# FINANCIAL MANAGEMENT MANUAL

## FOR AREA AGENCIES ON AGING

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# Introduction

The need for this manual was identified during a monitoring visit some time ago. The Executive Director of an Area Agency on Aging (AAA) asked that they be given some guidance in the form of a manual to familiarize new and existing staff with the Virginia Department for the Aging's (VDA) financial requirements.

This manual was originally adopted from a manual developed by the Department of Mental Health, Mental Retardation and Substance Abuse Services (MHMRSAS) for the Community Service Boards (CSBs). Many of the accounting requirements for CSBs are similar to those of AAAs.

This manual is intended to facilitate implementation of the financial management requirements imposed by the provisions of the contracts between the Department for the Aging and the AAA. It also serves as a written record of acceptable and unacceptable practices. Toward this end, use of the manual should reduce the number of findings and observations occurring from a Program and Financial Compliance Review conducted by VDA staff. Most importantly, it is hoped that the manual will improve the financial management for AAAs and lessen the learning curve experienced by new financial employees. Suggestions as to how the manual can be improved or areas in need of additional coverage are welcomed.

The manual is intended to assist agencies and not to restate or make policies. All though most of this manual is based on contractual requirements established between the AAA and VDA, agencies are free to follow the guidance set forth in this guide or similar prudent business practices regarding issues that are not specifically addressed through the contractual relationship. The guide is not authoritative, but it contains VDA's best advice on financial management.

# Table of Contents

# Chapter 1 – Purpose of This Manual

**Introduction**

This manual is designed for Area Agencies on Aging (AAAs) to use as a financial management tool and as a mechanism to communicate financial policies set forth by the Virginia Department for the Aging (VDA). The manual is in a loose-leaf format so revisions can be made easily.

This manual is designed to provide guidance in a user-friendly format. The Department has oversight responsibility for the management of state and federal funds passed on to AAAs and has a strong interest in promoting sound financial management. In addition, it is intended that this manual will provide managers at AAAs with sufficient information to increase their own knowledge to develop flexibility within their own financial management system.

Although this manual references AAAs specifically, the Department contracts with numerous entities in addition to the AAAs. These additional contractors are encouraged to use this manual for implementation of best practices within their organizations to ensure sound financial management.

**Background**

The VDA informs the AAAs of financial management standards in a number of ways. These may consist of contracts, service standards, policy statements, monitoring findings and observations or recommendations, memos, advice, and so forth. However, sometimes these communications are not shared within an organization or with other AAAs. Therefore, the statewide network does not always benefit. Communications that are made known statewide are often forgotten with time, or lost due to staff turnover. This manual represents an effort to consolidate this information into one reference.

This manual contains both restatements of regulation and policies established by the VDA as well as standards for financial management generally promoted in the accounting profession.

While AAAs may not necessarily be required to conform to procedures and standards contained in this manual, <u>it is highly recommended that AAAs carefully review this manual in terms of their current operations</u>. Where an agency is required to comply with a standard, this manual will attempt to indicate the requirement with the word "must' or "shall." While this Financial Management Manual is intended to provide guidance, it does not substitute for other financial directives issued through regulation, policy statements, etc.

# Regulations, Contracts and State Policies

**Introduction**

The Department has statutory authority to promulgate fiscal standards that ensure appropriate spending, recording, and reporting of revenues contracted to AAAs and other sub-grantees.

References to policy or regulation in this manual do not refer exclusively to Department policy. Readers should be aware that policy exists at many levels and "policy" or "regulation' as it appears in this manual must be assessed within the context of the reference in which it appears.

**Contracts**

The VDA awards all funds through contracts with a variety of entities, but predominantly AAAs. Each contract contains a series of provisions or assurances the contractor agrees to and makes when accepting the award of funds.

**Federal/State Regulations**

In addition, federal and state funds are awarded based on program rules. These consist of a series of regulations and/or acts that require compliance for those activities supported through grant funds.

**Order of Precedence**

Each award of funds through a contract generally contains a provision that requires compliance with another regulation. Those regulations, in turn, usually require compliance with other regulations and so forth. For example: the contract for Title III and Title VII services requires compliance with 45 CFR 1321, 1326 and 1328 (Title III regulations). These regulations also require fund recipients to comply with 45 CFR Part 74 (Health and Human Services administrative requirements) which require compliance with OMB Circular A-122 (cost principles).

Although this may seem confusing, most of the regulations cover a variety of funds, so compliance with one grant often (but not always) assures compliance with others.

**Department Policy**

In addition, the VDA sends out policy statements, usually sent as a memo in weekly bulk mailings (Tuesday mailing) to all AAAs. Although this

Financial Management Manual incorporates many, these additional statements and memos should be maintained in a file at the AAA for reference.

**List of Regulations**

The following table lists those regulations that relate directly to financial management. The text for these and all regulations that relate to funds awarded by the Department can be found in the AAA Directors' Manual.

| **Reference** | **Subject Matter** |
|---|---|
| P.L. 106-501 | Older Americans Act as Amended 2000 |
| CFR 45 1321 | Title III regulations |
| Circular A-87 | Cost Principles for State and Local Government |
| Circular A-122 | Cost Principles for Non-profit organizations |
| Circular A-133 | Single Audit Regulations |
| 45 CFR Part 74 | Administrative Requirements For Non Profit Corporations |
| 45 CFR Part 92 | Administrative Requirements for State and Local Governments |
| 22VAC 5-20 | Grants to Area Agencies on Aging |

A more complete discussion of each regulation and a summary of its contents can be found in Chapter 6.

# Manual Revisions

**Revisions**

The VDA will provide revisions as they occur. The manual is constructed in a loose-leaf format so it can be easily updated. Revisions are necessary when a rule, regulation or policy changes or when a chapter or topic is added.

The manual is intended to respond to the informational needs of the AAAs. If you have suggestions for the manual, please make your suggestions to the Department.

A revision will be distributed as necessary and will indicate what it supersedes. The superseded document should be removed.

Affected Table of Contents and Appendices will also be revised when necessary.

# Chapter 2 – Budgeting and Funding Cycle

**Introduction**

This chapter discusses the Department's financial relationship to AAAs and the documents involved in that relationship.

**Contract Types**

Federal
Public Assistance
- Title III contract and area plan for aging services
  - Support Services
  - Congregate Meals
  - Home Delivered Meals
  - Preventive Health
  - Family Care Giver
- Title VII
  - Ombudsman
  - Elder Abuse

General
- Discretionary Funds
- Title IV
  - Alzheimer Disease Response Project
  - Information & Referral for Medicare Beneficiaries
  - One to One Pension Counseling
  - Disaster Assistance
- HCFA
- VICAP - Basic Funding
  - Medicare + Choice
  - Program Enhancement

USDA
- Nutrition Services Incentive Program
- Senior Farmers' Market Nutrition

Block Grant
- Title V - Senior Community Service Employment Program

Virginia Department of Social Services
- Low Income Energy Assistance (Summer Cooling)

**General Fund (State Funded)**
- Title III Match

Fee for Service programs
Ombudsman programs
Care Coordination for Elderly Virginians
Community Based Services
Transportation
Support Services
Home Delivered Meals
Respite Care programs
Contracts for programs designated in the Appropriations Act

**Request for Proposals**

VDA will issue a Request for Proposals (RFP) for any new funds appropriated by the Governor and General Assembly that are not distributed by Title III formula (i.e. Respite Care program, Care Coordination for Elderly Virginians etc). Request for proposals will also be issued when VDA receives a grant and there is a need to solicit vendors.

**Contract Revisions**

The contractor submits a written request for an amendment to the contract. This amendment must be approved by VDA and signed by both parties. A contract amendment must be executed if the contractor intends to: (1) change the scope of work, (2) change the arrangements by which a service is delivered or an activity is conducted, (3) transfer funds from one category to another in excess of 10 percent of the original budget, or (4) make any other substantive change in the scope of work or expenditure of funds awarded under the contract.

VDA staff review the amendment request for compliance with applicable laws, regulations, standards and contract conditions. Deficiencies are noted and must be corrected. After the amendment is corrected, VDA staff forward the amendment to the Commissioner with a recommendation to approve or disapprove.

**Funding Formulas**

**Title III, Older Americans Act funds** (except Title III-D, Preventive Health), and general funds that are a part of the area plan for aging services are allocated according to the Title III Intrastate Funding Formula. This formula is based on the following factors:

- 60+ population weighted 30%
- 60+ rural population weighted 10%
- 60+ population below poverty weighted 50%
- 60+ minority population below poverty weighted 10%

General fund monies included in the area plan are Title III Match, Supportive Services, Community Based Services, Home Delivered Meals, and Transportation.

**Title III-D, Preventive Health,** funds are allocated based on an intrastate funding formula adjusted for medically underserved areas.

**Title VII, Elder Abuse**, funds are allocated using the intrastate funding formula.

**Title VII, Ombudsman**, funding levels are based on the number of nursing home and adult residence beds in the planning and service area.

***The funding periods for Title III and Title VII monies correspond to the federal fiscal year, October 1 to September 30. General fund monies normally correspond to the state fiscal year July 1 to June 30.***

**Title IV, Discretionary**, funding levels are established based upon the submitted grant proposals. The fiscal period for discretionary funding varies from grant to grant and may be less than or more than a one year period.

**Title V, Senior Community Service Employment Program (SCSEP)**, funding is based on the population aged 55 and over that is at or below 125% of the Federal Poverty Guidelines. The fiscal period for Title V monies is July 1 to June 30.

**USDA, Nutrition Services Incentive Program (NSIP),** funding is based on the number of eligible meals served in the previous year. The fiscal period is October 1 to September 30.

Low Income Energy Assistance (Summer Cooling) funding is based upon the 60+ population below poverty. The fiscal period is June 15 to September 30.

Fee for Service Program general funds are allocated according to the Title III Intrastate funding formula for amounts required. The program fiscal year is October 1 to September 30.

**Care Coordination for Elderly Virginians** general funds for the existing programs are awarded based on historical funding allocations. New funding is distributed based on the RFP process. The program year is October 1 to September 30.

**Respite Care Program** general funds are awarded by RFP. The program year is October 1 to September 30.

**Significant Deadlines**

| | |
|---|---|
| March | De-obligation and reallocation for contracts on the state fiscal year. |
| July 31 | Deadline for requesting the transfer of funds between Title III-B, Title III-C (1) and Title III-C (2). |
| Quarterly | Review of under spending |

Funding allocations are issued after the General Assembly veto session that normally occurs in April for the year that begins the following July 1 or October 1.

# Chapter 3 – Responsibilities for Financial Management

**Introduction**

This chapter discusses how the roles and responsibilities of the AAA Board of Directors, the Executive Director, and the Fiscal Director relate to financial management. It is everyone's role to be fiscally responsible. Efforts should be made to assess the necessity and benefit of any spending. Costs should be reasonable, waste should be minimized, and revenue should be maximized.

# Management Responsibilities

**Board of Directors**

The Board of Directors has a fiduciary responsibility over AAA activities. Board members need timely and accurate information for sound decision making.

**Executive Director**

The Executive Director, as agent of the Board of Directors, has the administrative responsibility for all AAA activities. The Executive Director supervises the Fiscal Director who directs fiscal activities.

The Executive Director should work closely with the Fiscal Director and fiscal staff to gain an understanding of fiscal matters. The Executive Director should be able to communicate knowledgeably with the Board, local governments and others concerning significant fiscal issues.

**Fiscal Director**

It is the Fiscal Director's responsibility to design fiscal policies and ensure compliance with them. The Fiscal Director should also ensure that the systems in place provide for the proper recording and classifying of all accounting activities and that accounting activities are performed in a timely manner.

# Fiscal Director's Role

**Introduction**

The Fiscal Director is the connection between the delivery of services and the administrative support that plans, funds, monitors, and accounts for the services delivered. It is the Fiscal Director's responsibility to keep the Executive Director and the Board informed of the AAA's financial position and to routinely report on the results of AAA financial operations.

**Fiscal Duties**

The Fiscal Director typically has the following fiscal duties:

- Development and implementation of financial policies and procedures,
- Design and maintenance of internal controls,
- Accurate and timely reporting of financial information to management and third parties,
- Preparation of financial statements in accordance with generally accepted accounting principles,
- Compliance with all government regulations,
- Risk management,
- Records retention,
- Executive decision-making support,
- Cost accounting,
- Audit,
- Training and development of fiscal staff.

**Management Duties**

The Fiscal Director typically has responsibility duties for managing the following functions:

- Budget
- Accounts receivable
- Accounts payable
- Payroll
- Procurement
- Fixed asset management

**Knowledge**

- Generally Accepted Accounting Principles (GAAP),
- Internal control,
- Cash management,
- Payroll management and payroll tax reporting and compliance,
- Procurement (according to the Virginia Procurement Act and

Procurement Best Practice Guidelines),
- Budgeting techniques and methods,
- Cost accounting (including OMB Circulars A-87 and A-122),
- Grant application, management and reporting (45 CFR 74, 92, & 1321),
- Automated financial accounting packages,
- Fair Labor Standards Act, OSHA, workmen's compensation
- Human resource management,
- Insurance,
- Contracts.

**Skills and Abilities**

- Maintain financial accounting system,
- Maintain management information systems,
- Supervise employees,
- Communicate orally and in writing,
- Prepare financial statements and tax returns,
- Perform financial analysis,
- Communicate technical financial information in a way that it is easily understood.

**Education and Experience**

- Bachelor's Degree in Business, Accounting or Finance,
- Management experience in a non-profit or government environment,
- Sufficient experience to demonstrate knowledge, skills and abilities listed above.

**Responsibility**

The duties assigned to the Fiscal Director may vary from the duties listed above. All duties and responsibilities should be included in the position description.

# Continuing Professional Education (CPE)

**Purpose**

The knowledge, skills, and abilities of the Fiscal Director can be enhanced or maintained through Continuing Professional Education (CPE).

CPE should not be limited only to those who are maintaining professional designations such as CPA (Certified Public Accountant), CMA (Certified Management Accountant) or CFE (Certified Fraud Examiner), etc. AAA management should encourage continuing professional education for all fiscal staff to ensure that they remain abreast of changes and current developments in their profession.

**Sources of CPE**

The following organizations are providers of continuing financial education.

- American Institute of CPAs (AICPA)
  1211 Avenues of the Americas
  New York, NY 10036-8775
  (212) 596-6200
  www.aicpa.org

- Virginia Society of CPAs (VSCPA)
  P.O. Box 4620
  Glen Allen, VA 23058-4620
  (800) 733-8272
  www.vscpa.com

- Association of Governmental Accountants (AGA)
  2208 Mt. Vernon Avenue
  Alexandria, VA 22301
  (703) 684-6931
  www.agacfm.org

- Government Finance Officers' Association (GFOA)
  180 N. Michigan Avenue, Suite 800
  Chicago, IL 60601
  (312) 977-9700
  www.gfoa.org

- Virginia Government Finance Officers Association
  401 McIntire Road
  Charlottesville, VA 22902
  (804) 296-5847
  www.vgfoa.org

- Local colleges and universities

# Standard Operating Procedures (SOP)

**Fiscal**

Fiscal operations are defined by procedures and policies created by management and implemented by the Fiscal Director. For example, basic procedures should be documented in writing for the following functions:

- Accounts receivable/reimbursement,
- Accounts payable,
- Payroll,
- Budgeting,
- Petty cash,
- Cash receipts,
- Purchasing and receiving,
- Fixed asset management,
- General ledger maintenance,
- Account reconciliation,
- Credit cards,
- Financial and management information security.

**Reasons**

Documented procedures provide guidance for new employees and support for employees who perform a task on an occasional or temporary basis. Concrete direction is provided and inappropriate interpretation by employees is prevented. Internal conflicts on how to accomplish a task are minimized and productivity is increased. Documented procedures provide management with a basis to assess individual worker performance.

**Format Considerations**

The format used for writing SOPs should be decided by the Fiscal Director and Executive Director. It may be best to assume the reader is unfamiliar with the procedure and requires step-by-step guidance. An individual who is independent and unfamiliar with the procedure can provide valuable insight about the clarity of procedural instructions. Although the functions above are operating procedures, other policies, (e.g. capitalization, cost accounting, etc.) should be documented with procedures, if necessary. Policies should be stated concisely and clearly. Flowcharts are useful in supplementing or introducing text.

**Example**

The following is a simple example of a SOP to process invoices. The format used here is “Step-Action.” As noted above, there are many different formats for writing SOPs.

| Step | Action | Performed By |
|---|---|---|
| 1 | Date stamp all incoming invoices. | Receptionist |
| 2 | Sort all incoming invoices in a tickler file by payment due date. | AP Assistant |
| 3 | Match all invoices with purchase order and receiving documents. | AP Technician |
| 4 | Ensure that all invoices are approved for payment by the Executive Director, the Fiscal Director or other designated person. | AP Technician |
| 5 | Prepare checks and disbursement report. | AP Technician |
| 6 | Have checks signed and verified. | AP Technician |
| 7 | Distribute checks. | Secretary |

# Risk Management

**Introduction**

The Fiscal Director usually has responsibility or involvement in the AAA's risk management practices. This section is included to provide an awareness of the importance of effective and cost beneficial risk management.

**Definition**

Risk management is defined as the reasonable precautions that an organization takes to protect its assets from losses and to recover losses when they occur.

Risk management is similar to internal control in that it endeavors to safeguard assets.

**Types of Coverage**

- Director's and officer's liability insurance
- Professional staff liability insurance
- Comprehensive loss insurance
- Fire and theft insurance
- Automobile insurance
- Medical malpractice
- General liability
- Errors and omissions
- Employee dishonesty
- Excess limits or umbrella coverage
- Workmen's compensation

**VARISK 2**

The Division of Risk Management at the Department of General Services has a program that is available to some AAAs. This program provides many of the insurance types that AAAs normally require in one package including:

- Political officers (directors and officers)
- Medical malpractice (counselors, nurses, etc.)
- Physical exposures
- General liabilities

**Benefits**

- Streamlined procurement process
- Continuity of coverage
- Ability to cover contractual programs
- Coverage beyond employee or contractor separation for incidents

that occurred while in service to AAA
- Malpractice for all program professionals
- Can be tailored to AAA needs
- Substantial savings

AAAs are encouraged to investigate this program. Several AAAs are currently participating.

# Chapter 4 – Internal Control & Fraud Reporting

**Overview**

Statement of Auditing Standards No. 55 defines internal control as a structure consisting of the policies and procedures established to provide reasonable assurance that specific entity objectives will be achieved.

**Introduction**

This chapter introduces internal control and some basic tools to achieve improved internal control. Included also a discussion of fraud reporting as required by the Code of Virginia.

**In This Chapter**

This chapter is divided into five sections:

- What is Internal Control?
- Nine Standards of Internal Control
- Basic Tools of Internal Control
- Fraud Reporting
- Common Examples of Control Procedures

## What is Internal Control?

**Definition**

Internal control is the organization's plan, methods and measures to:
- Safeguard assets,
- Check the accuracy and reliability of accounting data,
- Promote operational efficiency,
- Encourage adherence to prescribed managerial policies.

**Internal Control Structure**

Internal control structure is the framework of policies and procedures established to provide reasonable assurance that specific entity objectives will be achieved. However, not all of these policies and procedures are germane to the financial statements. Internal controls relevant to the financial statements are classified into the following three elements.
- Control Environment
- The Accounting System
- Control Procedures

These elements are discussed below in order to provide an understanding of what factors affect the financial statements and how pervasive the system of internal controls can be in an entity. When thinking of internal controls it is helpful to consider all of the following factors.

**Control Environment**

The control environment is the collective effect of various factors that establish, enhance, or mitigate the effectiveness of specific policies and procedures or management's attitudes, actions and awareness. The control environment includes: management's philosophy and operating style, the organizational structure, the audit committee, the methods of assigning authority and responsibility, management's control methods, the internal audit function, personnel policies and practices, and any external influences.

**The Accounting System**

The accounting system consists of the methods and records established to identify, assemble, analyze, classify, record, and report an entity's transactions and to maintain accountability for the related assets and liabilities.

**Control Procedures**

Control procedures are contained in the control environment and the accounting system. They provide for the:

- Proper authorization of transactions and activities,
- Segregation of duties,
- Design and use of accounting documents,
- Safeguards over access to and use of assets and records,
- Independent verification of transactions and proper valuation of recorded amounts.

**Limitations on Internal Controls**

Internal controls cannot safeguard assets unless the internal control plan and the accompanying methods and measures are implemented. All to frequently, management adopts an adequate internal control plan, but fails to ensure that staff are following and adhering to the policies and procedures. Even the best internal control systems are subject to employee misunderstanding, poor judgments, carelessness, and the superseding of controls by management. The use of volunteers and staff of insufficient size to segregate duties may also hamper implementation.

**Importance**

A system of strong internal controls can minimize an AAA's exposure to fraud, abuse, and waste. Budget deficits and inaccurate financial reporting can be recognized and acted upon before material difficulties result. Non-compliance with board policies and procedures can be minimized, and public scrutiny due to financial impropriety can be avoided.

Sometimes, management may object to strong internal control because control procedures are not cost effective and employee mistrust may be conveyed. Neither reason should preclude adoption of effective internal controls.

**Compensating Controls**

Consideration should be given to compensating controls before deciding to disregard a control procedure because it is difficult to implement. The potential weaknesses that are created by not adopting certain controls may be offset through the implementation of other procedures called compensating controls. For example, a small organization may compensate for a lack of a formal code and organizational structure with the effective involvement of management.

**Implementation of Internal Controls**

Management may resist implementing controls because the staff is trusted. Internal controls prevent or detect errors as well as fraud. Many common weaknesses in internal control structure occur because management has lost its resolve to maintain a strong system of internal controls. As a result, controls are no longer adhered to or were never implemented as intended. Good internal controls, however, make good business sense.

The responsibility for the system of internal control rests with the top levels of management, but the Fiscal Director is generally tasked with design and implementation.

# Nine Standards of Internal Control

**Introduction**

The following nine standards should be reviewed when establishing and maintaining internal control systems.

| # | STANDARD | COMMON CONTROL TECHNIQUES | ILLUSTRATION |
|---|---|---|---|
| 1 | **DOCUMENTATION**<br>Internal controls should be documented. | ▪ Operating plans<br>▪ Organizational charts<br>▪ Job descriptions<br>▪ Policies & procedures | Written payroll preparation procedures |
| 2 | **RECORDING**<br>Transactions should be recorded as executed and should be classified properly. | ▪ Using pre-numbered receipts<br>▪ Use of checklists and logs<br>▪ Progress reports | Weekly cash balance reconciliation |
| 3 | **AUTHORIZATION**<br>Transactions should be executed as authorized. | ▪ Clear chain of command<br>▪ Periodic inspection<br>▪ Approval of all changes | An authorized signature required on all purchase orders |
| 4 | **STRUCTURE**<br>Key duties should be separated so that no one person controls all phases of an activity. | ▪ Separate the following key duties: Approving, processing, recording, reviewing, and custody | Cashier should not post payments to accounts |
| 5 | **SUPERVISION**<br>Supervisors should ensure that procedures are followed. | ▪ Performance evaluations<br>▪ Scheduled and unscheduled review of work | Supervisor providing on-the-job training |
| 6 | **SECURITY**<br>Access to assets is limited to authorized personnel. | ▪ Physical control and pre-numbering of critical forms (e.g., blank checks, receipts)<br>▪ Safes, locking doors, drawers, filing cabinets, and alarms | Blank checks and/or checkbooks are locked up and controlled |

| # | STANDARD | COMMON CONTROL TECHNIQUES | ILLUSTRATION |
|---|---|---|---|
| **7** | **COMPETENT PERSONNEL** Key personnel should be competent and have a high standard of integrity. | ▪ Proper hiring and training (formal & on-the-job) | Hire competent & experienced individuals |
| **8** | **REASONABLE ASSURANCE** Internal controls provide reasonable, but not absolute assurance that control. | ▪ Costs of implementing control should not exceed the benefits derived | Benefits are significant reductions in the risks of failing to achieve the stated control objectives |
| **9** | **RECORDS** Records should be secure from unauthorized use. | ▪ Secure computer data through passwords<br>▪ Secure financial and administrative data in locked cabinets or rooms | System and program passwords required for using the payroll and general ledger applications |

# Basic Tools of Internal Control

**Introduction**

There are several basic tools to use when documenting and analyzing internal control strengths and weaknesses.

- flowcharting
- narratives
- preparation of an internal control questionnaire
- the reports on internal controls in the annual audit

**Flowcharting**

Flowcharting is a graphic presentation of the major processes involved in an operation; for example, cash receipts. Flowcharting is useful for simplifying communication of complex operations and it is unlikely that important internal controls will be overlooked. However, flowcharts are difficult to complete and somewhat more difficult to analyze since weaknesses are not always apparent. In addition, flowcharts may require experience and special knowledge of the symbols used.

**Narratives**

Narratives are written descriptions of the major processes involved in an operation. These are much easier to prepare and can be preferable as long as important controls are not overlooked. However, narratives can become long and time consuming to prepare in complex situations.

**Internal Control Questionnaire**

An Internal Control Questionnaire is a document used to assess the adequacy of controls relating to operations. The questionnaire is structured to make assessments of internal controls based on various standards. Questionnaires are easy to complete, can be very comprehensive, and any weaknesses are obvious since the questions are generally worded so that a "no response" indicates a weakness. However, often those completing the questionnaire do not give adequate consideration to each question so the results may be misleading.

**Audit Reports**

In addition, the annual audit provides every agency with an indication of what areas are in need of improvement. These reports should be given careful consideration since the results are based on the auditor's analysis of your internal control structure. See Chapter 9 for a discussion of how to interpret these reports.

**Which Tool**

All of the methods mentioned above are sufficient to analyze internal controls, and all but the audit reports are adequate to document your internal controls. The audit report should always be carefully evaluated, but the choice of which tool to use to document controls is dependent upon the preference of the people who are documenting and analyzing the operations, the complexity of the system being documented, as well as the appropriateness of the particular method.

# Fraud Reporting

**Introduction**

Both the United States Code (U.S.C.) and the Code of Virginia requires the reporting of fraudulent transactions, which have occurred within any agency that receives funding through the VDA.

**Federal Law**

Whoever, in any manner within the jurisdiction of any department or agency of the United States, knowingly and willfully falsifies, conceals or covers up any trick, silence or device of material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry shall be fined under this title and imprisoned not more than five years (18 U.S.C. 1001).

Whoever makes or presents to any person or office in the civil, military or general service of the United States, or to any department or agency thereof, any claim upon or against the United States, or any department or agency thereof, knowing such claim to be false, fictitious or fraudulent shall be imprisoned not more than five years and shall be subject to a fine (18 U.S.C. 287).

**State Law**

Title 2, Administration of the Government Generally Chapter 13, Auditor of Public Accounts Section 2.1-155.3.

**Reporting Procedures**

"Upon discovery of circumstances suggesting a reasonable possibility that a fraudulent transaction has occurred", the Executive Director shall report such information to:

Virginia Auditor of Public Accounts
James Monroe Bldg., 8th Floor
P.O. Box 1295
Richmond, VA 23218
(804) 225-3350

AND

Virginia State Police
P.O. Box 27472
Richmond, VA 23261-7472
(804) 674-2000

AND

Virginia Department for the Aging
1600 Forest Avenue, Suite 102
Richmond, VA 23229
(804) 662-9333

**Failure to Report**

Failure to report shall constitute a Class Three misdemeanor under state law in addition to the federal penalties cited above.

# Common Examples of Control Procedures

**Payroll**

- Employees should be hired and added to payroll only upon written authorization.
- Direct supervisors should review and approve time cards or sheets.
- Payroll calculations should be reviewed and verified by someone independent of payroll function.
- Payroll bank accounts should be maintained on an imprest basis.
- Payroll function and records should be maintained separate from the personnel function.
- Someone independent of payroll and the approval process should distribute paychecks.
- Unclaimed paychecks should be safeguarded and investigated.
- Payroll should be verified where possible to other corroborating data such as hourly service reports.
- Payroll records should be periodically verified to personnel records.
- Wage and salary changes should only be made upon written authorization.

**Cash Disbursements**

- Checks should be pre-numbered and the use of counter checks prohibited.
- All disbursements should be made with sufficient supporting documentation presented at the time of signature.
- All checks should be completely filled out prior to signature.
- Voided and spoiled checks should be defaced and retained.
- Authorized signatures should be limited to executive officers or other responsible persons who do not have access to cash records or receipts.
- Check signers should make a thorough review of supporting documentation before signing checks.
- Checks should not be drawn (made payable) to "cash" or 'bearer".
- Someone independent of the cash recording process should reconcile bank accounts.
- Bank statements should be received directly by the reconciler.
- Bank reconciliations should include a review of the check date, payee, endorsement, and check sequence.
- Checks should be mailed or distributed by someone other than the employee who draws the checks or prepares the vouchers.
- Vouchers should be stapled with supporting documentation and should be cancelled by the use of a "paid" stamp or other mark.

- If check-signing machines are used, signature plates and keys should be properly controlled.
- Inter-bank transfers should be properly controlled.

**Cash Receipts**

- Someone other than employees responsible for accounts receivable or those with access to the accounting records should open mail. Mail and site receipts should be opened and counted by two persons when possible.
- The employee who opens the mail should prepare a receipts log of money, checks or other receipts immediately.
- Receipts log, receipts journal and deposit slips should be periodically reconciled by a third party after deposit.
- Someone other than those who have access to the accounting records or cashier if applicable should make deposits.
- Deposits should be made frequently, preferably daily, and secured until deposit, (lockboxes used in sites and vans).
- Cashing of checks made payable to the AAA should be prohibited through an agreement with the bank.
- Contributions should be acknowledged promptly.
- Inquiries for unacknowledged contributions should be made to those independent of those who receive cash or maintain the accounting records.
- Checks should be immediately stamped for deposit only
- Duties should be rotated periodically, where possible.
- Pre-numbered cash receipts books should be used.
- Receipt books should be periodically checked for numerical sequence and reconciled to daily totals.
- Where sites deposit funds in a separate bank account, withdrawals should be limited to the central office only.

# Chapter 5 – Accounting Standards

## Introduction

This chapter discusses the financial accounting standards in effect for AAAs. Financial accounting standards are referred to as Generally Accepted Accounting Principles (GAAP). There are many sources of GAAP, but the Financial Accounting Standards Board is the primary issuer of accounting pronouncements. Although this chapter cannot begin to specify all of GAAP for non-profit organizations in detail, it will provide an overview and some guidance.

AAAs operate within a diverse and complex accounting environment. Within this realm are the requirements of financial and cost accounting. It would be helpful to think of AAA accounting standards in terms of financial and cost accounting standards. Financial accounting standards are related to the preparation of the AAA's financial statements. Cost accounting standards are related to grant reporting activities. A discussion of grant accounting is contained in Chapter 6. GAAP is the foundation for all accounting transactions. A transaction cannot be properly recorded for a grant, if it has not been recorded in conformance with GAAP.

## GAAP

GAAP is the set of accounting conventions, rules and procedures that define the accepted accounting practice for an industry at a particular time. This definition recognizes that GAAP frequently changes over time and what may be recognized as GAAP today, may not be recognized as GAAP tomorrow. Changes in what is considered GAAP may result in an AAA's nonconformance with GAAP, even though financial statement are prepared on a consistent historical basis.

## GAAP Hierarchy

There are many sources for GAAP because GAAP has evolved over time. Sources include the Financial Accounting Standards Board (FASB), the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants (AICPA), regulatory agencies and accounting textbooks. Sources of GAAP are arranged in a hierarchy to give precedence to one source where it may conflict with another.

This hierarchy is as follows.

1. FASB statements, FASB interpretations, Accounting Principles Board (APB) opinions, and AICPA accounting research bulletins. Government entities should follow statements and interpretations of the GASB.
2. AICPA industry audit and accounting guides, AICPA statements of position, FASB and GASB technical bulletins.
3. Consensus positions of the FASB Emerging Issues Task Force (EITF), and Accounting Standards Executive Committee (ACSEC) practice bulletins.
4. AICPA accounting interpretations, Q and A's published by the FASB, and widely accepted industry practices.
5. Other accounting literature.

**Sources of GAAP**

While it is beyond the scope of this guide to summarize all GAAP pronouncements, there are several that pertain exclusively to non-profit organizations. The following is a brief synopsis of each:

<u>Statement of Accounting Concepts (SFAC) No. 4</u>, Objectives of Financial Reporting by Nonbusiness Organizations establishes the objectives of the financial statements used by nonbusiness organizations. These statements do not establish standards themselves and should not be considered GAAP, but they do create a framework (the body of SFACs are called the conceptual framework) that is used for the development of GAAP.

<u>SFAC No. 6</u>, Elements of Financial Statements defines the elements in financial statements, such as expenses, assets, liabilities and net assets. It is interesting to note that the three classes of net assets, restricted, temporarily restricted and unrestricted were specified for non-profits. This was later used in the development of SFAC No. 117.

<u>Statement of Financial Accounting Standards (SFAS) No. 93</u>, Recognition of Depreciation by Not-for-Profit Organizations requires all non-profits to record depreciation for capitalized tangible assets.

<u>SFAS No. 116</u>, Accounting for Contributions Received and Contributions Made states that contributions or unconditional promises to give are recognized when the contribution is made. Conditional contributions should be recognized when substantially all of the conditions have been met.

SFAS No. 117, Financial Statements for Not-for-Profit Organizations sets reporting standards for the basic non-profit financial statements. It requires a statement of financial position (balance sheet), statement of activities (income statement), and a statement of cash flows. It also requires net assets to be reported under the three classes of net assets mentioned above. A variety of reporting options are also included.

AICPA Industry Audit Guide, Audits of Voluntary Health and Welfare Organizations describes GAAP attributable to such organizations. These organizations are defined by entity mission and receive most of their financial resources from the general public. Examples include the Red Cross, Boy Scouts, etc. Most AAAs will not follow this guidance.

AICPA Audit and Accounting Guide, Audits of Certain Non-profit Organizations and SOP 78-10, Accounting Principles and Reporting Practices for Certain Non-profit Organizations establish GAAP for non-profit entities not covered by other non-profit guides such as hospitals, universities, governments, voluntary health and welfare organizations. We recommend AAAs follow this guide. Where there is a conflict with SFAS Nos. 116 & 117, the SFASs should be followed.

SOP 87-2, Accounting for Joint Costs of informational Materials and Activities of Not-for-profit Organizations That include a Fund Raising Appeal contains guidance (as the title implies) for accounting for costs that are attributable to fund raising and program activities.

SOP 94-2, The Application of the Requirements of Accounting Research Bulletins, Opinions of the Accounting Principles Board, and Statements and Interpretations of the Financial Accounting Standards Board to Not-for-Profit Organizations. This pronouncement indicates that unless the above referenced pronouncements specifically exempt non-profits (or by nature of the organization they cannot), they should follow them.

SOP 94-3, Reporting of Related Entities by Not-for-Profit Organizations specifies how investments in for-profit enterprises should be reported.

All AAA Fiscal Directors should consult each of these pronouncements. In addition to the above-mentioned pronouncements, the FASB currently has several more in development and AAAs should expect the issuance of future GAAP pronouncements

**Applicability of Standards**

The type of entity an AAA is will govern the accounting principles the AAA will use or adopt. Entity type will influence the grant regulations that will govern the agency. There are a variety of non-business entities: universities, hospitals, governments, voluntary health and welfare organizations, etc. Most AAAs will either adopt standards applicable to local governments or to other non-profit organizations. Most AAAs are organized as non-profit corporations and should use standards for non-profit organizations. Some AAAs are components of governmental entities. These entities should follow the standards for governmental entities. This chapter addresses accounting standards for non-profit organizations and not those of government entities. However, because there is a considerable difference between these sets of standards, careful consideration should be given to the discussion below.

**Government Agencies**

Some AAAs are incorporated as joint exercises of powers and some AAAs are an agency of a single local government. The Governmental Accounting Standards Board adopted NCGA-3 (<u>Defining the Governmental Reporting Entity</u>) and NCGA-7 (<u>Financial Reporting for Component Units Within the Governmental Reporting Entity</u>) as authoritative GAAP for governmental entities. These statements provide guidance on which entities should use the standards issued by the GASB. A component of government must meet the following basic criteria:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability of fiscal matters

It is the responsibility of the AAA to determine what accounting and reporting standards it should follow. For an expanded discussion of the above criteria, the appropriate authoritative literature should be consulted.

AAAs that are not considered governmental entities (the majority) should follow the standards for financial reporting for other non-profit organizations.

**Basis of Accounting**

GAAP for non-profits requires that the accrual method be used as a basis of accounting. However, there are other comprehensive bases of accounting that may be used. **The state regulations governing AAAs requires the used of the modified accrual method.** Rather than using one basis for grant-related activities and another for the financial statements, most AAAs will prefer to prepare their financial statements on the modified accrual basis. These two methods are distinguished in the manner revenue is recognized. The cash basis is never acceptable for grant or financial statement purposes.

- Cash Basis - Revenues are recognized when received while expenses are recognized when paid.
- Modified Accrual Basis - Revenues are recognized when measurable and available while expenses are recognized when incurred.

  Note: AAAs are required by the state regulations governing AAAs to use the modified accrual basis of accounting.

- Accrual Basis - Revenues are recognized when earned while expenses are recognized when incurred.

# Fund Accounting

**Introduction**

AAAs exist in an environment of numerous funding streams. The donor or grantor restricts some of these streams and others are unrestricted. Because of the need to account for a variety of funding streams, fund accounting within the AAA environment may be desirable.

**Definitions**

A fund is a fiscal and accounting entity with its own set of self-balancing accounts. Cash and other financial resources are recorded together with all related liabilities and equities. These accounts are segregated for the purpose of carrying on specific activities in accordance with special regulations, restrictions or limitations. Fund accounting is similar to Branch accounting because each fund has its own assets, liabilities and equity.

Fund accounting represents the form of accounting designed to account for and report those financial activities, which are unique to a given set of funds.

**Governmental Fund Types**

- General Fund - Accounts for all financial resources except those accounted for in other funds.
- Special Revenue Fund - Accounts for proceeds of specific revenue sources other than special assessments, expendable trusts or major capital projects.
- Capital Projects Fund - Accounts for financial resources to be used in the construction or acquisition of major capital facilities.

- Enterprise Fund - Used to account for operations financed and operated in a manner similar to commercial business where user fees are involved.

**Non-Profit Fund Types**

- Unrestricted Funds - Those funds not restricted as to use by a donor or other third party.
- Restricted Funds - Those funds restricted as to use by a donor or other third party.
- Plant Fund - Those funds used for recording property, plant, and equipment transactions.
- Endowment Fund - Those funds whose principle and/or income is restricted by the terms of an endowment. These restrictions may last in perpetuity or temporarily. When the restrictions end, the funds are transferred to another fund in accordance with the bequest or trust.
- Agency Fund - Funds that are held by the entity acting as an agent or custodian for another entity.
- Annuity Fund (Restricted Endowment) - Funds whose principle is donated and the income or a certain return is payable to a beneficiary.

**Governmental Accounts Groups**

Fixed Asset Account Group - Used to record long-lived assets that are not available to finance current operations.
General Long Term Debt Account Group - Used to record long-term debt that will not require the use of current resources.

**Applicability of Fund Accounting to AAAs**

Each AAA is responsible for the preparation of annual financial statements in accordance with generally accepted accounting principles (GAAP).

Non-profit organizations are not required to adopt fund accounting. Nevertheless, AAAs may use fund accounting to segregate specific operations. Maintaining accounts by fund does not require presentation by fund in the financial statements.

**Applicability to Contractual Agencies**

Each sub-grantee of an AAA is responsible for preparation of annual financial statements in accordance with GAAP. This means that governments should prepare their financial statements according to governmental standards and commercial organizations should use standards for commercial organizations. An entity's source of revenue as a grantee does not affect its source of GAAP.

# Chapter 6 – Federal Grants Management

**Overview**

This chapter discusses how both federal and state grants impact on financial management. Most of the funds issued by the VDA are governed by some federal regulation or similar requirement. Although it is difficult to address grant management without referring to a variety of federal requirements, this chapter will primarily cover those requirements found in the cost principles and the administrative requirements.

**Introduction**

VDA is the recipient of many state and federal awards with the largest being Title III, the Older Americans Act. Most awards to the Department are non-competitive and ongoing, while some awards are offered, negotiated and issued competitively.

Federal awards are issued with a framework of regulations. All of the regulations, taken in total, govern areas of management as diverse as hiring practices, accounting, and service delivery. A more complete listing of regulations can be found in the Directors' Manual. However, most of the audit and accounting rules can be located in the administrative requirements, cost principles and audit regulations discussed in this chapter and subsequent chapters.

State awards are generally made to extend the federal awards or a part of the federal award, (e.g. the state award to extend the home delivered meals program). These awards are governed by the same requirements as the federal awards, (see the discussion of match funding in this chapter). Some awards made with state funds do not extend a federal program, but represent a state funded initiative, (e.g. the care coordination, respite care, guardianship, and adult day care incentive grants). These awards generally have requirements included in an RFP and/or contract.

## Order of Precedence for Regulations

Regulations Issued by OMB Affecting All Federal Agencies

↓

Regulations Issued by Federal Agencies (e.g., Title III regulations)

↓

Regulations Issued for a Program or Grant (e.g., AAA regulations)

↓

Specific Contract Provisions (e.g., Title III contract and Area Plan)

The regulations that appear at the top of the illustration above are issued by federal agencies, (often the Office of Management and Budget) to be adopted by other federal agencies, (e.g. OMB Circular A-110). These regulations apply to all federal and match (state, CPI, etc.) funds. However, these regulations are adopted by the federal awarding agency and may undergo some modification in the process, (e.g. OMB Circular A-110 is adopted and implemented by the U.S. Department of Health and Human Services as 45 CFR Part 74). Because there may be differences, it is important to reference the regulations adopted by the proper federal agency. Recently federal agencies have reduced the confusion caused by these different adaptations by issuing “common rules” which apply similarly to all federal grants.

While the federal regulations contain most of the financial management requirements, program and grantor regulations do carry additional important requirements related to financial management. As an example only, the following table summarizes some of the topics in each set of regulations to provide an idea of what they contain. These summaries are not comprehensive and the regulations themselves should be consulted. This table applies to Title III funding.

| Regulations | What it contains |
|---|---|
| 45 CFR Part 74 adopted from OMB Circ. A-110. Note: these rules apply to non-profits. Local government organizations should follow 45 CFR Part 92. | Administrative requirements general categories include pre-award requirements, financial management property management, procurement reporting, record keeping and termination rules. |
| OMB Circ. A-122 and A-87, cost principles for non-profits and state/local governments. | Contain guidance on definitions of direct and indirect costs, methods of allowable cost distribution and recovery, allowable and unallowable costs and those costs requiring prior approval. |
| Title III and Title VII regulations. | Contain match requirements, caps on administrative costs, allowable transfers between categories |
| VDA Regulations. | Contain match requirements, caps on administrative costs, and allowable transfers between categories. |

**Oversight**

The Department monitors all types of awards for fiscal and program compliance. Compliance is based on regulations from the federal grantor agency, in addition to regulations from the U.S. Office of Management and Budget. Most awards provide for oversight responsibilities by the granting agency, (and the grantee if sub-awards are made). Generally each agency involved in the awarding process (both federal and state) has some responsibility for oversight of the award. Often this means that a representative from any of the awarding agencies may review AAA grant management. However, for most awards, VDA has primary responsibility to monitor the AAAs, while the AAA has primary responsibility to monitor sub-awards.

# Types of AAA Awards

**Allocated Grants**

Grants are usually allocated based on formulas, history, Requests For Proposals (RFP), or other events such as natural disasters and federal grant applications. Most of the funds awarded by VDA are based on formulas that compute a percentage of the total state award based on demographic and other factors.

**Contract Awards to AAAs**

The VDA is authorized under Section 309(a) of the Older Americans Act to award grants or contracts to a designated AAA and to administer programs under an approved area plan. The VDA has determined that the contracts mechanism is the appropriate vehicle for making awards to AAAs in furtherance of its purpose under federally approved state plan. The federal provisions for grants and grantees shall apply to an AAA rather than the provisions for contracts, even though the procurement mechanism is called a contract.

**In This Table**

The following table shows the federal funding sources from which the AAAs have received funds.

| TITLE OF FEDERAL GRANT | CFDA NO. |
|---|---|
| III-B, Supportive Services | 93.044 |
| III-C1, Congregate Meals | 93.045 |
| III-C2, Home Delivered Meals | 93.045 |
| III-D, Preventive Health | 93.043 |
| III-E, National Family Caregiver Support Program | 93.052 |
| VII, Ombudsman Program | 93.042 |
| VII, Elder Abuse | 93.041 |
| IV, Discretionary Grants<br>• One-to-One Pension Counseling<br>• Disaster Assistance<br>• Performance Outcome Measurement | 93.048 |
| Alzheimer Disease Response Project | 93.051 |
| VICAP | 93.779 |
| USDA, Food Distribution | 10.570 |

| | |
|---|---|
| DOL, Senior Service Community Employment | 17.235 |
| Low Income Energy Assistance | 96.330 |

# Administrative Requirements

**Fund Accounting**

AAAs should be organized and operated on a fund accounting basis. The administrative requirements state that grant recipients account separately the source and disposition of funds. Fund accounting offers a straightforward approach. See Chapter 5, of this manual.

**Matching Grant Activities With Costs**

One of the most fundamental principles in federal grants management is the proper distribution of grant costs and attributing costs with allowable grant activities, (within the scope of services). Often an AAA receives funds from several different funding sources or grants to support essentially the same services. When these funds and costs are combined under one service objective, these funds become commingled. This commingling is only allowable if the programs exactly match one another in terms of scope of services, eligibility of clients, types of cost, and care is taken not to double count match. These circumstances are rarely similar enough to allow commingling, except for in the case of match funding.

For example, an AAA may receive funds for personal care services under two grants, one under Title III and one under Medicaid. Although the service component is similar differences in the eligible population means eligibility requirements testing and other factors prohibit the commingling of these two programs. This implies that a cost must be first identified with the activities (or clients) that incurred the cost and then allocated or charged to that grant. Often this requires AAAs to maintain sets of records for each grant, separate accounts, cost objectives, etc. However, there is a benefit to this separation. That is, the AAA can readily determine if a grant is covering costs sufficiently.

**Elements of an Acceptable Financial Management System**

The federal administrative requirements place certain accounting obligations upon recipients of federal funds. In addition, the VDA may place requirements on AAAs. The administrative requirements (Title 45 Code of Federal Regulations Subpart 74.21(b)(2)) require that grantees or sub-grantees have records that identify adequately the source and application of funds for grant or sub-grant-supported activities. At a minimum, these records must contain information pertaining to grant or sub-grant awards, authorizations, obligations, unobligated balances, assets, outlays, income, and, interest. These requirements apply to virtually all grants.

In addition, special grant conditions more restrictive than those prescribed in the administrative requirements (Title 45 Code of Federal Regulations Part 74) may be imposed by the VDA on its sub-recipients as needed when the VDA has determined its grantee, is financially unstable, has a history of poor performance, or has a management system which does not meet the standards of Part 74. These requirements are generally imposed to provide the VDA with necessary assurances and permit continued funding with an entity, which would otherwise be disqualified for funding.

**Budgeting**

Budgeting is a business practice used to ensure that cost limitations are observed. This is especially important in a grant where there are cost caps and match requirements. For this reason, the administrative requirements direct grantees to establish and maintain a budgeting system that compares the actual and budgeted amounts for each grant or sub-grant (74.21 (b)(4)). Periodically, but no less frequently than quarterly, the system should be updated with actual costs and compared to originally estimated costs. This system should also be able to forecast costs to the completion of the grant period. This budget must be incorporated into the area plan for aging services and amended as the budget is revised.

**Cash Balances**

Administrative requirements provide that grantees minimize the time between the draw down of funds and their disbursement. This equates to minimizing the average daily cash balances of grant funds. In order to comply, an area AAA must maintain and periodically update a cash flow projection to minimize the draw down of funds in relation to their disbursement. Further, the administrative requirements provide that an AAA retain such periodic cash flow projections for a minimum of three years from the date of filing its annual final financial report.

**Match**

When the grantor does not wish to bear the full cost of a project, the grant is issued with a match requirement. The match requirements specify the extent and type of grantee participation. Rules for the use of match funds can be found in the administrative requirements, (beginning at 45 CFR 74.50). Match can take two forms, one is the part of the costs not borne by the grantor, the other is third party contributions of goods and services, (in-kind).

**Basic Rules**

Match is allowable only to the extent that grant costs are allowable. That is, if a cost would not be incurred or if it would be disallowed because it was unnecessary, was not an allowable cost, was improperly allocated, etc. then this expense cannot be used to match a grant. This applies to in-kind donations as well. Therefore, if something of value is donated to the AAA, but would not have been paid for by the AAA or is not necessary to the grant, its value should not be claimed as in-kind match.

**Allowable Match**

Allowable costs to satisfy matching or cost-sharing requirements may include:

- Charges incurred by the grantee as project costs, including non-cash items such as depreciation or use charges.
- Project costs financed with cash contributed or donated to the grantee by non-federal third parties or in the case of federal funds: General Revenue Sharing, Legal Services Corporation and other federal funds specifically authorized by law for matching.
- Project costs represented by services and real or personal property donated to the grantee by nonfederal third parties, provided such costs are:
    1. Identifiable from grantee records.
    2. Not included as contributions for other federally assisted programs.
    3. Necessary and reasonable for proper and efficient accomplishment of project objectives.
    4. Allowable if the grantee itself was required to pay for them.

**Unallowable Match**

Several items are not normally counted as in-kind match.

- Goods and services available free in the community and would be available whether the project operated or not, e.g., CPR training, space in a community center, etc.
- Donated overtime of project staff, whose regular working hours are paid with federal funds.
- Contributed time of elected officials, the Boards of Directors and Advisory Councils.
- Value of space donated for meetings and other purposes in the homes of individuals, especially staff members.
- Space outdoors such as playgrounds, park space and undeveloped lots.

**Valuation of In-kind Contributions**

Frequently goods and services are donated to AAAs and used to match federal dollars. As a result, there are questions as to how these contributions should be valued. Generally, all in-kind contributions should be valued as if they had been purchased.

Volunteers' time should be valued at rates consistent with those ordinarily paid by the grantee organization or sub-grantee organization for similar work. If similar work is not performed at the organization, the rates should be consistent with those ordinarily paid by other employers for similar work in the same labor market. A reasonable cost for fringe benefits may be included in the valuation.

Donated equipment is recorded at its fair market value, loaned equipment or space at its fair rental value, etc. The administrative requirements contain guidance that answers valuation of third-party, in-kind contributions.

In-kind charges must be reasonable and properly justified.

**Documentation of In-kind**

In-kind donations must be properly documented. Documentation should be of the same detail as the documentation required for payment from grant funds. For example, if paid staff complete time records, then volunteers should record their time in a similar fashion.

For in-kind donations, grantees and sub-grantees of the VDA shall maintain the same documentation, to be retained for the same period of time, as required for incurred costs. To the extent feasible and practical, the grantees and sub-grantees shall obtain independently generated documentation for in-kind costs:

- Time sheets or log-in sheets for donated labor,
- Written verification of the value of donated equipment or space, etc.

**Title III Requirements**

An AAA shall arrange and properly account for a state or local matching share under the various titles of the Older Americans Act, as follows:

**Title III Parts B, C, D & E Services**

The federal share of incurred costs under Title III, Parts B, C, D may not exceed 85% of total costs. The federal share of Title III, Part E, incurred costs may not exceed 75% of total costs.

**Title III Area Plan Administration Costs**

The federal share of area plan administration costs may not exceed 75% of total area plan administration costs.

**Non-Federal Match**

The non-federal share used to match Older Americans Act funds may be met either with cash or allowable in-kind contributions. At least 25% of the non-federal share must be allowable costs of the state or local public agencies and may be in the form of cash or in-kind contributions from local public agencies. Each AAA must provide for meeting the non-federal share requirement, except for any amount, which the Commonwealth of Virginia provides in lieu thereof. **Cost share payments (fees) cannot be used as non-federal match.**

**Priority Services**

An adequate amount of the Part B allotment must be spent for the delivery of access services, in-home services and legal assistance, with at least some funds spent in each category. The Virginia Administrative Code (22VAC5-20-100) requires 15% for access, 5% for in-home and 1% for legal assistance.

**Using Other Federal Funds for Match**

In general other federal funds may not be used to meet federal match requirements. However, the administrative requirements permit some federal funds to be used to meet local match portions if their use for this purpose is authorized. Such other federal funds as general revenue-sharing funds, and Legal Services Corporation funds are permitted.

**Cost Share Payments (Fees)**

Cost share payment income may come in different forms and is referred to as fees, client contributions, sales revenue, etc. Program income is defined as gross income earned by the recipient that is directly generated by a supported activity or earned as a result of the award. Cost sharing payments cannot be used as non-federal match, but may only be added to federal funds to expand the project (additional costs alternative).

**Separation of Cost Sharing Payment Income From Other**

Where the cost of fund-raising activities, fee-for-service, entrepreneurial opportunities and ventures is paid for, in part or whole, with the expenditure of federal or state funds, the proceeds for such activities must be considered as cost sharing income and treated accordingly. This often occurs when the costs of such activities have been commingled with grant costs and cannot be readily separated. Most of the above-mentioned activities (e.g. fund-raising, fees, etc.) would also violate the scope of services for grant funds.

**Interest Earned on the Deposit of Grant Advances**

Although the interest earned on the deposit of federal and state grant funds is not technically considered cost sharing income, it should be accounted for in the same manner. That is, amounts earned from the deposit of advances on grants should be added to non-federal funds and used to expand the program. However, advance balances should be kept to a minimum.

**Investment of Grant Advances**

Federal regulations require that grant funds be deposited in an interest bearing account (45 CFR 74.22(k)). The investment of available federal or state funds should be directed by two principles:

- To protect all funds received from unreasonable loss or diminished value,
- To earn a reasonable return on funds not expected to be disbursed immediately.

Such funds should be deposited in an interest bearing checking account that is fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation.

**Timing of Cost Sharing Income**

Federal regulations require that cost sharing income be disbursed prior to requesting additional grant funds (45 CFR 74.22(g)). In effect, cost sharing income must be expended as it is received and not carried over to future periods.

**Voluntary Contributions**

Each AAA and the service providers with which it contracts must provide each older person the opportunity to contribute voluntarily to the cost of the service.

**Bonding**

All businesses should carry fidelity bonds to cover the loss of cash and other valuables. The administrative requirements allow VDA to establish bonding requirements (45 CFR 74.17(b)). VDA established minimum bonding levels to include all personnel handling cash or preparing or signing checks, and that the area agency on aging obtain minimum insurance coverage of three-months' cash flow, including checks received, in blanket fidelity bond coverage.

# Cost Principles

### Introduction

All direct, indirect and matching costs (including in-kind) under a grant must conform to federal cost principles. These can be found as OMB Circular A-122 for non-profit organizations and OMB Circular A-87 for units of local government. Although these circulars differ in individual items of cost and approval requirements, they are similar.

In order to ensure that grant costs conform to the cost principles, each AAA must have procedures for determining if costs are allowable by a grant, allocable to a grant and reasonable. These procedures should be written procedures.

### Prior Approval

An area AAA should first refer to the federal cost principles applicable to their type of organization (government or non-profit) to ascertain if there are any prior approvals required from their granting agency. There may also be other prior approvals required by the grant award or grant regulations. The following is a minimum, but not necessarily an inclusive, list of required prior approvals contained in the cost principles:

1. Changes in the scope or objectives of the grant-supported activities.
2. Undertaking any activities that are disapproved or restricted as a condition of the award.
3. Grantees of the VDA shall notify the Department in writing of any pending change of grantee institution, successor in interest, or institution name change. In a change of grantee or successor in interest situation, the VDA will exercise its prerogative to determine whether to continue funding the existing project(s) under the new entity.
4. Transferring to a third party, by contracting or any other means, the actual performance of substantive responsibility for the management of the grant.
5. Carry-over of funds from one budget period to another.
6. Extensions of the budget/project period with or without additional funds.
7. Capital expenditures for land or buildings. Also, such property acquired with the VDA grant support may not be conveyed, transferred, assigned, mortgaged, leased or in any other manner encumbered by the grantee, without the prior written approval of the VDA.
8. General and special-purpose equipment exceeding $5,000 per unit where OMB Circular A-102 applies.

9. Pre-agreement costs incurred prior to the effective date of any grant award.
10. Consultant fees, when the consulting agreement (1) constitutes a transfer of substantive management or administrative work to a third party, (2) results in a contract for management services that requires VDA or the federal grantor agency's prior approval, or (3) is required by program regulations or other award terms.
11. Need for additional funds.
12. Closely related work, when salaries and/or other activities are being supported by two or more grant sources, AAAs may request authority to charge costs to the Title III grant for which the costs are originally approved, or to another VDA project, provided all of the following conditions are met:
    - The projects are programmatically related;
    - There is no change in the scope of the individual grants involved;
    - The relating of costs will not be detrimental to the conduct of work approved under each individual award; and
    - The relatedness will not be used to circumvent the terms and conditions of an individual award.
13. Indemnification against third parties.
14. Transfer of funds between construction and non-construction.
15. Travel outside of the continental United States.
16. Contributions to a reserve fund for a self-insurance program and the cost of insurance on any U.S. Government-owned equipment requires prior approval.
17. Non-emergency patient care where other forms of medical cost reimbursement are available.

**Administrative Costs**

All costs for the operation of the AAA approved in its annual cost plan shall be considered administrative and may not exceed 10% of the total of its combined allotments for social, nutrition and preventive health services. Although preventive health may be used in determining allowable area plan administrative costs, preventive health funds may not be used to fund the expense. The following list of costs, which are considered necessary for the overall administration of the agency, shall be included in this category:

1. The personnel expenses of administrative secretarial staff, the agency director, and fiscal and planning staff to the extent they are involved in activities of a general nature related to the overall operation of the AAA. Such activities include personnel management or supervision by administrative staff that is not traceable to any specific service.

2. Staff time devoted to planning activities, which are of a general nature and not assignable or allocable to a service such as: preparing testimony, addressing public hearings, conducting public hearings, overall agency program performance reviews and analysis of program effectiveness, and revision of agency objectives and plans as necessary.
3. Staff time assigned to coordination activities (which may include joint planning with other agencies), assisting in the development of other agency programs to better serve the elderly; involvement in jointly funded activities and information sharing.
4. Staff time spent in researching and acquiring other resources to be used for the development and expansion of services provided through the area plan.
5. Providing travel expenses, meal allowances, etc., necessary in support of Advisory Council activities.
6. Travel expenses for personnel activities charged to the AAA administration cost center.
7. General agency personnel management and record keeping related to employee benefits, as well as developing and implementing agency personnel policies and such activities as staff orientation and training of a general nature.
8. Financial management of the entire agency operation such as maintaining necessary journals, ledgers and accounts, making requisite bank deposits and withdrawals, invoicing and payment processing, payroll administration and preparing periodic financial reports that encompass the overall agency financial status. The cost of project accounting for grant/contract activities may be treated as an allocable cost.
9. Activities involved in providing advocacy for older adults.
10. Costs of office furniture, supplies, and equipment designated specifically for the administrative staff
11. The portion of the agency's annual audit relating solely to the audit of its administrative functions. The portion of the agency's annual audit cost allocable to its program activities may be allocated on a rational basis.
12. The costs of general liability insurance, fidelity bonds, etc.

### Budgets

A grantee or sub-grantee's practices used in estimating costs in preparing its grant applications should be consistent with its accounting practices used in accumulating and reporting costs. By the same token, the AAA's accounting practices used in accumulating and reporting actual costs for a grant or sub-grant with the VDA shall be consistent with its practices used in estimating costs in its grant proposals.

### Direct versus Indirect Costs

Costs must be identified as either direct or indirect costs. The definition of direct and indirect costs may differ by AAA, but must be consistent within the AAA. The definition of indirect costs constitutes an accounting principle, and must be adhered to over time. Essentially this means all costs incurred for the same purpose, in like circumstances, are either direct costs only or indirect costs only with respect to grants. No final cost objective shall have allocated to it as an indirect cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective. No final cost objective should have allocated to it as a direct cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included in any indirect cost pool to be allocated to that or any other final cost objective.

The cost principles hold that a direct cost is a cost that can readily be identified with a cost objective, whereas an indirect cost cannot. This often depends on the accounting system and how the AAA identifies costs, and so, AAAs will define indirect costs differently. For example, while one AAA may identify which grant was responsible for particular phone calls having been made, (a method of direct allocation), another agency may pool phone costs and distribute according to each grants relative payroll cost. The important thing to remember about indirect cost distribution is that the cost driver (payroll cost in our example) has some relationship to how the cost is incurred (payroll cost is relative to the number of employees making phone calls). The use of indirect cost distribution should not produce materially different results than direct cost distribution methods.

A grantee or sub-grantee of the VDA must have written accounting policies and practices for classifying costs as direct or indirect. These policies and practices shall be consistently applied. Indirect costs should be accumulated in indirect cost pools that are homogeneous. As mentioned above, pooled costs must be allocated to cost objectives, in reasonable proportion to the beneficial or causal relationships of the pooled costs to cost objectives.

**Unallowable Costs**

The cost principles identify costs that are not allowed in federal grants. Such costs typically incurred by AAAs include lobbying costs, interest expense, bad debts, contributions, costs requiring but not receiving prior approval, etc. Costs expressly unallowable in the cost principles or mutually agreed to be unallowable by contract or other agreement, must be identified in separate accounts and excluded from a billing, claim, grant or contract with the VDA. Of course, these costs must also be excluded from any indirect cost pools.

**Support for Labor Distribution**

Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, must be based on documented payrolls approved by a responsible supervisory official of the AAA. In addition, the cost principles require that the distribution of time worked must be supported by personnel activity reports. Employees should be provided clear instructions of the work to be performed and the grant to be charged. Employees must maintain a record of the amount of time expended on each grant. Normally, non-profit organizations or agencies elect to charge their programs directly for all costs except those identified as "supporting services" costs. These organizations usually separate their costs into two basic categories:

1. Program Services, which include direct functions such as community service activities, research, education and training; and
2. Supporting Services, which include general administration and general expenses, and fund-raising expenses. These two expense groups are usually separately disclosed in the financial statements.

Many joint costs, such as depreciation, operation and maintenance of facilities, and telephone expenses, are prorated individually to each activity within program services (including projects performed under federal awards) and to each activity within supporting services. The most appropriate distribution base should be used to prorate each joint cost. The direct allocation method is acceptable provided each joint cost is prorated on a distribution base which is (1) established in accordance with reasonable and consistently applied criteria, (2) adequately supported by current data of the organization, and (3) based on benefits received.

The general administration and general expenses are allocated to federal awards and other activities within program services and to fund-raising by an indirect cost rate(s). The process of developing indirect cost rates under the direct allocation method is summarized below.

- Eliminate capital expenditures and unallowable costs identified in

Attachment B of OMB Circular A-122.

- Compute the indirect cost rate by dividing the allowable general administration and general expenses by the rate base. The rate base would consist of program services and fund raising costs.

Inasmuch as some AAAs do not provide services directly, such indirect costs should not be allocated to supportive services. Any allocations that can be made must be made among the general administrative expenses authorized under the separate funding sources: the various Titles of the Older Americans Act, or other grants. It is to these cost objectives that indirect costs should be directly allocated. For such cost objectives, an area agency seeking reimbursement for its indirect costs, should pinpoint each kind of indirect service provided or indirect costs incurred and allocate each cost or base representative of the beneficial or causal relationships of such costs to the underlying activity. For example, such representative indirect cost services and related bases could include:

| **Type of Indirect Service** | **Suggested Bases of Allocation** |
|---|---|
| Accounting | Number of transactions processed |
| Auditing | Direct audit hours |
| Data processing | Machine hours (CPU) |
| Disbursing service | Number of checks written |
| Fringe benefits | Salaries using fringe benefit rate |
| Insurance | Dollar value of insurance premiums |
| Legal | Direct hours |
| Motor pool | Miles driven and/or days used |
| Office machines | Direct hours of utilization |
| Office space use | Square feet of space occupied |
| Payroll | Number of employees |
| Personnel | Number of employees |
| Printing and reproduction | Direct hours, job basis, pages printed, etc. |
| Local telephone | Number of telephone instruments |
| Fidelity bonding | Employees subject to bond amount |

Other indirect costs such as workers' compensation, office supplies, postage, training, recruiting, etc., shall be allocated in a rational way the AAA believes to be equitable.

An AAA seeking reimbursement for indirect costs using the direct allocation method shall prepare a current allocation plan and have it available on file for review.

# Other Topics

## Minimum Required Records

For the purpose of determining the adequacy of a sub recipient's financial management system, the VDA shall consider the following records to be the minimum maintained on a current basis:

1. General Journal,
2. General Ledger,
3. Separate or combined Cash Receipts and Disbursements Journal or Voucher Register,
4. Payroll Register (if the agency has more than 10 employees),
5. Fixed Assets Register for all owned and leased property and equipment,
6. In-Kind Journal/Worksheets,
7. Project Cost Control Subsidiary Ledger/Worksheets, and
8. Bank statements reconciled within 15 working days of receipt.

Grantees of the VDA may substitute the equivalent kind of records for those specified above, above provided the substitute records meet the function for which those records have been required.

# Chapter 7 – Fixed Asset Management

**Introduction**

**Objectives**

There are many objectives of fixed asset management such as providing information for:

- financial statement preparation
- substantiation of insurance claims
- planning & budgeting
- repair and maintenance planning
- accountability & loss prevention
- disposal
- cost recovery
- identification of idle or obsolete assets

**Qualified Opinions**

There are several instances of AAAs having received qualified audit opinions due to the lack of or inadequate fixed asset listing. The receipt of a qualified audit opinion is not desirable. Inadequate fixed asset records limit the ability of the AAA to capitalize fixed assets or to substantiate their account balance. This chapter provides guidance for establishing fixed asset listings.

## Fixed Asset Definitions

**Introduction**

Fixed assets most often consist of land, buildings, improvements, equipment, and construction in progress.

**Threshold for Accountability**

An AAA should establish its own threshold for accountability, but that threshold must be at least as restrictive as those policies set forth in the administrative requirements. For example, all fixed assets acquired with an individual value of over $5,000 would be accounted for in the fixed asset management system. An AAA should state this policy in writing.

**Definitions Cost To Be Recorded**

The table following pages presents definitions of assets and the costs to be recorded.

| ASSET TYPE | DEFINITION | COST TO BE RECORDED |
|---|---|---|
| **LAND** | Real property whose title is held by an AAA. | • Purchase Price<br>• Costs in conjunction<br>a. Legal & title fees<br>b. Survey & recording<br>c. Appraisal<br>d. Site preparation |
| **BUILDINGS** | Roofed structures for permanent or temporary storage of people or things. HVAC systems would be included as a separate category of buildings. | • Purchase or constructed price<br>• Costs in conjunction<br>a. Architect fees<br>b. Other professional fees<br>c. Insurance<br>d. Improvements that extend the useful life |
| **IMPROVEMENTS OTHER THAN BUILDINGS** | Non-building and non-land related improvements, such as paving, concrete, fencing. | • Purchase or constructed price |
| **EQUIPMENT** | Property of any kind, which is complete in itself and does not lose identity or become a building component. | • Purchase price<br>• Transportation charges |
| **CAPITAL LEASES** | Leases, which are in substance an acquisition of fixed assets. | • Net present value of the lease payments |
| **LEASEHOLD IMPROVEMENTS** | Improvements to leased property such as buildings, walkways, and permanently installed equipment. | • Purchase or constructed price |
| **CONSTRUCTION IN PROGRESS** | Project to date labor, materials, and equipment. | • Purchase or constructed price, interest and insurance during construction |

# Acquiring and Disposing of Fixed Assets

**Introduction**

This section briefly discusses some of the aspects of acquiring and disposing of fixed assets.

**Valuation of Fixed Assets**

Assets should be recorded at their purchase price amount plus costs in conjunction with the purchase. Assets that are donated should be recorded at the fair market value on the donation date.

**Tagging of Assets**

Once assets have been purchased, they should be tagged or engraved with a label that indicates ownership and a sequential number assigned to it. This tag number should become a part of each item's record in your fixed asset listing.

**Disposing of Fixed Assets**

There are several ways in which assets are disposed of:

- by sale or trade-in
- by scrapping due to obsolescence
- due to theft or other losses

Regardless of the method of or reason for disposal, the assets should be removed from the accounting records at the amount initially recorded less any depreciation, if applicable.

**Remember that if fixed assets were purchased with grant monies, the grantor often retains a reversionary interest in the assets**. This means that the grantor's approval may need to be requested for the disposition of certain assets. Consult the administrative requirements for conditions when grantor approval is needed. Generally, the conditions are that the asset be transferred to some other program or the proceeds of disposal be remitted to the grantor or used to further the program's objectives. It is therefore very important to be familiar with these requirements before disposing of any assets.

# Fixed Asset Listings and Physical Inventories

**Fixed Asset Listing**

This section discusses the design of fixed asset listings and some suggestions for conducting physical inventories of fixed assets. A fixed asset listing reports the detail of all assets purchased. The following is a sample format with the information required. The type of software used will normally dictate the particular content and arrangement of a listing. This listing should be stored in a fireproof safe.

FIXED ASSET LISTING FOR VIRGINIA AAA 7/01/2001

| **Class Code (Asset Type)** | **Property Description** | **Location** | **Custodian** | **Serial Number** | **Inventory Tag Number** | **Acquisition Date** |
|---|---|---|---|---|---|---|
| 4000 | Photocopier | Executive Office | Executive Secretary | 12345689 | 55 | 01/15/01 |
| **Disposal Date** | **Sales Price** | **Funding Source** | **% Federally Funded** | **Cost** | **Check/PO Number** | |
| | | State | 0 | $7,500.00 | 20010023 | |

**Get Help**

It is a good idea to consult your accounting firm, other AAAs or perhaps your locality when designing your fixed asset system. Ask them about fixed asset listing considerations and physical inventories. The guidance provided above could be expanded or tailored to your needs.

**Class Code**

A chart of accounts should be designed for class consideration codes that indicate the code number and description.

Examples

- 1000 Land
- 2000 Buildings
- 3000 Other Improvements
- 4000 Equipment
- 5000 Construction in Progress

These codes could be expanded to include more descriptive information such as whether property was purchased with federal or state funds.

Examples:

- 4100 Federal Equipment
- 4110 Federal Furniture
- 4120 Federal Computers
- 4200 State Equipment
- 4210 State Furniture

**Conducting Physical Inventories**

Physical inventories of fixed assets should be conducted annually. While the administrative inventories requirements permit inventory every two years, the state regulations for AAAs require an annual inventory. AAAs maintain a number of vehicles, office equipment and site facilities that should be inventoried annually.

**Purpose of Inventory**

The fixed asset inventory is useful in verifying the existence of the asset the asset's current condition, utilization and continued need for the property

**Advance Preparation**

Proper planning and advance preparation can ensure an efficient inventory. Consider the following:

- Select a cut-off date for fixed asset purchases.
- Ensure that the fixed asset listing has been updated as of the cut-off date.
- Prepare a written plan to conduct the inventory and notify personnel.

**The Inventory**

Taking the inventory is a detailed process. Using an updated fixed asset listing, go to each location and check-off the items found.

Note:

- The use of colored stickers or inventory tags to indicate that an item has been inventoried will help avoid errors in taking the inventory.
- Make a list of items not appearing on the listing and investigate.
- Investigate any items on the listing that cannot be located.
- Prepare an updated listing and summarize the results of the inventory and any suggestions for improvement or follow up.

# Federal Requirements

**Introduction**

Federal requirements for fixed assets are contained in federal publications. This section summarizes some of the more important requirements. A listing of federal publications is contained later in this section. AAA fiscal directors should be familiar with the federal publications and individual grant requirements surrounding fixed assets.

**Unallowable Costs**

AAAs are not permitted to expend federal grants for the following:
- Improvement of land
- Purchase, construct or permanently improve any building or other facility (other than minor remodeling)
- Purchase major medical equipment

**Title**

Title to equipment acquired under a grant or sub-grant will vest upon acquisition in the grantee or sub-grantee (AAAs and their contractual agencies).

**Use**

Equipment shall be used in the program for which it was acquired. When no longer needed for the original program the equipment may be used in other programs.

**Record Requirements**

All AAAs are required by the administrative requirements to maintain certain information on each asset purchased with federal grant funds. The following are considered the minimum data needed for your property records:
- Description of the equipment,
- Serial or identification number,
- Funding source of the equipment award number,
- Where title vests,
- Acquisition date,
- Extent of federal participation in the cost of item,
- Location and condition of the property,
- Unit acquisition cost, and
- Disposition data including the date of disposition, sales price and/or method to determine the fair market value.

**Replacement Equipment**

When acquiring replacement equipment, the AAA may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property, subject to the approval of VDA.

**Disposition**

Equipment that is no longer needed by the AAA may be disposed of. If the equipment has a per unit fair value of $5,000 or more, the AAA may keep the equipment and use it for another federally funded program. If it cannot be used in another federally funded program, then the equipment may be used for other purposes with the approval of VDA. The federal program must be reimbursed for its value based on the percentage for federal participation in the original purchase. If the AAA has no use for the item, it may be disposed of with approval from VDA.

VDA must determine if another project can use the equipment, and if not, obtain federal approval for disposition.

**Federal Publications**

AAA fiscal officers may consult the following federal publications for further information and guidance concerning the management of fixed assets purchased with federal funds:

| OMB CIRCULAR # | TITLE |
|---|---|
| A-87 | Cost Principles for State and Local Governments |
| A-122 | Cost Principles for Non-Profit Organizations |
| A-102 | Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments |
| A-110 | Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations |
| A-133 | Audits of States, Local Governments, and Non-Profit Organizations |

# Chapter 8 – Cash Management

**Introduction**

This chapter contains cash management standards that have previously been established by the Department plus other standards, which have been initiated from audit findings, questions from AAAs, or sound business practices.

**Cash Management**

Cash management is a function of financial management that has as its overall objective the effective utilization of all scarce resources for the achievement of organizational goals.

Accordingly, cash management, is the forecasting of cash positions and controlling receipts, disbursements, and cash balances so as to optimize overall interest or investment income

**Advances**

AAAs are permitted to receive advances on grants. These advances are made only to assist AAAs in maintaining cash flow while awaiting reimbursement. Advances are not an entitlement and any request for advance funding must be substantiated. While VDA establishes a maximum for outstanding advances (one month for state funds and two months for federal funds) AAAs should not request funds for which they do not have immediate plans to disburse.

AAAs must have a system to forecast cash needs for advances and to request only the amounts that are needed each month. These methods may be as simple or as sophisticated as each accounting system will support. That is, some agencies cannot identify cash disbursements by grant, thus they cannot calculate an end of the month cash balance. It may be necessary to develop information to calculate these amounts such as end of the month accounts payable balances or other reconciling items. These amounts are needed for both cash forecasting and the monthly reports.

While an advance request is justified by expected expenditures, AAAs should be alert for requesting an advance in excess of the average monthly expenditures for the past two months. For example, AAAs should not request an advance on General Funds in July and not expend these funds until September or October.

**Cash Balances for Program Income**

Any amounts of program income (to include fee revenue) must be expended prior to requesting grant funds. Effectively, there should be no cash balances for program income by year-end.

**Investments**

AAAs are not allowed to invest unspent grant funds, although they may invest cash balances belonging to the AAA. The reason has to do with whether there are balances available for investment. The administrative requirements permit grantees to receive advance funding only to meet their immediate cash needs and to maintain only minimal cash balances. By this reasoning, there should be no appreciable cash balances to invest. The state regulations for AAAs require AAAs to deposit unspent grant funds in interest bearing checking accounts, but permit no other use of the funds.

**Interest**

Interest expense is the charge for the use of borrowed money. Interest expense is commonly found when one purchases a good or service over a period of time. The cost principles for both non-profit organizations and local governments do not allow interest expense for borrowed capital. However, it is permitted in some cases (e.g. certain capitalized assets acquired after 9/29/95). The rules in the cost principles are complicated and it is prudent to obtain approval from the Department whether interest may be permitted prior to incurring the expense.

**Prepayment**

Prepaying expenditures due in the following fiscal year with excess current fiscal year revenues is not acceptable. Any prepaid expenses must be recorded as assets and allocated to the following fiscal year in accordance with GAAP.

# Chapter 9 – Audit Requirements for AAAs and Sub-grantees

**Introduction**

This chapter discusses general audit requirements applicable to AAAs and their contract agencies.

**General**

Each AAA is required to have an annual audit. Audits are due to the VDA office by December 15th. Audits are then evaluated for compliance with standards for disclosure and quality of the overall audit report.

**References**

The auditor when conducting an audit should follow the following references and auditing standards:

- Generally Accepted Auditing Standards (GAAS)
- Governmental Auditing Standards (GAS)
- Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations
- Compliance supplements for each program

# Independent Audit Reporting Requirements

**Introduction**

This section describes the various audit reports and reporting deadlines. Most AAAs must comply with the Single Audit Act of 1984 and have a single audit in compliance with OMB Circular, A-133. A single audit is an audit of all of the agency's operations, but contains reports and schedules that pertain to grants and other funded programs.

**Parts of the Single Audit**

All single audits consist of the following parts:

- Financial Statements
    1. Statement of Financial Position (Balance Sheet)
    2. Statement of Activities (Income Statement)
    3. Statement of Changes in Net Assets
    4. Statement of Cash Flows
- Auditors Report on the Financial Statements
- Report on Supplementary Information
- Report on Supplementary Information
- Compliance Section

- Internal Control Reports
- Supplemental Information
- Management Letter

**Auditors Report on the Financial Statements**

This is the auditor's opinion as to whether the statements are fairly presented in conformity with GAAP. Most agencies will receive an unqualified opinion, which means the statements are fairly presented. On occasion an agency will receive a qualified opinion. This means the auditor must disclose some aspect in which the statements are not fairly presented. This will be included in the opinion. Qualifications are expected to be rectified immediately.

**Compliance Section**

This section reports how the grantee has complied with various laws and regulations. Anything reported here must he corrected. Matters reported here may also result in questioned costs. This report may include instances of noncompliance with grant provisions, illegal acts or irregularities.

**Internal Control Reports**

This section reports on the agency's internal control structure. It is intended to highlight matters in which there is a deficiency in the design or execution of the agency's internal controls.

Reportable conditions and/or material weaknesses may be reported. Reportable conditions are matters that the auditor wants to communicate to the board because they are a significant weakness in the internal control system. A material weakness is the most serious matter. It means that the design or operation of specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities would be material in relation to the financial statements. A material weakness is cause for special concern.

**Supplemental Information**

Schedules A, B and C
Schedule of Federal Assistance

### Management Letter

Management letters offer valuable suggestions for improvement in financial management and internal controls of an AAA or sub-grantee. They are not a required part of the audit, but are matters that the auditor wants to bring to the attention of management. These letters may contain advice on efficiency improvements, improvements in internal control or compliance. These letters are intended to assist the agency with improvements and should be treated seriously. **If the AAA receives a management letter, the letter must be submitted with the audit along with a corrective action plan on how the matters contained in the management letter will be addressed.**

### Reporting Deadlines

All audit reports are due by December 15 for fiscal years ending September 30. Some AAAs who are divisions of local governments and they have fiscal years that end on June 30. A deadline for these audits is not contained in the state regulations for AAAs; however, these audits should be submitted as soon as they are ready. While these AAAs may have little control over the completion of the Comprehensive Annual Financial Report (CAFR) of which their audit is a part, these AAAs must ensure that the VDA receives a copy of the CAFR.

For those agencies that are unable to submit the audit timely, the regulations do allow for an extension of the deadline. The extension is not automatic and must be applied for in writing. Applications should indicate the reason for the delay and the expected completion date. <u>Audit deadlines can be extended **one** time per year not to exceed **thirty days**</u>. If the delay is for other than a slight delay in submission, it is recommended that the agency apply for a thirty-day extension and submit the audit earlier if possible.

### Follow-up Procedures

If an AAA has not submitted its audit report by the specified deadline, VDA will institute follow-up procedures to ensure that the audit report is received within a reasonable time period. It is very important that VDA receive the audits timely, in order to post carry over balances to the following years contracts and to measure the financial health of the AAA. A late audit without an extension is a serious matter. If the audit continues to be late VDA will impose sanctions either to suspend payment on the contract or to suspend the contract.

**Audit Resolution**

After the audit is received, it is reviewed and compared to the closeout reports, monthly remittance summaries and contracted amounts. Questions may arise at this time. Timely response and explanation from the AAAs is expected.

**Plans of Correction**

The Executive Director should approve plans of correction to auditor findings and other communications, such as management letters and reports on internal control. A copy of the plan should be sent to VDA. This plan should be sent with the audit, but if it cannot, then send a statement with the audit as to when the plan for corrective action will be developed. Plans should include a reference to the finding, any comments to the finding not included in the audit (now is not the time to rebut the finding), planned steps to correct the problem, timeframe for implementation and any other relevant facts.

**If You Have Questioned Costs**

If there were matters of noncompliance that gives cause to believe that certain costs are not permitted, (e.g. grant costs were not properly matched) then the auditor will question these costs. If you have questioned costs, you must address these in the corrective action plan. Questioned costs need not necessarily be disallowed, if the AAA can develop to VDA's satisfaction sufficient evidence that can mitigate the finding. This may be developed after the audit.

# Independent Audit Requirements for Sub-grantees

**Audit Reporting Requirements**

Sub-grantees of AAAs should follow the Audit Reporting Requirements for reports due to VDA noted in this chapter. Chapter 10 discusses sub-grantee financial management and administrative requirements.

**What Is A Sub-grantee?**

The single audit regulations make a distinction between vendors and sub-grantees. Only sub-grantees need to have audits conducted. A sub-grantee is a recipient of grant funding, who assumes the responsibility for achieving the projects goals. A vendor is responsible for the provision of goods and services. The latest version of OMB Circular A-133 contains criteria for how to distinguish between the two. Sub-grantees must submit audits to the AAA, which meet federal audit criteria. The AAAs must review the audits, determine the need for corrective actions and provide follow up. AAAs who are uncertain of how to proceed should contact VDA for guidance.

**Audit Requirement**

Non-federal entities that expend $300,000 or more in a year in federal awards shall have a single or program-specific audit conducted for that year. Non-federal entities that expend less than $300,000 a year in federal awards are exempt from federal audit requirements for that year, but records must be available for review or audit by appropriate officials of the federal agency, pass through entity and General Accounting Office (GAO).

# Additional Disclosures Requested from Auditors

**Introduction**

Additional disclosures are requested from auditors for inclusion in annual audit reports. These disclosures are requested to assist VDA in determining the final costs to contracts and to determine carryover balances to the next year's contracts.

**Schedules A, B, and C**

There are several schedules that must be included in the audit of an AAA. The schedules are the same format as those sent as the closeout schedules, but have been subjected to an audit. VDA reviews these schedules against criteria to determine compliance with spending caps, match requirements, carryover limits, etc. AAAs should review these schedules for compliance prior to submission.

# Chapter 10 – Sub-grantees

**Introduction**

This section contains financial management and administrative requirements applicable to sub-grantees that provide aging services through contractual arrangements with the AAAs.

**Accountability**

AAAs must comply with the applicable provisions of the contract negotiated with the Department. The AAA must pass on the requirements of the contract terms with the Department to its sub-grantees in order to meet its contracted assurances. The AAA is primarily responsible for providing the VDA with the evidence and assurance that the performance of sub-grantees is monitored and that standards are met.

**Definitions**

AAA sub-grantees are generally private not-for-profit entities that provide services to an AAA through a grant or shared cost arrangement involving significant amounts of resources and services. A contractual relationship may also be established with an agency of local government. However, it is not the entity's organization or the contracting instrument that determines status as a sub-grantee. OMB Circular A-133 defines sub-grantees as recipients of pass through funds. The fact that an entity has received pass through funds is determined by the responsibility the recipient assumes for the accomplishment of the program's goals.

**Sub-grantee**:

- Determines client eligibility,
- Has performance measured as to whether program objectives are met,
- Has responsibility for programmatic decision making,
- Has responsibility for adherence to program compliance requirements,
- Uses the federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass through entity.

**Vendor:**

- Provides goods and services within normal business operations,
- Provides similar goods and services to many purchasers,
- Operates in a competitive environment,
- Provides goods and services that are ancillary to the program,
- Is not subject to compliance requirements of the program.

In making the determination of whether a sub-grantee or vendor relationship exists, the substance of the relationship is more important than the form of the agreement. It is not expected that all of the characteristics will be present and judgment should be used in determining whether an entity is a sub-grantee. If there is any doubt, the AAA should seek guidance from the VDA.

# Financial Management

**General**

Sub-grantees of AAAs are subject to all the same compliance provisions that AAAs are subject to. For example, sub-grantees may only receive reimbursement for allowable costs, must maintain inventory in conformity with the administrative requirements and so forth. AAAs have the responsibility to monitor sub-grantees for compliance with all of these requirements.

**Sub-grantee**

AAAs are required by state regulation to conduct periodic monitoring of sub-grantees. Both a financial and programmatic monitoring should be conducted. Monitoring may take whatever form the AAA deems useful, but it should include verification of sub-grantee financial reporting. The AAAs are also responsible for reviewing sub-grantees audit reports. There is no set format for this review, but it should follow up on needed corrective actions, recovery of questioned or disallowed costs, etc.

**Principles for Cost Determination**

Sub-grantees will comply with principles for determining costs in calculating, negotiating, budgeting and reporting the costs of contractual services.

## Standards of Financial Management

The financial management systems of sub-grantees must meet the following standards.

### Financial Reporting

Accurate, current, and complete disclosure of the results of financially assisted activities must be made in accordance with the financial reporting requirements of the contract between VDA and the AAA.

### Accounting Records

Sub-grantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities.

### Internal Control

Effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets. Sub-grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

### Budget Control

Actual expenditures or outlays must be compared with budgeted amounts for each grant or sub-grant.

### Allowable Cost

Applicable cost principles, agency regulations, and the terms of contractual agreements will be followed in determining if costs are allowable, allocable and reasonable.

### Source Documentation

Accounting records must be supported by appropriate source documentation.

### Cash Management

AAAs must time advances of federal funds to their sub-grantees to assure that they conform substantially to the same standards of timing and amount that apply to advances to the AAA.

# Administrative Requirements

**Introduction**

This section contains administrative requirements applicable to all sub-grantees that receive state and federal funds from AAAs. Sub-grantees that are funded only with local funds would not be subject to these requirements.

**Bonding and Insurance**

The sub-grantee is expected to take reasonable precautions to protect against losses. This includes the following.

- Appropriate Bonding
- Officer's Liability Insurance
- Professional Staff Liability Insurance
- Comprehensive Loss Insurance
- Fire and Theft Insurance
- Automobile Insurance
- Other appropriate insurance

**Record Retention**

The sub-grantee must retain all financial records for five years after audit.

**Sub-grantee Income**

All revenue generated or received by the sub-grantee for the services it provides pursuant to its contract with the AAA must be used for the AAA. These revenues should be reported on the revenue portion of the required reports. Sources which are not listed on the reports should be included on the respective "Other' lines with a description of source.

**Financial Reporting**

The sub-grantee should send to the AAA, the information necessary for the AAA to complete required monthly reports to VDA. This information, about services provided, should be the same information that is required from the AAA.

**Grant Closeout Procedures**

When it is anticipated that the AAA's agreement with the sub-grantee is to be terminated, the sub-grantee must perform the following procedures.

- Prepare an estimate of expenditures to be incurred after termination date or after current contract period.
- Submit the listing to the AAA two months in advance of termination.
- Submit to the AAA a request for close out funding if necessary or extension of the contract period.
- Inventory all equipment acquired under contract.
- Report the results of the inventory to the AAA and request disposition instructions.
- Submit final financial report.

**Procurement Standards**

Sub-grantees and AAA's are subject to the provisions of the Public Procurement Act.

**Audit Reports**

Please refer to Chapter 9 of this manual for applicable audit requirements.