possible,

³³ Uniform Administrative Requirements Sec. 75.2.

quotations from at least three vendors. Selections shall be recommended to the executive director or responsible person for approval with quotations attached. Recommendation and selection shall be based on the following criteria:

- A clear and accurate description of the product or service to be purchased
- Skill and experience of key personnel providing the product or service
- Experience providing products or services to PENN CIL
- Any specific requirements that PENN CIL included in the solicitation of bids
- Demonstrated commitment to the nonprofit sector
- Information received from vendor references
- Commitment to PENN CIL's established time deadlines
- Cost
- Woman- or minority-owned business or qualified small business
- Preference for products and services that conserve natural resources and protect the environment, to the extent possible

Construction services shall be procured by sealed bids following formal advertising. Contracts shall be awarded to the responsible bidder whose bid conforms with all the essential terms and conditions of the request for bids and is the lowest in price.

Vendor contracts shall include a written statement that they have not been suspended or barred from doing business with any federal agency. Alternatively, PENN CIL shall check the SAM (System for Award Management <https://www.sam.gov/index.html>) vendor database to assure their account is current. Davis-Bacon prevailing wage requirements for construction contracts must be met if required by the federal award.

Exceptions to Competitive Bidding

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

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

The purchaser will prepare and maintain a written explanation whenever a normally required competitive selection is not used. This will be kept in the financial files with the documentation for that purchase.

Documentation of the basis for contractor selection shall be retained when competitive bidding is performed. Documentation for why competitive bidding was not done shall be retained.

Minority Businesses and Woman-Owned Businesses

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

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

Uncertainties and Violations

Any questions regarding compliance with this policy should be directed to the chief fiscal staff person or the executive director.

Deliberate violations of any aspect of this policy will be subject to disciplinary action including possible termination.

Program Income

PENN CIL will follow the HHS regulations 45 CFR part §75.307 for how program income must be used.

Program income is generated when the CIL receives fees or payments for training, services provided, consultation, or other similar income, when the funding for the work was originally from a federal grant or award. For example, if the position of Job Developer is paid for under the Title VII Part C grant, all the income that is generated is counted as program income for the Title VII Part C project.

If the income is the result of a grant funded activity plus some other activities not funded by the grant, then the amount that is program income is identified and split between the two sources.³⁴

³⁴ <https://osp.finance.harvard.edu/program-income-guidance>.

If the CIL receives any program income for programs that are federally funded, during that year the income must be spent first or deducted from total allowable cost to determine the net allowable costs. This may reduce the federal award for that year. PENN CIL's goal, with the funder's approval, is to spend program income as additional income to the federal grant, enhancing the delivery of the Title VII Part C services. Program Income cannot be used as savings or discretionary funding.

Program income earned after the period of performance is not subject to these requirements and may be used in any appropriate way (unless the HHS awarding agency regulations or the terms of the grant/award provide otherwise). Income earned from a separate, self-sustaining project (covering all its direct and indirect costs) is not program income, and can be utilized by the CIL in any way approved by the board.

With prior approval of the HHS awarding agency, PENN CIL may use program income to meet cost-sharing or matching requirements.

The sale of property, equipment, or supplies purchased for the program are not considered program income. Agencies are required to obtain written approval from HHS about the proper procedure which may include retaining the property, selling the property, or transferring the property, and offsetting allowable costs.

PENN CIL is required to find ways to bring in additional revenue in order to expand the services provided whenever possible. Not all non-grant funds received by the CIL are program income, however. Pass through funds that benefit the consumer directly (home modifications, transportation vouchers, equipment, etc.) are not considered program income and the CIL's indirect costs typically do not need to be spread to these costs.

Clear and complete records will be kept of the program income, and staff time and indirect costs will be charged to these income generating projects as appropriate.

Property and Equipment

Property and equipment³⁵ include items such as:

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

³⁵ Equipment purchased with federal funds is subject to specific provisions in Uniform Administrative Requirements 75.320.

It is PENN CIL’s policy to capitalize all items that have a unit cost greater than \$5,000³⁶ and a useful life of more than one year. These capitalized items require prior approval from the federal funder, if federal funds are used for their purchase. Items purchased with a value or cost less than that amount or a useful life not exceeding one year will be expensed in the period purchased.³⁷

The depreciation period for capitalized assets is as follows:

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

A Fixed Asset Log will be maintained by the accountant including date of purchase, asset description, purchase/donation information, cost/fair market value, donor/funding source, identification number, and the depreciable life of the asset.

A physical inspection and inventory will be taken of all fixed assets annually, and the accounting system will be updated to reflect any items that are disposed of or are no longer in service, including how they were disposed of.

A control system shall be in effect to ensure adequate safeguards are in place to prevent loss, damage, or theft. The executive director shall be informed in writing of items that are missing, have been disposed of, or are no longer in service. Any missing items must be investigated.

Depreciation is recorded at least annually. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Any impaired assets discovered during the inventory will be written down to their actual value.

There may be some items such as laptops or tablets that have a purchase price of less than \$5,000 but are important to track because of their portability and the sensitivity of their information. PENN CIL will include these in the inventory as well.

Personnel Records

All personnel files will contain the following documents:

- An application for employment
- A resume

³⁶ Or another appropriate, smaller amount based on your organization size. Uniform Administrative Guidance limits this to \$5,000.

³⁷ Some organizations attach an ID number to each depreciable asset.

- Date of hire and termination if applicable
- Position and pay rate
- Job description
- Performance evaluations
- Authorization for federal and state tax, health insurance and other withholdings
- A signed confidentiality agreement
- A signed conflict of interest form
- A signed acknowledgement of receipt of Employee Handbook including the organization's whistleblower, drug-free workplace, lobbying, and conflict of interest policies
- An emergency contact form
- Other forms as deemed appropriate by the executive director

All employees will fill out an Employment Eligibility Verification (I-9) and submit the specified allowable forms of identification to the executive director.

The completed I-9 forms with copies of identification will be kept in a secure location separate from the personnel files.

All personnel files are to be kept in a secure, locked file cabinet, or secured electronically, and accessed only by authorized personnel, as assigned by the executive director.

Reports to Funding Agencies and Organizations

PENN CIL is required to submit programmatic and financial reports periodically to funders and oversight agencies. In all cases, the CIL will keep a paper or electronic file of documentation supporting financial, unit of service, programmatic, and other information included in the report along with a copy of the report itself.

Appendix I

Sample Forms and Other Attachments

Your CIL may wish to include a sample of each of its internal forms and documents as attachments to the policies and procedures manual. Examples include:

- Time Sheet and/or Personnel Activity Report (PAR) form
- Personnel Activity Report
- Check Request Form or purchase requisition
- In-Kind Contribution Tracking Form
- Travel Expense Reimbursement Request
- Financial Reports

Appendix II

Compliance with Uniform Guidance and HHS Regulations

Centers for independent living are required to comply with 45 CFR Part 75 Uniform Administrative Requirements, Cost Principles and Audit Requirements for HHS Awards, 45 CFR Part 1329 – Independent Living Services and Centers for Independent Living, HHS Guidance, the Rehabilitation Act, and other regulations. CILs should ensure policy manuals address the following requirements.

Supporting Documentation

It is the responsibility of the board and staff of the organization to ensure the CIL maintains adequate supporting documentation for all expenditures. Expenditures that lack adequate supporting documentation, including why the item is considered reasonable and necessary, may be disallowed. See 45 CFR §75.300 through 75.309. As stated in 75.302(b)(3), the organization must keep records that identify adequately the source and application of funds for federally funded activities. These records must contain information pertaining to federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income, and interest; and be supported by source documentation.

Allowability of Costs (based on HHS 45 CFR 75.403)

To be allowable under an award, costs must meet the following general criteria:

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

Reasonable Costs (based on 45 CFR §75.404)

A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. In determining the reasonableness of a given cost, consideration must be given to the following:

- (a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.
- (b) The restraints or requirements imposed by such factors as: Sound business practices; arm's-length bargaining; federal, state, local, tribal, and other laws and regulations; and terms and conditions of the federal award.
- (c) Market prices for comparable goods or services for the geographic area.
- (d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.
- (e) Whether the non-federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal award's cost.

Allocable Costs (based on based on 45 CFR § 75.405)

- (a) A cost is allocable to a particular federal award or other cost objective if the goods or services involved are chargeable or assignable to that federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:
 - (1) Is incurred specifically for the federal award;
 - (2) Benefits both the federal award and other work of the non-federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
 - (3) Is necessary to the overall operation of the non-federal entity and is assignable in part to the federal award in accordance with the principles in this subpart.
- (b) All activities which benefit from the non-federal entity's indirect (F&A) cost, including unallowable activities [for example, lobbying] and donated services by the non-federal entity or third parties, will receive an appropriate allocation of indirect costs.
- (c) Any cost allocable to a particular federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and

conditions of the federal awards, or for other reasons. However, this prohibition would not preclude the non-federal entity from shifting costs that are allowable under two or more federal awards in accordance with existing federal statutes, regulations, or the terms and conditions of the Federal awards.

- (d) Direct cost allocation principles. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis. Where the purchase of equipment or other capital asset is specifically authorized under a federal award, the costs are assignable to the federal award regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required. Also see Uniform Administrative Requirements §75.317 through §75.323 and §75.439.

45 CFR §75.450 Lobbying.

- (a) The cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost. Lobbying with respect to certain grants, contracts, cooperative agreements, and loans is governed by relevant statutes, including among others, the provisions of 31 U.S.C. 1352, as well as the common rule, “New Restrictions on Lobbying” published at 55 FR 6736 (February 26, 1990), including definitions, and the Office of Management and Budget “Government-wide Guidance for New Restrictions on Lobbying” and notices published at 54 FR 52306 (December 20, 1989), 55 FR 24540 (June 15, 1990), 57 FR 1772 (January 15, 1992), and 61 FR 1412 (January 19, 1996).
- (b) *Executive lobbying costs.* Costs incurred in attempting to improperly influence either directly or indirectly, an employee or officer of the executive branch of the Federal Government to give consideration or to act regarding a Federal award or a regulatory matter are unallowable. Improper influence means any influence that induces or tends to induce a Federal employee or officer to give consideration or to act regarding a Federal award or regulatory matter on any basis other than the merits of the matter.
- (c) In addition to the above, the following restrictions are applicable to nonprofit organizations and IHEs:
 - (1) Costs associated with the following activities are unallowable:
 - i) Attempts to influence the outcomes of any Federal, state, or local election, referendum, initiative, or similar procedure, through in-kind or cash contributions, endorsements, publicity, or similar activity;

- ii) Establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections in the United States;
 - iii) Any attempt to influence:
 - (A) The introduction of federal or state legislation;
 - (B) The enactment or modification of any pending federal or state legislation through communication with any member or employee of the Congress or state legislature (including efforts to influence state or local officials to engage in similar lobbying activity);
 - (C) The enactment or modification of any pending Federal or state legislation by preparing, distributing, or using publicity or propaganda, or by urging members of the general public, or any segment thereof, to contribute to or participate in any mass demonstration, march, rally, fund raising drive, lobbying campaign or letter writing or telephone campaign; or
 - (D) Any government official or employee in connection with a decision to sign or veto enrolled legislation;
 - iv) Legislative liaison activities, including attendance at legislative sessions or committee hearings, gathering information regarding legislation, and analyzing the effect of legislation, **when such activities are carried on in support of or in knowing preparation for an effort to engage in unallowable lobbying** [emphasis added].
- (2) The following activities are excepted from the coverage of paragraph (c)(1) of this section:
- i) Technical and factual presentations on topics directly related to the performance of a grant, contract, or other agreement (through hearing testimony, statements, or letters to the Congress or a state legislature, or subdivision, member, or cognizant staff member thereof), in response to a documented request (including a Congressional Record notice requesting testimony or statements for the record at a regularly scheduled hearing) made by the non-Federal entity's member of Congress, legislative body or a subdivision, or a cognizant staff member thereof, provided such information is readily obtainable and can be readily put in deliverable form, and further provided that costs under this section for travel, lodging or meals are unallowable unless incurred to offer testimony at a regularly scheduled Congressional hearing pursuant to a written request for such presentation made by the Chairman or Ranking Minority Member of the Committee or Subcommittee conducting such hearings;
 - ii) Any lobbying made unallowable by paragraph (c)(1)(iii) of this section to influence state legislation in order to directly reduce the cost, or to avoid material impairment of the non-Federal entity's authority to perform the grant, contract, or other agreement; or
 - iii) Any activity specifically authorized by statute to be undertaken with funds from the Federal award.

- iv) Any activity excepted from the definitions of “lobbying” or “influencing legislation” by the Internal Revenue Code provisions that require nonprofit organizations to limit their participation in direct and “grass roots” lobbying activities in order to retain their charitable deduction status and avoid punitive excise taxes, I.R.C. sections 501(c)(3), 501(h), 4911(a), including:
 - (A) Nonpartisan analysis, study, or research reports;
 - (B) Examinations and discussions of broad social, economic, and similar problems; and
 - (C) Information provided upon request by a legislator for technical advice and assistance, as defined by IRC sec. 4911(d)(2) and 26 CFR 56.4911-2(c)(1)-(c)(3).
- v) When a non-Federal entity seeks reimbursement for indirect (F&A) costs, total lobbying costs must be separately identified in the indirect (F&A) cost rate proposal, and thereafter treated as other unallowable activity costs in accordance with the procedures of §75.413.
- vi) The non-Federal entity must submit as part of its annual indirect (F&A) cost rate proposal a certification that the requirements and standards of this section have been complied with. (See also §75.415.)
- vii)
 - (A) Time logs, calendars, or similar records are not required to be created for purposes of complying with the record keeping requirements in §75.302 with respect to lobbying costs during any particular calendar month when:
 - (1) The employee engages in lobbying (as defined in paragraphs (c)(1) and (c)(2) of this section) 25 percent or less of the employee's compensated hours of employment during that calendar month; and
 - (2) Within the preceding five-year period, the non-Federal entity has not materially misstated allowable or unallowable costs of any nature, including legislative lobbying costs.
 - (B) When conditions in paragraph (c)(2)(vii)(A)(1) and (2) of this section are met, non-Federal entities are not required to establish records to support the allowability of claimed costs in addition to records already required or maintained. Also, when conditions in paragraphs (c)(2)(vii)(A)(1) and (2) of this section are met, the absence of time logs, calendars, or similar records will not serve as a basis for disallowing costs by contesting estimates of lobbying time spent by employees during a calendar month.

[79 FR 75889, Dec. 19, 2014, as amended at 81 FR 3018, Jan. 20, 2016]

Appendix III Indirect Cost Rate Proposal

Uniform Administrative Requirements 45 CFR 75.521 Appendix IX Indirect Cost Identification and Assignment and Rate Determination for Nonprofit Organizations establishes the principles for determining costs of grants, contracts, and other agreements with the federal government. The guidance addresses direct and indirect allocation methods. The Direct Allocation Method treats all costs as direct costs except general administration and general expense. Direct costs are those that can be identified specifically with a single or multiple final cost objective(s). Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.

Indirect Cost Rate Proposals must be approved by the “cognizant agency” prior to implementation. In the case of centers for independent living, this agency is the U.S. Department of Health and Human Services.

While obtaining an approved indirect cost rate is only required if the organization has more than one cost objective, all Part C CILs should be doing resource development which becomes a distinct cost objective. For that reason, even small CILs should probably have at least two cost objectives; consequently, ALL Part C CILs are required to obtain an indirect cost rate unless they qualify for and elect the 10% de minimis. (There is a remote possibility that some organizations may be able to directly charge everything and avoid an indirect cost rate, but that’s only in the event that they can prove they are allocating everything directly to each of their cost objectives.)

Three on-demand webinar presentations are available at ILRU.org:

<http://www.ilru.org/training/new-indirect-cost-rate-requirements-for-cils> provides guidance in preparing for an Indirect Cost Rate Proposal.

<http://www.ilru.org/training/how-prepare-indirect-cost-rate-proposal> provides more specific guidance on drafting your Indirect Cost Rate Proposal.

<https://www.ilru.org/training/applying-your-indirect-cost-rate-centers-for-independent-living> addressed the application of your approved rate.

Appendix IV Payroll and Time and Effort Reporting

Compensation includes all remuneration paid or earned during the period of performance of the Federal award as long as the payroll is reasonable for the services rendered and is paid consistent with your organization's policies. Payroll allocations to Federal awards and other activities must follow these payroll documentation policies.

The regulations state that charges to Federal awards for payroll must be based on organization records that accurately reflect work performed, and that these records must:

- ✓ Be developed by a system of internal controls that provides reasonable assurance that the charges are accurate.
- ✓ Be allowable and properly allocated.
- ✓ Account for ALL activity that employees are compensated for.
- ✓ Document the distribution of the salary among specific activities or cost objectives.

The regulations do provide some flexibility. They confirm that budget estimates can be used for interim accounting purposes, **IF** they are reasonably accurate and **IF** changes are identified and entered into the records in a timely manner. Short-term (e.g., one or two months) fluctuation between workload categories need not be adjusted, as long as there are proper controls to review actual work performed. The adjustments must be made so that the distribution of salaries is reasonable over the longer-term.

The regulations confirm that, if the standards in this section of the regulations are met, your organization will not be required to provide additional support or documentation for work performed.

Many organizations have effectively used personnel activity reports (PARs) to document work performed. This is a practice that, although not specifically required, should comply with the regulations. It would be worthwhile to continue a practice that is proper and effective.

The regulations also confirm that incentive compensation, based on cost reduction or efficient performance or similar matters, is allowable to the extent that overall compensation is reasonable and that any such compensation is based on a good-faith agreement.

EXAMPLE POLICIES

Following are alternate examples of how a policy might be written:

EXAMPLE 1: Documentation of Payroll Allocation – Allocation of payroll to the federal awards and other activities will initially be based on the employee's responsibilities as determined by the employee's supervisor and reviewed and

approved by the executive director. This information will be communicated to the accounting department at the beginning of the year and periodically throughout the year. If an employee works in multiple areas, allocation to each of these areas will be based on the relative amount of time they are expected to spend on each program or activity.

At least quarterly, the employee and their supervisor will determine whether there have been any changes in the proportion of time spent on each program. Updated information will be communicated to the accounting department. Any material adjustments will be recorded in the accounting records. Allocation of subsequent employee payroll will be updated as appropriate.

ALTERNATIVELY

EXAMPLE 2: Personnel Activity Reports (PARs) – The time and effort of all employees charged to programs, grants, or activities will be supported by personnel activity reports or other documentation that clearly shows the distribution of activity of each employee. PENN CIL uses this documentation to verify the way employees' time is split between cost objectives. This requirement applies to supervisory and nonsupervisory employees, as well as to hourly and salaried employees.

Each PAR—

- ✓ Must be an after the fact record of actual time worked. It cannot be dated before the end of the time period **and it must not be a budget estimate.**

Documentation—³⁸

- ✓ Must account for the total activity (100% of the time for which the employee is compensated).
- ✓ Must be signed by the employee and³⁹ supervisor, with printed names, titles, and dates for each signature. Signatures certify that the percentage of time being reported under each objective is correct. The supervisory official will have firsthand knowledge of the activities performed by the employee. There will be a notation that the distribution of activity represents a reasonable approximation of the work actually performed by the employee.
- ✓ Will be prepared at least monthly and coincide with one or more payroll period(s).

³⁸ Regardless of the method of documentation used.

³⁹ PARs are not defined in Uniform Administrative Requirements. However, the old rule under OMB Circular A-122 is that PARs must be signed by the employee OR a responsible supervisory official having firsthand knowledge of the activities performed. HHS regulations found at 45 CFR §75.430 allow other methods of verifying what work was performed. Having signatures by both the employee AND a supervisor is only a recommendation by many organizations and consultants to better protect the CIL and the employee. This may also help comply with wage and hour requirements. However, two signatures are not workable in all organizations. What is important is that whatever method is used, it must be documented in your policies, followed consistently, and include an after-the-fact documentation of work performed.

Appendix V Records Retention

45 CFR §75.361 provides general guidance for records retention. It requires that financial records, supporting documents, and statistical and other records pertinent to the Federal award must be retained for a period of three years from the date of submission of the expenditure report.

The guidance states that HHS awarding agencies or pass-through entities must not impose other records retention requirements, except that any litigation, claim, or audit started before the expiration of the three-year period would require a suspension of regular records destruction.

Records related to property and equipment acquired with federal funds would need to be retained for three years after disposition of the equipment.

In cases where program income transactions after the period of performance are subject to requirements, records pertaining to earning that income starts from the end of the fiscal year in which the program income is earned.

IRS can examine annual filings up to three years after their filing deadline.

Based on this, most documentation for regular operations can safely be discarded after five years. Certain other items, such as documentation with respect to employees, require a longer time frame, and still other records should be maintained in perpetuity.

EXAMPLE POLICY

PENN CIL will follow the 45 CFR §75.361 guidelines for the retention of records but will also comply with any longer retention requirements of funders.⁴⁰

If PENN CIL has any active, pending or threatened litigation, audit findings or monitoring findings, records will be retained until all issues are fully resolved as determined by the board of directors.

Financial and programmatic records (including consumer service records) and supporting documents related to federal funding, compliance or performance shall be

⁴⁰ The General Education Provisions Act (GEPA) has a five-year statute of limitations on audits. Accordingly, all educational records subject to GEPA should be retained for a minimum of five years after the date the final expenditure report is submitted for each fiscal year. For programs not subject to GEPA, records should be kept as long as any applicable statute of limitations applies. If none, a “safe” practice would be to maintain electronic copies of records and/or paper records to the extent practicable. **Note** that although GEPA requirements no longer apply to the federal funds received by centers for independent living through ACL, GEPA standards will be applied in audits of prior program years for which GEPA was in force.

retained for a minimum of five years from the date in which the corresponding annual reports are submitted to ACL.

Paper and electronic records are subject to the same requirements.

This policy will be modified to accommodate any special requirements of funders or regulators.

At the end of the retention time frame, paper and electronic records will be destroyed.

A log of records that are purged and destroyed will be maintained.

Item	Useful life
Accounts payable ledgers and schedules	5 years
Accounts receivable schedules	5 years
Bank reconciliations	5 years
Bank statements	5 years
Checks (cancelled, but see exception below)	5 years
Checks (cancelled for important payments, i.e., taxes, purchases of property, special, contract, etc.) (Checks should be filed with the papers pertaining to the underlying transaction.)	Permanent
Contracts, mortgages, notes and leases:	
Expired	7 years
Still in effect	Permanent
Correspondence	5 years
Deeds, mortgages and bills of sale	Permanent
Depreciation schedules after disposal of related equipment	5 years
Duplicate deposit slips	5 years
Employment applications	7 years
Employee personnel records (after separation)	5 years
Expense analyses/expense distribution schedules	5 years
Financial statements:	
Year-end	Permanent
Other	Optional
Garnishments	7 years
General ledgers	5 years
Insurance policies (expired)	5 years
Insurance records, current accident reports, claims, policies, etc.	Permanent
Vouchers for reimbursement	5 years
Invoices from vendors	5 years
Journals (receipts, disbursements)	5 years

Item	Useful life
Minute books of directors and stockholders, including bylaws and charter	Permanent
Notes receivable ledgers and schedules	7 years
Payroll records and summaries, including payments to pensioners	7 years
Personnel records (terminated)	7 years
Petty cash vouchers	5 years
Property appraisals by outside appraisers	Permanent
Property records—including costs, depreciation reserves, end-of-year trial balances, depreciation schedules, blueprints and plans.	Permanent
Retirement and pension records	Permanent
Revenue records	5 years
Subsidiary ledgers	5 years
Annual filings	Permanent
Time sheets/cards/books	7 years
Vouchers for payments to vendors, employees, etc. (including allowances and reimbursement of employees, officers, etc. for travel and entertainment expenses)	5 years
Withholding tax statements	7 years

Appendix VI Federal Compliance Audits

Compliance Audits Under Uniform Administrative Requirements

The U.S. Office of Management and Budget (OMB) provides guidance on compliance audits for recipients of federal program funds. Nonprofits that spend more than \$750,000 of federal monies in a fiscal year are subject to audit requirements of Uniform Administrative Requirements. These audits incorporate the following:

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

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

If a CIL does not spend \$750,000 in federal funds, a compliance audit cannot be paid for with federal funds. However, a financial statement audit can be paid for with such funds if the CIL secures prior approval and if the expense is properly allocated across cost objectives or funding sources.

Appendix VII

Policy Development Resources

Here are resources for developing policies for nonprofit organizations. They are generally generic in nature, yet can be useful as models.

Financial Management and Related Policies

- Financial Management Resources from the Council of Nonprofits:
<http://www.councilofnonprofits.org/resources/financial-management>
- Guide for Developing a Comprehensive Financial Plan from the Nonprofit Risk Management Center (Available for Purchase):
<https://www.nonprofitrisk.org/tools/mfmp/mfmp.shtml>
- Newsletter and Website on Nonprofit Management from Blue Avocado Newsletter:
<http://www.blueavocado.org/>
- Article on Internal Controls from Blue Avocado Newsletter:
<http://www.blueavocado.org/content/five-internal-controls-very-small-nonprofit>
- Article on Nonprofit Budgeting from Blue Avocado Newsletter:
<http://www.blueavocado.org/content/focus-destination-not-route-budget>
- Article on Nonprofit Audits from Blue Avocado Newsletter:
<http://www.blueavocado.org/content/get-most-value-your-audit>

Risk Management

- Newsletter on Risk Management from the Nonprofit Risk Management Center:
<https://www.nonprofitrisk.org/>
- Risk Management Policies from the Nonprofit Risk Management Center (Available for Purchase): <https://www.nonprofitrisk.org/tools/mrmp/mrmp.shtml>

Indirect Cost Rates and Indirect Cost Rate Proposals

- How to Prepare an Indirect Cost Rate Proposal: on-demand IL-NET webinar available at <http://www.ilru.org/training/how-prepare-indirect-cost-rate-proposal>
- Contact ILRU with questions as you prepare your proposal, or send a draft of your proposal to ILRU for evaluation.



- Here are links to HHS guidance for CILs, their sample indirect cost rate proposal, and an indirect cost rate proposal checklist.
 - <https://rates.psc.gov/fms/dca/CIL%20guidance.pdf>
 - https://rates.psc.gov/fms/dca/np_exall2.html
 - <https://rates.psc.gov/fms/dca/icpchecklist.pdf>

Personnel Management

- Frequently Asked Questions on Employment Practices from the Nonprofit Risk Management Center: <http://www.nonprofitrisk.org/advice/faqs/employment2.shtml>
- Guide on Employment Practices from the Nonprofit Risk Management Center (Available for Purchase): http://www.nonprofitrisk.org/store/pub_detail.asp?id=60

Whistleblower Policies

- Sample Whistleblower Policy from Blue Avocado Newsletter: <http://www.blueavocado.org/content/model-whistleblower-policy-nonprofits>
- Information on Whistleblower Policies from the Nonprofit Risk Management Center: <http://www.nonprofitrisk.org/library/articles/employment091005.shtml>

Codes of Conduct and Corporate Compliance

- Article on Codes of Ethics from the Council on Nonprofits: <http://www.councilofnonprofits.org/resources/resources-topic/ethics-accountability>
- Explanation of Corporate Compliance from CARF: <http://www.carf.org/WorkArea/DownloadAsset.aspx?id=22494>

Federal Regulations and Resources

- Uniform Administrative Requirements http://www.ecfr.gov/cgi-bin/text-idx?SID=6214841a79953f26c5c230d72d6b70a1&tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl
- U.S. Department of Health and Human Services Regulations for Centers for Independent Living Grantees <https://ecfr.io/Title-45/pt45.4.1329>
- ACL webpage for centers for Independent living <https://acl.gov/programs/aging-and-disability-networks/centers-independent-living>