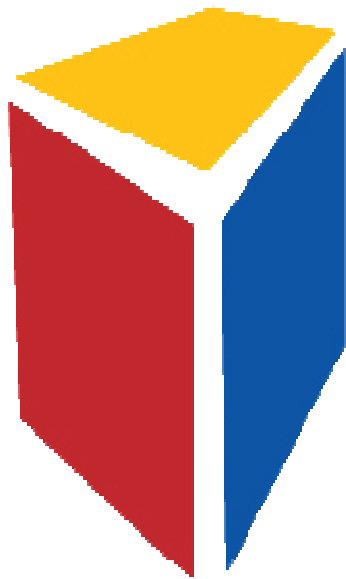


Northwest Arkansas Head Start Human Services, Inc.



HEAD START
of NORTHWEST ARKANSAS

Accounting & Financial Manual 2007-08 Program Year

Approved by Policy Council on August 13, 2007
Approved by the Board of Directors on August 21, 2007

Effective Date(s) Of Accounting Policies

The effective date of all accounting policies described in this manual is August 21, 2007. If a policy is added or modified subsequent to this date, the effective date of the new/revised policy will be indicated in the policy footer.

TABLE OF CONTENTS

INTRODUCTION.....	6
GENERAL POLICIES.....	6
ORGANIZATIONAL STRUCTURE.....	6
The Role of the Board of Directors.....	6
Committee Structure.....	6
Finance Committee Responsibilities.....	7
Audit Committee Responsibilities.....	7
The Roles of the Executive Director and Staff.....	7
ACCOUNTING DEPARTMENT OVERVIEW.....	7
Organization.....	7
Responsibilities.....	8
BUSINESS CONDUCT.....	8
Practice of Ethical Behavior.....	8
Conflicts of Interest.....	8
Compliance With Laws, Regulations and Agency Policies.....	9
Disciplinary Action.....	9
FRAUD POLICY.....	9
Scope.....	9
Policy.....	9
Other Irregularities.....	9
Investigation Responsibilities.....	9
Confidentiality.....	10
Authority for Investigation of Suspected Fraud.....	10
Reporting Procedures.....	10
SECURITY.....	10
Accounting Department.....	10
Access to Electronically Stored Accounting Data.....	10
Storage of Back-Up Files.....	11
General Office Security.....	11
TECHNOLOGY AND ELECTRONIC COMMUNICATIONS.....	11
Purpose and Scope.....	11
Acceptable Use of Agency Property.....	11
Password Security.....	11
Confidentiality.....	11
Copyrighted Information.....	11
Installation of Software.....	12
Disciplinary Action for Violations.....	12
Reporting of Suspected Violations.....	12
GENERAL LEDGER AND CHART OF ACCOUNTS.....	12
Chart of Accounts Overview.....	12
Distribution of Chart of Accounts.....	12
Control of Chart of Accounts.....	12
Account Definitions.....	13
Classification of Net Assets.....	14
Changes to the Chart of Accounts.....	14
Fiscal Year of Agency.....	14
Journal Entries.....	14
POLICIES ASSOCIATED WITH REVENUES AND CASH RECEIPTS.....	15
REVENUE.....	15
Revenue Recognition Policies.....	15
CONTRIBUTIONS RECEIVED.....	15
Definitions.....	15
Distinguishing Contributions from Exchange Transactions.....	15
Accounting for Contributions.....	16
Receipts and Disclosures.....	16
Accounts Receivable Entry Policies.....	17

Classification of Income and Net Assets	17
CASH RECEIPTS	17
Overview	17
Processing of Checks and Cash Received in the Mail (Form HSF-1)	18
Endorsement of Checks	18
Timeliness of Bank Deposits	18
Reconciliation of Deposits	18
ACCOUNTS RECEIVABLE MANAGEMENT	18
Monitoring and Reconciliations.....	18
Collections	18
Credits and Other Adjustments to Accounts Receivable.....	18
Accounts Receivable Write-Off Authorization Procedures	19
Reserve for Uncollectible Accounts.....	19
POLICIES ASSOCIATED WITH EXPENDITURES AND DISBURSEMENTS	19
PURCHASING POLICIES AND PROCEDURES (A110.46)	19
Overview.....	19
Responsibility for Purchasing	19
Non-Discrimination Policy.....	20
Use of Purchase Orders	20
Authorizations and Purchasing Limits	20
Required Solicitation of Quotations from Vendors	20
Evaluation of Alternative Vendors	21
Affirmative Consideration of Minority, Small Business and Women-Owned Businesses	21
Special Purchasing Conditions.....	22
Vendor Files and Required Documentation	22
Ethical Conduct in Purchasing.....	22
Conflicts of Interest Prohibited.....	22
Receipt and Acceptance of Goods.....	22
POLITICAL INTERVENTION A - 122.25	23
Prohibited Expenditures	23
Endorsements of Candidates	23
Prohibited Use of Agency Assets and Resources.....	23
ACCOUNTS PAYABLE MANAGEMENT	23
Overview.....	23
Recording of Accounts Payable	24
Accounts Payable Cut-Off	24
Establishment of Control Devices.....	24
Preparation of a Check Voucher Package	24
Processing of Check Voucher Packages	24
Payment Discounts.....	24
Reconciliation of A/P Subsidiary Ledger to General Ledger	24
Use of a Credit Card/Purchasing Card	25
TRAVEL AND BUSINESS ENTERTAINMENT	25
Travel Advances.....	25
Reasonableness of Travel Costs.....	26
Special Rules Pertaining to Air Travel	26
Spouse/Partner Travel.....	26
CASH DISBURSEMENTS (CHECK-WRITING) POLICIES	27
Check Preparation	27
Check Signing.....	27
Mailing of Checks	27
Voided Checks and Stop Payments.....	27
Record-Keeping Associated with Independent Contractors.....	27
PAYROLL AND RELATED POLICIES.....	28
Classification of Workers as Independent Contractors or Employees	28
Payroll Administration	28
Changes in Payroll Data.....	29
Payroll Taxes	29

Preparation of Time Sheets.....	29
Time Sheet Collection.....	29
Payroll Processing.....	30
Leave Requests (Form HSP-99).....	30
Accruals.....	30
Timesheet Organization.....	30
Status Change.....	30
POLICIES PERTAINING TO SPECIFIC ASSET AND LIABILITY ACCOUNTS.....	31
CASH AND CASH MANAGEMENT.....	31
Cash Accounts.....	31
Bank Reconciliation.....	31
Cash Flow Management.....	31
Stale Checks.....	31
Wire Transfers.....	32
PREPAID EXPENSES.....	32
Accounting Treatment.....	32
Procedures.....	32
FIXED ASSET MANAGEMENT A-110.34.....	32
Capitalization Policy.....	32
Contributed Assets.....	32
Establishment and Maintenance of a Fixed Asset Listing.....	32
Receipt of Newly-Purchased Equipment and Furniture.....	33
Depreciation and Useful Lives.....	33
Repairs of Fixed Assets.....	33
Dispositions of Fixed Assets.....	33
Write-Offs of Fixed Assets.....	33
LEASES.....	34
Classification of Leases.....	34
Accounting for Leases.....	34
ACCRUED LIABILITIES.....	34
Identification of Liabilities.....	34
Accrued Leave.....	34
NOTES PAYABLE.....	35
Record-Keeping.....	35
Accounting and Classification.....	35
Non-Interest-Bearing Notes Payable.....	35
POLICIES ASSOCIATED WITH FINANCIAL AND TAX REPORTING.....	36
FINANCIAL STATEMENTS.....	36
Standard Financial Statements of the Agency.....	36
Frequency of Preparation.....	36
Annual Financial Statements.....	37
GOVERNMENT RETURNS.....	37
Overview.....	37
Filing of Returns.....	37
Public Access to Information Returns.....	37
UNRELATED BUSINESS ACTIVITIES.....	38
Identification and Classification.....	38
Reporting.....	38
FINANCIAL MANAGEMENT POLICIES.....	38
BUDGETING A-110.21.....	38
Overview.....	38
Preparation and Adoption.....	38
Monitoring Performance.....	39
Budget Modifications.....	39
ANNUAL AUDIT A-133.....	39
Role of the Independent Auditor.....	39
How Often to Review the Selection of the Auditor.....	39
Selecting an Auditor.....	39

Preparation for the Annual Audit	40
Concluding the Audit.....	41
Audit Committee Responsibilities	41
INSURANCE A-110.31	41
Overview	41
Coverage Guidelines	41
Insurance Definitions	42
RECORD RETENTION A-110.53	42
FUNCTIONAL EXPENSE ALLOCATIONS A-122	43
Overview	43
Direct Charging of Costs	44
Allocation of Overhead Costs	44
POLICIES PERTAINING TO FEDERAL AWARDS Attachment A	44
ADMINISTRATION OF FEDERAL AWARDS	44
Definitions	44
Preparation and Review of Proposals	44
Post-Award Procedures.....	44
Compliance with Laws, Regulations and Provisions of Awards	45
Billing and Financial Reporting	45
Accounts Receivable.....	46
Cash Draw-downs Under Letters of Credit.....	46
Procurement Under Federal Awards	46
Solicitations of Bids from Vendors.....	46
Provisions Included in all Contracts.....	47
Equipment and Furniture Purchased With Federal Funds	48
Standards for Financial Management Systems.....	48
Budget and Program Revisions	49
CHARGING OF COSTS TO FEDERAL AWARDS	49
Overview	49
Segregating Unallowable From Allowable Costs	49
Criteria for Allowability	50
Direct Costs	50
Accounting for Specific Elements of Cost	50
Cost Sharing and Matching	52

INTRODUCTION

The following Accounting & Financial Manual is intended to provide an overview of the accounting policies and procedures applicable to Northwest Arkansas Head Start Human Services, Inc., which shall be referred to as "the Agency" or "NWAHSHS" throughout this manual.

NWAHSHS is incorporated in the state of Arkansas. NWAHSHS is exempt from federal income taxes under IRC Section [501(c)(3)] as a nonprofit corporation. NWAHSHS tax-exempt mission is:

STRIVING FOR EXCELLENCE

Head Start in the State of Arkansas exists to provide and to promote a high quality, developmentally appropriate child development program for economically deprived children 3 to 5 and/or 0 to 3 years of age, thus reducing the potential for school failure.

AT-RISK FAMILIES TARGETED

The comprehensive approach to serving families and the community addresses the issues of childcare, family literacy, alcohol and substance abuse, violence, adolescent and child health, and the multi-faceted needs of families in a changing society. Concern for parents is a top priority as Arkansas Head Start programs focus on each issue.

LINKAGES AND COMMUNITY PARTNERSHIPS

Arkansas Head Start adopts an approach to program development by placing emphasis on the utilization of broad-based linkages and community partnerships. These partnerships involve the public, private and corporate sectors. This manual shall document the financial operations of the Agency. Its primary purpose is to formalize accounting policies and selected procedures for the accounting staff and to document internal controls. The Agency's Executive Director and Governing Boards have approved the contents of this manual. All NWAHSHS staff is bound by the policies herein, and any deviation from established policy is prohibited.

GENERAL POLICIES

ORGANIZATIONAL STRUCTURE

The Role of the Board of Directors

NWAHSHS is governed by its Board of Directors and Policy Council, who are responsible for the oversight of the Agency by:

- Planning for the future
- Establishing broad policies
- Identifying and proactively dealing with emerging issues
- Interpreting the Agency's mission to the public
- Soliciting prospective contributors
- Contracting for the Executive Director
- Establishing and maintaining programs and systems designed to assure compliance with terms of contracts and grants

The Board and Policy Council are responsible for hiring and periodically evaluating the Agency's Executive Director, who shall be responsible for the day-to-day oversight and management of NWAHSHS.

Committee Structure

The Board of Directors shall form committees in order to assist the Board in fulfilling its responsibilities. These committees represent vehicles for parceling out the Board's work to smaller groups, thereby removing the responsibility for evaluating all of the details of particular issues from the full Board's consideration. Standing Board-level committees of NWAHSHS **may** consist of any of the following:

- Executive Committee
- Finance Committee/Audit Committee
- Nominating Committee
- Personnel Committee

Specific guidelines regarding the composition and election of the Board of Directors and committees are described in the Agency's By-Laws. However, roles of committees with direct responsibilities for the financial affairs of the Agency are further described in this manual. These committees shall be referred to in appropriate sections of this manual.

Finance Committee Responsibilities

The Finance Committee is responsible for direction and oversight regarding the overall financial management of NWAHSHS. Functions of the Finance Committee include:

- Review the Agency's annual budget and make recommendations for final approval by the full Board
- Long-term financial planning
- Evaluation and approval of facilities decisions (i.e. leasing, purchasing property)
 - Approval may be granted through an email vote of the Committee and/or full Board
- Monitoring actual vs. budgeted financial performance
- Oversight of reserve funds

The review of the Agency's financial statements shall not be limited to the finance committee, but shall involve the entire Board of Directors.

Audit Committee Responsibilities

The Audit Committee (usually the same people as the finance committee) is responsible for recommending the hiring of an independent CPA firm and for directly communicating with the CPA firm to fulfill the requirement for an annual audit, as described in the Agency's By-Laws. The Audit Committee shall also review and approve the final audited financial statements, as well as any communications received from the auditor regarding internal controls, illegal acts, or fraud.

The Audit Committee also serves as the primary point of contact for any employee who suspects that fraud has been committed against the Agency or by one of its employees or Board members.

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

The Roles of the Executive Director and Staff

The Board of Directors hires the Executive Director, who reports directly to the Board of Directors and Policy Council. The Executive Director is responsible for hiring and evaluating department directors for each of the Agency's departments. Each department director reports to the Executive Director.

Within each department, department directors are responsible for hiring, with approval from the Executive Director, employees to work in that department. All employees within a department shall report directly to that department's director, who shall be responsible for managing and evaluating all employees within the department.

ACCOUNTING DEPARTMENT OVERVIEW

Organization

The accounting department consists of 2 staff that manages and processes financial information for NWAHSHS. The positions comprising the accounting department of NWAHSHS and the abbreviations of each position used throughout this manual are as follows:

- Fiscal Officer (FO)
- Accounting Specialist (AS)

Other officers and employees of NWAHSHS who have financial responsibilities, and the abbreviations of each position used throughout this manual, are as follows:

- Executive Director (ED)
- Human Resources Associate (HRA)
- Audit Committee (AC)
- Executive Committee (EC)
- Full Board of Directors (BOD)

Responsibilities

The primary responsibilities of the accounting department consist of:

- General Ledger
- Budgeting
- Cash and Investment Management
- Grants and Contracts Administration
- Monitoring Purchasing
- Accounts Receivable and Billing
- Cash Receipts
- Accounts Payable
- Cash Disbursements
- Payroll Posting
- Financial Statement Processing
- External Reporting of Financial Information
- Bank Reconciliation
- Reconciliation of Sub-Ledgers
- Compliance with Government Reporting Requirements
- Annual Audit
- Leases
- Insurance
- Administration of Aflac and Vanguard Accounts

BUSINESS CONDUCT

Practice of Ethical Behavior

Unethical actions, or the appearance of unethical actions, are unacceptable under any conditions. The policies and reputation of NWAHSHS depend to a very large extent on the following considerations:

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

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

- Is my action legal?
- Is my action ethical?
- Does my action comply with NWAHSHS policy?
- Am I sure my action does not appear inappropriate?
- Am I sure that I would not be embarrassed or compromised if my action became known within the Agency or publicly?
- Am I sure that my action meets my personal code of ethics and behavior?

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

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

Conflicts of Interest

In addition, no employee, officer, or agent of NWAHSHS shall participate in the selection, award, or administration of a contract involving NWAHSHS if a real or apparent conflict of interest would be involved. Such a conflict would arise when

the employee, officer, or agent, or any member of her or his immediate family, his or her partner, or an Agency that employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected.

Compliance With Laws, Regulations and Agency Policies

NWAHSHS does not tolerate the willful violation or circumvention of any Federal, state, local, or foreign law by an employee during the course of that person's employment; nor does the Agency tolerate the disregard or circumvention of NWAHSHS policy or engagement in unscrupulous dealings. Employees should not attempt to accomplish by indirect means, through agents or intermediaries, that which is directly forbidden. Implementation of the provisions of this policy is one of the standards by which the performance of all levels of employees will be measured.

Disciplinary Action

Failure to comply with the standards contained in this policy will result in disciplinary action that may include termination of employment, referral for criminal prosecution, and reimbursement to the Agency or to the government, for any loss or damage resulting from the violation. As with all matters involving disciplinary action, principles of fairness will apply. *More information relating to the Discipline Policy can be located in the Personnel Policy Manual, policy #290.*

FRAUD POLICY

Scope

This policy applies to any fraud or suspected fraud involving employees, officers or directors, as well as members, vendors, consultants, contractors, funding sources and/or any other parties with a business relationship with NWAHSHS. Any investigative activity required will be conducted without regard to the suspected wrongdoer's length of service, position/title, or relationship with NWAHSHS.

Policy

Management is responsible for the detection and prevention of fraud, misappropriations, and other irregularities. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team will be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Any fraud that is detected or suspected must be reported immediately to the Executive Director and/or the Fiscal Officer or, alternatively, to the Chairperson of the Board of Directors or Policy Council. The Audit Committee will coordinate all investigations. For further information, refer to Statement of Accounting Standards (SAS 99) and Personnel Manual Policy #621 for specific actions constituting fraud.

If there is a question as to whether an action constitutes fraud, contact the Executive Director or Fiscal Officer for guidance.

Other Irregularities

It is the responsibility of the Executive Director and/or the Program Design Specialist-Human Resource to document any irregularities concerning an employee's moral, ethical or behavioral conduct. This documentation will be forwarded to the Audit Committee for investigation.

Investigation Responsibilities

The Audit Committee has the primary responsibility for the investigation of all suspected fraudulent acts as defined in the policy. The Audit Committee may utilize whatever internal and/or external resources it considers necessary in conducting an investigation. If an investigation substantiates that fraudulent activities have occurred, the Audit Committee will issue reports to appropriate designated personnel and, if appropriate, to the NWAHSHS Board of Directors, Policy Council and/or the Executive Committee.

Decisions to prosecute or refer the examination results to the appropriate law enforcement and/or regulatory agencies for independent investigation will be made in conjunction with legal counsel and senior management, as will final dispositions of the case.

If suspected fraud or other wrongdoing involves programs funded in whole or in part with federal funds, additional responsibilities, such as special reporting and disclosure to the awarding Agency, may apply to the Agency. It is the policy of

NWAHSHS to fully comply with all additional reporting, disclosure and other requirements pertaining to suspected acts of fraud as described in award documents.

Confidentiality

The Executive Director, Audit Committee and the Fiscal Officer treat all information received confidentially. Any employee who suspects dishonest or fraudulent activity will notify the Fiscal Officer or the Audit Committee Chair immediately, and should not attempt to personally conduct investigations or interviews/interrogations related to any suspected fraudulent act (see **Reporting Procedures** section below). Investigation results will not be disclosed or discussed with anyone other than those who have a legitimate need to know. This is important in order to avoid damaging the reputations of persons suspected but subsequently found innocent of wrongful conduct and to protect NWAHSHS from potential civil liability.

Authority for Investigation of Suspected Fraud

Members of the NWAHSHS Audit Committee will have:

- Free and unrestricted access to all NWAHSHS records and premises, whether owned or rented; and
- The authority to examine, copy, and/or remove all or any portion of the contents of files, desks, cabinets, and other storage facilities on the premises without prior knowledge or consent of any individual who may use or have custody or any such items or facilities when it is within the scope of their investigations.

Reporting Procedures

Great care must be taken in the investigation of suspected improprieties or irregularities so as to avoid mistaken accusations or alerting suspected individuals that an investigation is under way.

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

The reporting individual should be informed of the following:

- Do not contact the suspected individual in an effort to determine facts or demand restitution.
- Do not discuss the case, facts, suspicions, or allegations with anyone unless specifically asked to do so by NWAHSHS legal counsel or the Audit Committee.

SECURITY

Accounting Department

A lock will be maintained on the door leading into the NWAHSHS Accounting Department. This door shall be closed and locked in the evenings and whenever the Accounting Department is vacant. The key to this lock will be provided to all accounting staff and the Executive Director. The locks will be changed whenever any of these individuals leaves the employment of NWAHSHS.

The blank check stock shall be stored in a file cabinet in the Accounting Department. This cabinet will be locked with a key that is kept in the Accounting Department safe.

Access to Electronically Stored Accounting Data

It is the policy of NWAHSHS to utilize passwords to restrict access to accounting software and data. Only duly authorized accounting personnel with data input responsibilities will be assigned passwords that allow access to the accounting system.

Accounting personnel are expected to keep their passwords secret and to change their passwords on a regular basis. Administration of passwords shall be performed by the PDS-S, who is independent of financial functions.

Each password enables a user to gain access to only the software and data files necessary for each employee's required duties.

Storage of Back-Up Files

It is the policy of NWAHSHS to maintain back-up copies of electronic data files to be maintained in a secure environment. The Accounting Department staff will be responsible for creating the back-up files regularly and as appropriate. In the absence of Accounting Department staff, the PDS-S or OA will be responsible for ensuring the creation of the back up. Access to back-up files shall be limited to individuals authorized by management.

General Office Security

During normal business hours, all visitors are required to check in with the receptionist. After hours, a security key is required for access to the offices of NWAHSHS. Keys are issued only to employees of NWAHSHS employed at the Agency's Central Office on an as needed basis.

TECHNOLOGY AND ELECTRONIC COMMUNICATIONS

Purpose and Scope

The purpose of this policy is to identify guidelines for the use of NWAHSHS technologies and communications systems. This policy establishes a minimum standard that must be upheld and enforced by users of the organization's technologies and communications systems.

The term "user" as defined in these policies refers to all NWAHSHS employees, independent contractors, consultants, and any other users or organizations having authorized access to, and using any of, the organization's computers or electronic communications resources.

Computer and electronic communications resources include, but are not limited to, host computers, file servers, stand alone computers, laptops, printers, fax machines, phones, on-line services, e-mail systems, bulletin board systems, and all software that is owned, licensed or operated by NWAHSHS.

Acceptable Use of Agency Property

Use of the Agency's computers and electronic communications technologies is for programmatic and business activities of NWAHSHS. All use of such resources shall be in an honest, ethical, and legal manner that conforms to applicable license agreements, contracts, and policies regarding their intended use. Although incidental and occasional personal use of the Agency's communications systems are permitted, users automatically waive any rights to privacy.

In addition, the information, ideas, concepts and knowledge described, documented or contained in the Agency's electronic systems are the intellectual property of NWAHSHS. The copying or use of the Agency's intellectual property for personal use or benefit during or after employment (or period of contract) with NWAHSHS is prohibited unless approved in advance by the Executive Director. All hardware (laptops, computers, monitors, mice, keyboards, printers, telephones, fax machines, etc.) issued by NWAHSHS is the property of the Agency and should be treated as such. Users may not physically alter or attempt repairs on any hardware at any time. Users must report any problems with hardware to the PDS-S or the OA. The complete policy is located in the Personnel Policy Manual #635.

Password Security

Users are responsible for safeguarding their login passwords. Passwords may not be shared, nor should they be printed.

Confidentiality

All information about individuals, families or agencies served by NWAHSHS is confidential. No information may be shared with any person or organization outside NWAHSHS without the prior written approval of the individual, family or Agency and the Executive Director.

Copyrighted Information

Use of NWAHSHS electronic communication systems to copy, modify, or transmit documents, software, information or other materials protected by copyright, trademark, patent or trade secrecy laws, without obtaining prior written permission from the owner of such rights in such materials, is prohibited.

Installation of Software

The installation of new software on the computers of NWAHSHS without the prior approval of the PDS-S or the OA is prohibited. If an employee desires to install any new programs onto a NWAHSHS computer, written permission should first be obtained.

Disciplinary Action for Violations

NWAHSHS requires all users to adhere to this policy. Violations of this policy will result in disciplinary action, which could include termination of employment or cancellation of contracts, please refer to the Discipline Policy #290 located in the Personnel Policy Manual.

Reporting of Suspected Violations

Suspected violations of these policies should be immediately and confidentially reported to your immediate supervisor. If you prefer not to discuss it with your supervisor, you may contact the PDS-S, OA, or the Executive Director.

NWAHSHS reserves the right to install programs that monitor employee use of the Internet and electronic communication systems and to act on any violations of these policies found through use of such programs. NWAHSHS further reserves the right to examine any and all electronic communications sent or received by employees via the Agency's electronic communications systems.

GENERAL LEDGER AND CHART OF ACCOUNTS

The general ledger is defined as a group of accounts that supports the information shown in the major financial statements. The general ledger is used to accumulate all financial transactions of NWAHSHS and is supported by subsidiary ledgers that provide details for certain accounts in the general ledger. The general ledger is the foundation for the accumulation of data and reports. All accounting records for the Agency will be maintained as required by Generally Accepted Accounting Policies (GAAP).

Chart of Accounts Overview

The chart of accounts is the framework for the general ledger system, and therefore the basis for NWAHSHS accounting system. The chart of accounts consists of account titles and account numbers assigned to the titles. General ledger accounts are used to accumulate transactions and the impact of these transactions on each asset, liability, net asset, revenue, expense and gain and loss account. The chart of accounts is maintained in a sufficient manner to permit preparation of required federal reports, to permit the tracing of grant funds to a level of expenditures adequate to establish funds were used properly and for budget comparisons.

NWAHSHS chart of accounts is comprised of six types of accounts:

1. Assets
2. Liabilities
3. Net Assets
4. Revenues & Unrestricted Net Assets
5. Expenses
6. Non-Share Expenses and Gains and Losses

A two-digit center number and a two-digit fund source number shall follow each account number.

Distribution of Chart of Accounts

All NWAHSHS employees involved with account coding responsibilities (assignment or review of coding) or budgetary responsibilities will be issued a current chart of accounts. As the chart of accounts is revised, an updated copy of the chart of accounts shall be distributed to these individuals.

Control of Chart of Accounts

NWAHSHS chart of accounts is monitored and controlled by the Fiscal Officer. Responsibilities include the handling of all account maintenance, such as additions and deletions so that the Agency can ensure that all funds are used for authorized purposes. The Fiscal Officer, who ensures that the chart of accounts are consistent with the organizational structure of NWAHSHS and meets the needs of each division and department, should approve any additions or deletions of accounts.

Account Definitions

General Ledger
Account Range
 1000 – 1999

Category
Assets

Definition

Assets are probable future economic benefits obtained or controlled by the Agency as a result of past transactions or events. Assets of NWAHSHS are classified as current assets, fixed assets, contra-assets, and other assets.

Current assets are assets that are available or can be made readily available to meet the cost of operations or to pay current liabilities. Some examples are cash, temporary investments, and receivables that will be collected within one year of the statement of financial position date.

Fixed assets are tangible assets with a useful life of more than one year that are acquired for use in the operation of the Agency and are not held for resale.

Contra-assets are accounts that reduce asset accounts, such as accumulated depreciation and reserves for un-collectible accounts receivable

Other assets include long-term assets that are assets acquired without the intention of disposing them in the near future. Some examples are security deposits, property and long-term investments.

2000 – 2999

Liabilities

Liabilities are probable future sacrifices of economic benefits arising from present obligations of the Agency to transfer assets or provide services to other entities in the future as a result of past transactions or events. Liabilities of NWAHSHS are classified as current or long-term.

Current liabilities are probable sacrifices of economic benefits that will likely occur within one year of the date of the financial statements or which have a due date of one year or less. Common examples of current liabilities include accounts payable, accrued liabilities, short-term notes payable, and deferred revenue.

Long-Term Liabilities are probable sacrifices of economic benefits that will likely occur more than one year from the date of the financial statements. An example is the non-current portion of a mortgage loan.

3000 - 3999

Net Assets

Net Assets is the difference between total assets and total liabilities. See the next section for NWAHSHS policies on classifying net assets.

4000 – 4999

Revenues & Unrestricted Net Assets

Revenues are inflows or other enhancements of assets, or settlements of liabilities, from delivering or producing goods, rendering services, or other activities that constitute an Agency's ongoing major or central operations. Revenues of NWAHSHS include contributions received from donors and grants received from government agencies, private foundations and corporations.

5000 - 8999

Expenses

Expenses are outflows or other using up of assets or incurrence of liabilities from delivering or producing goods, rendering services, or carrying out other activities that constitute NWAHSHS ongoing major or central operations.

9000 - 9999

Gains and Losses & Non Share Expenses

Gains are increases in net assets from peripheral or incidental transactions and from all other transactions and other events and circumstances affecting the Agency except those that result from revenues or contributions.

Losses are decreases in net assets from peripheral or incidental transactions and from all other transactions and other events and circumstances affecting the Agency except those that result from expenses.

Gains or losses occur when NWAHSHS sells a fixed asset or writes off as worthless a fixed asset with remaining book value.

Non Share expenses are outflows or other using up of assets or incurrence of liabilities from delivering or producing goods, rendering services, or carrying out other activities that are unallowable expenses under regulations imposed by the major Grantor (ACF) of NWAHSHS. Examples of Non Share expenses would include payment of tax penalties and late fees. Non Share expenses also include instances in which Agency funds are used to satisfy obligations.

Classification of Net Assets

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

- **Unrestricted Net Assets** - Net assets that are not subject to donor imposed stipulations.
- **Temporarily Restricted Net Assets** - Net assets subject to donor imposed stipulations that may or will be satisfied through the actions of the Agency and/or the passage of time.
- **Permanently Restricted Net Assets** - Net assets subject to donor-imposed stipulations that the Agency permanently maintain certain contributed assets. Generally, donors of such assets permit the Agency to use all or part of the income earned from permanently restricted net assets for general operations or for specific purposes.

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

Changes to the Chart of Accounts

Additions to, deletions from, or any other changes to NWAHSHS standard chart of accounts shall only be done by the Fiscal Officer or by the Accounting Associate with approval from the Fiscal Officer.

Fiscal Year of Agency

NWAHSHS shall operate on a calendar year that begins on January 1st and ends on December 31st. Any changes to the fiscal year of the Agency must be ratified by majority vote of NWAHSHS Board of Directors and the Policy Council.

Journal Entries

All general ledgers entries that do not originate from a subsidiary ledger shall be supported by printed journal entry form, produced by the accounting system, and backup documentation, which shall include, at a minimum, a reasonable explanation of each such entry. Examples of such journal entries include:

- Recording of non-cash transactions
- Corrections of posting errors
- Non-recurring accruals of income and expenses
- Payroll Journal posting entries.
- Corrections of material posting errors shall be reviewed by the Executive Director on a monthly basis.
- Certain journal entries, called recurring journal entries, occur in every accounting period. These entries may include, but are not limited to:
 - Depreciation of fixed assets
 - Amortization of prepaid expenses
 - Accretion of discounts on promises to give
 - Accruals of recurring expenses

- Amortization of deferred revenue

Support for recurring journal entries shall be in the form of a schedule (such as an Excel spread sheet) associated with the underlying asset or liability account or, in the case of short-term recurring journal entries or immaterial items, in the form of a journal entry form produced by the MAS 90 accounting system. The Fiscal Officer must record and prepare all journal entries not originating from subsidiary ledgers.

POLICIES ASSOCIATED WITH REVENUES AND CASH RECEIPTS

REVENUE

Revenue Recognition Policies

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

- **Grant income** - Monthly accrual based on incurrence of allowable costs (for cost-reimbursement awards) or based on other terms of the award (for fixed price, unit-of-service, and other types of awards)
- **Sponsorships** - Recognized as income when received, unless accompanied by restrictions or conditions (see the next section on contribution income)
- **Contributions** - Recognized as income when received, unless accompanied by restrictions or conditions (see the next section on contribution income)

CONTRIBUTIONS RECEIVED

Definitions

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

- **Contribution** - An unconditional transfer of cash or other assets to the Agency, or a settlement or cancellation of the Agency's liabilities, in a voluntary nonreciprocal transfer by another entity acting other than as an owner.
- **Condition** - A donor-imposed stipulation that specifies a future and uncertain event whose occurrence or failure to occur gives the promisor a right of return of the assets it has transferred to the Agency or releases the promisor from its obligation to transfer its assets.
- **Restriction** - A donor-imposed stipulation that specifies a use for the contributed asset that is more specific than broad limits resulting from the nature of the Agency, the environment in which it operates, and the purposes specified in NWAHSHS articles of incorporation and bylaws. Restrictions on NWAHSHS use of an asset may be temporary or permanent.
- **Nonreciprocal Transfer** - A transaction in which an entity incurs a liability or transfers assets to NWAHSHS without directly receiving value from NWAHSHS in exchange.
- **Promise to Give** - A written or oral agreement to contribute cash or other assets to Northwest Arkansas Head Start Human Services, Inc. Promises to give are recorded when received.
- **Exchange Transaction** - A reciprocal transaction in which NWAHSHS and another entity each receive and sacrifice something of approximately equal value.

Distinguishing Contributions from Exchange Transactions

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

- NWAHSHS intent in soliciting the asset, as stated in the accompanying materials
- The expressed intent of the entity providing resources to NWAHSHS (i.e. does the resource provider state its intent is to support NWAHSHS programs or that it anticipates specified benefits in exchange?); if exchange or contribution, stated by submission of In-kind documentation.
- Whether the method of delivery of the asset is specified by the resource provider (exchange transaction) or is at the discretion of NWAHSHS (contribution)
- Whether payment received by NWAHSHS is determined by the resource provider (contribution) or is equal to the value of the assets/services provided by NWAHSHS or the cost of those assets plus a markup (exchange transaction)

- Whether there are provisions for penalties (due to nonperformance) beyond the amount of payment (exchange transaction) or whether penalties are limited to the delivery of assets already produced and return of unspent funds (contribution)
- Whether assets are to be delivered by NWAHSHS to individuals or agencies other than the resource provider (contribution) or whether they are delivered directly to the resource provider or to individuals or agencies closely connected to the resource provider.

Accounting for Contributions

NWAHSHS shall recognize contribution income in the period in which the Agency receives restricted or unrestricted assets in nonreciprocal transfers, or unconditional promises of future nonreciprocal asset transfers, from donors. Contribution income shall be classified as increases in unrestricted, temporarily restricted, or permanently restricted net assets or prepaid income based on the existence or absence of such restrictions.

Unconditional promises to give shall be recorded when received as assets and increases in temporarily restricted net assets of NWAHSHS in the period that NWAHSHS receives evidence that a promise to support the Agency has been made. Unconditional promises to give that are to be collected within one year shall be recorded at their face value, less any reserve for un-collectible promises, as estimated by management. Unconditional promises to give that are collectible over time periods in excess of one year shall be recorded at their discounted net present value. Accretion of discount on such promises to give shall be recorded as contribution income in each period leading up to the due date of the promise to give. The interest rate that shall be used in calculating net present values of unconditional promises to give is the risk-free rate of return available to NWAHSHS at the time the Agency receives a promise from a donor.

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

When it receives support in the form of volunteer labor, NWAHSHS shall record contribution income and assets or expenses if one of the following two criteria is met:

- The contributed service creates or enhances a non-financial asset (such as a building or equipment)
- The contributed service possesses all three of the following characteristics:
 - It is the type of service that would typically need to be purchased by NWAHSHS if it had not been contributed
 - It requires specialized skills (i.e. formal training in a trade or profession)
 - It is provided by an individual possessing specialized skills.

This defines GAAP In-Kind guidelines. While it does not meet the qualifications of GAAP, the Agency tracks and records In-Kind on the general ledger following these guidelines in order to comply with funding source regulations.

Receipts and Disclosures

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

For any separate contribution received by NWAHSHS, it shall provide a receipt to the donor. The receipt shall be prepared by NWAHSHS and shall include the following information:

- The amount of cash received and/or a description (but not an assessment of the value) of any non-cash property received
- A statement of whether NWAHSHS provided any goods or services to the donor in consideration, in whole or in part, for any of the cash or property received by the Agency from the donor
- If any goods or services were provided to the donor by NWAHSHS, a description and good faith estimate of the value of those goods or services.

When NWAHSHS receives cash in excess of \$75, or non-cash property with a value in excess of \$75, as part of a quid pro quo transaction; the Agency shall follow additional disclosure procedures. For purposes of this paragraph, a "quid pro quo" transaction is one in which NWAHSHS receives cash or property in a transaction that is part contribution and part exchange transaction (i.e. the value of the goods or services provided to the donor by NWAHSHS is less than the value of cash or property provided by the donor). In such instances, NWAHSHS shall provide to the donor a receipt stating that only the amount contributed in excess of the fair market value of the goods or services provided by NWAHSHS may be deducted as a charitable contribution. The receipt shall also include a good-faith estimate of the fair market value of the goods or services provided to the donor by NWAHSHS.

IRS rules provide for certain exceptions to the preceding disclosure rules applicable to quid pro quo transactions. As such, NWAHSHS shall not provide receipts when it receives cash or property in excess of \$75 in any of the following circumstances:

- The goods provided to the donor during the year bear NWAHSHS name or logo and have an aggregate cost of \$8.30 or less
- The goods provided to the donor in the year have a fair market value equal to no more than 2% of the contribution or \$83, whichever is less
- The gift received by NWAHSHS resulted from The Agency's current year fundraising appeal that included articles worth no more than \$8.30, as well as a request for contributions and a statement that the recipient may keep the article even if a contribution is not made.

The preceding thresholds are adjusted for inflation by the IRS on an annual basis. Inflation adjustments subsequent to 2005 are incorporated into this policy manual by reference.

The accounting department shall prepare all estimates of the fair market value of goods or services provided by NWAHSHS.

It is the policy of NWAHSHS to comply with all current federal and state rules regarding solicitation and collection of charitable contributions, whether specifically addressed in this manual or not, as well as all future revisions to those rules.

Accounts Receivable Entry Policies

Posting of customer invoices to the accounts receivable subsidiary ledger shall be performed by the Accounting Specialist upon approval by the Fiscal Officer.

Approval of credit memos and other adjustments to customer accounts receivable shall be performed by the Fiscal Officer and approved by the Executive Director.

Classification of Income and Net Assets

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

- Grants and other awards received from government agencies or other grantors, which are classified as temporarily restricted.
- Special endowments received from donors requesting that the funds are permanently/temporarily restricted for specific purposes; such as Dia del Niño, until monies are expended depending upon the nature of the restriction.

From time to time, NWAHSHS may raise other forms of contribution income, which carry stipulations that NWAHSHS utilize the funds for a specific purpose or within a specified time period identified by the donor of the funds. When this form of contribution income is received, NWAHSHS shall classify this income as a Temporary Restricted asset. As with all Temporarily Restricted net assets, when the restriction associated with a contribution has been met (due to the passing of time or the use of the resource for the purpose designated by the donor), NWAHSHS will reclassify the related net assets from "Temporarily Restricted" to "Unrestricted" in its Statement of Financial Position and reflect this reclassification as an activity in its Statement of Activities.

From time to time, the NWAHSHS Board of Directors may determine that it is appropriate to set funds aside for specific projects. To the extent these set-asides result from a Board action, rather than a donor-imposed requirement, the resulting set-aside shall be classified as "unrestricted". However, to identify these funds as being set aside for special projects, such set-asides shall be labeled "Board-Designated" funds within the unrestricted net assets of NWAHSHS and shall be reported as a separate component of unrestricted net assets on the NWAHSHS financial statements.

CASH RECEIPTS

Overview

Cash (including checks payable to the Agency) is the most liquid asset of an Agency. Therefore, it is the objective of NWAHSHS to establish and follow the strongest possible internal controls in this area. All cash and checks received at any of the Local Program Sites are to be routed immediately to the Central Office for proper processing and deposit. No cash shall ever be retained at any Local Program Site and no checks shall ever be endorsed and/or cashed by any employee. All funds received must be deposited in the appropriate bank account.

Processing of Checks and Cash Received in the Mail (Form HSF-1)

For funds that are directly received at NWAHSHS (i.e. payments not mailed to a lockbox), cash receipts are centralized to ensure that cash received is appropriately directed, recorded and deposited on a timely basis. Mail is opened and logged by the Operations Assistant in the daily cash receipts summary log and any cash/checks received are delivered to the Accounting Specialist along with a completed copy of the Daily Cash Receipts Summary Form. The individual preparing the Daily Cash Receipts summary form shall be someone that is not involved in the accounts receivable or accounts payable process. The Accounting Specialist copies any checks and prepares a deposit slip from the cash/checks received from the Receptionist. The Accounting Specialist or the HRA takes deposits to the bank. After deposit, the form HSF -1 and a copy of the deposit slip are given to the Fiscal Officer for verification and posting of the funds into the accounting system.

Endorsement of Checks

It is the policy of NWAHSHS that all checks received that are payable to the Agency shall immediately be restrictively endorsed by the individual who prepares the daily cash receipts summary form. The restrictive endorsement shall be written on each deposit ticket that includes the following information:

- For Deposit Only
- NWAHSHS
- The bank account number of NWAHSHS

Timeliness of Bank Deposits

It is the policy of NWAHSHS that bank deposits will be made on an as needed basis or within 48 hours of being logged in.

Reconciliation of Deposits

On a periodic basis, the Fiscal Officer, who does not prepare the daily cash receipts summary form or bank deposit, shall reconcile the listings of receipts to bank deposits reflected on the monthly bank statement. Any discrepancies shall be immediately investigated.

ACCOUNTS RECEIVABLE MANAGEMENT

Monitoring and Reconciliations

On a monthly basis, a detailed accounts receivable report (showing aged, outstanding invoices by customer) is generated and reconciled to the general ledger by the accounting department. All differences are immediately investigated and resolved.

Collections

Collections are performed on a monthly basis, according to a review of the outstanding items shown on the accounts receivable aging report. This report shows the current month's activity for each customer and prior months' balances outstanding for 30, 60, 90, and 120 days.

Customers with unpaid balances receive statements every thirty days. After a balance is unpaid for 60 days, an accounting department employee will contact the customer by telephone and attempt to collect the amount due. A record will be kept of all telephone contacts.

If 90 days have elapsed without payment, a letter will be sent to the customer requesting payment or documentation that payment has already been made. In addition, weekly telephone calls will be placed in an attempt to collect the amount due.

If 120 days have passed without payment, the account will be turned over to a collection Agency if the amount due is less than \$1,000. If the amount due is greater than \$1,000, the account will be turned over to the Organization's attorney.

Credits and Other Adjustments to Accounts Receivable

From time to time, credits against accounts receivable from transactions other than payments and bad debts will occur. Examples of other credits include returned products and adjustments for billing errors. All credits shall be processed by the Fiscal Officer and approved by the Executive Director.

Accounts Receivable Write-Off Authorization Procedures

It is the policy of NWAHSHS to ensure that all available means of collecting accounts receivable have been exhausted before write-off procedures are initiated. Write-offs are initiated by the Department associated with the amount to be written off, in conjunction with the accounting department. If an account receivable is deemed uncollectible, the following approvals are required before the write-off is processed:

Amount	Authorized in writing by
Less than \$1,500	Fiscal Officer
\$1,500 or more	Board of Directors

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

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

- Current year invoices that are written off will either be charged against an appropriate revenue or revenue adjustment account or against the original account credited.
- Invoices written off that are dated prior to the current year will be treated as bad debt and will reduce the allowance for doubtful accounts, discussed in the next section.

Reserve for Un-collectible Accounts

It is the policy of NWAHSHS to maintain a reserve for un-collectible accounts receivable. At the end of each fiscal year, the allowance for doubtful accounts is adjusted based on the following factors:

- An analysis of outstanding, aged accounts receivable
- Historical collection and bad debt experience
- Evaluations of specific accounts based on discussions with the department that originated the sale resulting in the receivable

Year-end adjustments to the reserve for un-collectible accounts shall be performed only with authorization from the Board of Directors. This reserve account is used in the following year to write off those items that are deemed uncollectible from the prior year after further collection efforts have been abandoned, as described earlier.

POLICIES ASSOCIATED WITH EXPENDITURES AND DISBURSEMENTS**PURCHASING POLICIES AND PROCEDURES (A110.46)****Overview**

The policies described in this section apply to all purchases made by NWAHSHS. Additional policies applicable only to those purchases made under federal awards are described in the section "policies associated with federal awards."

It is the policy of NWAHSHS to follow a practice of ethical, responsible and reasonable procedures related to purchasing, agreements and contracts, and related forms of commitment. Written procedures for price/cost analysis as stated in section 10.02 of the Guidebook for Financial Managers must be followed for determining the reasonableness, allocability, and allowability of cost at all times. A cost is allowable if it is reasonable, allocable to the grant that was awarded, necessary for proper and efficient administration of the proposed project, consistently treated as direct or indirect cost and permitted under the cost principles prescribed in 45 CFR 74.27 and 92.22 in accordance with generally accepted accounting principles (GAAP). The policies in this section describe the principles and procedures that all staff shall adhere to in the completion of their designated responsibilities.

Responsibility for Purchasing

Program Design and Child Development Specialists from the Central Office shall be responsible for purchasing their portion of grant funds. The accounting department shall be responsible for processing purchase orders. The Executive Director has approval authority over all purchases and contractual commitments as defined in this policy. In addition to the Executive Director, the PDS-S and the Fiscal Officer can approve purchase orders. In the absence of all purchase order

signers, the Executive Director can verbally approve purchase orders over the phone. The Executive Director shall make the final determination on any proposed purchases where budgetary or other conditions may result in denial.

NWAHSHS is not in the business of lending money.

Under no circumstances will NWAHSHS loan funds to any individual, business or organization for any reason.

Non-Discrimination Policy

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

- Vendors/Contractors will not discriminate against any employee or applicant for employment because of race, religion, color, sexual orientation or national origin, except where religion, sex, or national origin is a bona fide occupational qualification reasonably necessary to the normal operation of the vendors/contractors.
- Vendors/contractors agree to post in conspicuous places, available to employees and applicants for employment, notices setting forth the provisions of this non-discrimination clause. Notices, advertisement and solicitations placed in accordance with Federal law, rule or regulation shall be deemed sufficient for meeting the intent of this section.

Use of Purchase Orders

A properly completed Purchase Order (HSF-3) shall be required for each purchase (i.e. total amount of goods and services purchased, not unit cost). Utility bills, recurring monthly expenses (such as rent and leases) and other standard purchases do not require a purchase order. **ALL PURCHASE ORDERS ARE SUBJECT TO PRE-APPROVAL BY THE EXECUTIVE DIRECTOR, PDS-S or FISCAL OFFICER AND UPON THEIR APPROVAL ARE ROUTED TO ACCOUNTING FOR PROCESSING.** A properly completed Purchase Order should contain the following information:

- Specifications or statement of services required
- Vendor name, address or web site address, and phone number
- Source of funding (if applicable)
- Net price per unit, less discount, if any
- Total amount of order
- Authorized signature
- Date PO prepared

Purchase order logs shall be kept in a secure area by the Accounting department and issued upon request from an authorized purchaser. All purchase orders shall be recorded in a purchase order log.

Authorizations and Purchasing Limits

All purchase orders must be signed, or initialed, by both the preparer and the Executive Director, PDS-S or Fiscal Officer before considered approved. In addition, purchase orders may require verbal or written quotation from at least three (3) vendors depending on the unit cost of the line item. The Executive Director will set purchasing limits when they are deemed necessary.

All contracts between NWAHSHS and outside parties must be reviewed and approved by the Executive Director. The Executive Director is authorized to enter into contracts on behalf of NWAHSHS. These policies shall also apply to renewals of existing contracts.

Required Solicitation of Quotations from Vendors

Purchase decisions where the unit cost of a line item exceeds \$1,000 per unit of labor, equipment, supplies, services, leases or contracts may only be approved after pursuing 3 quotes, which are documented on form HSF-15 (Bid Summary Sheet) with appropriate backup documentation. If the unit cost of the line item is greater than \$5,000 then the three quotes should be written vendor documents and specifically made out to the Agency. On purchases greater than \$5,000.00, justification for choice of vendor should be documented on form HSF-15 (Bid Summary Sheet). If the approved purchaser is unable to secure the three verbal/written quotes (such as in an emergency, sole source purchases, etc.) then written documentation must accompany the purchase order. Items requiring Solicitations for goods and services (requests for proposals) are items over \$100,000 as per the federal regulations for large purchase and should provide for some of the following:

- A clear and accurate description of the technical requirements for the material, product or service to be procured. In competitive procurements, such a description shall not contain features, which unduly restrict competition.

- Requirements that the bidder/offerer must fulfill and all other factors to be used in evaluating bids or proposals (see the next section entitled "Evaluation of Alternative Vendors" for required criteria)
- A description, whenever practicable, of technical requirements in terms of functions to be performed or performance required, including the range of acceptable characteristics or minimum acceptable standards.
- The specific features of "brand name or equal" descriptions that bidders are required to meet when such items are included in the solicitations.
- The acceptance, to the extent practicable and economically feasible, of products and services dimensioned in the American system of measurement.
- Preference, to the extent practicable and economically feasible, for products and services that conserve natural resources and protect the environment and are energy efficient.
- A description of the proper format, if any, in which proposals must be submitted, including the name of the NWAHSHS person to whom proposals should be sent.
- The date by which proposals are due.
- Required delivery or performance dates/schedules.
- Clear indications of the quantity requested and unit(s) of measure.

Evaluation of Alternative Vendors

Alternative vendors shall be evaluated on a weighted scale that considers the following criteria:

- Adequacy of the proposed methodology of the vendor
- Skill and experience of key personnel
- Demonstrated company experience
- Other technical specifications (designated by department requesting proposals)
- Compliance with administrative requirements of the request for proposal (format, due date, etc.)
- Vendor's financial stability
- Vendor's demonstrated commitment to the nonprofit sector
- Results of communications with references supplied by vendor
- Ability/commitment to meeting time deadlines
- Cost
- Minority- or women-owned business status of vendor
- Other criteria (to be specified by department requesting proposal)

The Agency may decide to perform a request for proposal for other purchases at the discretion of the Executive Director or PDS-S. Not all of the preceding criteria may apply in each purchasing scenario. However, in each situation requiring consideration of alternative vendors, the department responsible for the purchase shall establish the relative importance of each criterion prior to requesting proposals and shall evaluate each proposal on the basis of the criteria and weighting that have been determined. After a vendor has been selected, approved by the PDS-S, the final vendor selection shall be approved by the Executive Director prior to entering into a contract.

Affirmative Consideration of Minority, Small Business and Women-Owned Businesses

Positive efforts shall be made by NWAHSHS to utilize small businesses, minority-owned firms, and women's business enterprises whenever possible. The following steps shall be taken in furtherance of this goal:

- Ensure that small business, minority-owned firms, and women's business enterprises are used to the fullest extent practicable.
- Make information on forthcoming opportunities available and arrange time frames for purchases and contracts to encourage and facilitate participation by small business, minority-owned firms and women's business enterprises.
- Consider in the contract process whether firms competing for larger contracts tend to subcontract with small businesses, minority-owned firms and women's business enterprises.
- Encourage contracting with consortiums of small businesses, minority owned firms and women's business enterprises when a contract is too large for one of these firms to handle individually.
- Use the services and assistance, as appropriate, of such Agency's as the Small Business Administration and the Department of Commerce's Minority Business Development Agency in the minority-owned firms and women's business enterprises.

Special Purchasing Conditions

Emergencies:

Where equipment, materials, parts, and/or services are needed, quotations will not be necessary if the health, welfare, safety, etc., of staff, children and protection of Agency property is involved.

Single Distributor/Source:

Where there is only one (1) distributor for merchandise needed and no other product meets the stated needs or specifications, quotations will not be necessary.

Geographic Limitations:

Where it is impracticable due to the rural nature of the facility to obtain three bids, written documentation illustrating the purchaser's reasonable efforts to obtain bids will be sufficient.

Federally Funded Programs:

Purchases that will be charged to programs funded with federal awards will be subject to additional policies. The Agency policies will ensure that purchases with Federal funds will ensure that:

- Purchases are economical and necessary.
- Lease or buy analysis will be performed for all large equipment purchases to find the most economical option.
- Purchases must comply with procurement standards as required is federal regulation 45 CFR 74.44 and 92.22

These policies are described in a separate section, "Policies Associated With Federal Awards."

Vendor Files and Required Documentation

The Accounting Department Accounting Specialist shall create a vendor folder for each new vendor from whom NWAHSHS purchases goods or services. Upon making the initial purchase from any vendor (regardless of whether a contract is involved), the Accounting Specialist shall mail a blank Form W-9 to any vendor who is not a corporation, along with a request for the vendor to complete and sign the W-9 or provide equivalent, substitute information and return it before year-end. Completed, signed Forms W-9 or substitute documentation shall be filed in each vendor's folder. Non Corporate Vendors who earn more than \$599.00 and do not return a completed, signed Form W-9 or provide equivalent documentation shall be issued a Form 1099 at the end of each calendar year in accordance with the policies described in the section of this manual on "Government Returns."

See the section on "Payroll and Related Policies" for guidance on determining whether a vendor should be treated as an employee.

Ethical Conduct in Purchasing

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

Staff shall discourage the offer of, and decline, individual gifts or gratuities greater than \$25.00 that might influence the purchase of supplies, equipment, and/or services. Staff shall notify their immediate supervisor if they are offered such gifts. Gifts to the Agency, viewed as normal business incentives to obtain future Agency-approved business such as for meeting sites, are acceptable donations.

Conflicts of Interest Prohibited

No officer, Board member, employee, or agent of NWAHSHS shall participate in the selection or administration of a vendor if a real or apparent conflict of interest would be involved. Such a conflict would arise if an officer, Board member, employee or agent, or any member of his/her immediate family, his/her spouse/partner, or an Agency that employs or is about to employ any of the parties indicated herein, has a financial or other interest in the vendor selected.

Officers, Board members, employees and agents of NWAHSHS shall neither solicit nor accept gratuities, favors, or anything of monetary value exceeding \$25 from vendors or parties to sub-agreements.

Receipt and Acceptance of Goods

Someone other than the authorized purchaser of any item or the Local Program Director or assigned assistant where the goods are shipped, shall inspect the goods received. Upon receipt of any item from a vendor, the following actions shall immediately be taken:

- Review bill of lading for correct delivery point
- Verify the quantity of boxes/containers with the bill of lading

- Examine boxes/containers for exterior damage
- Note on the bill of lading any discrepancies (missing or damaged boxes/containers, etc.)
- Sign and date the bill of lading
- Retain a copy of the bill of lading, which is forward to the Central Office

It is the policy of NWAHSHS to perform the preceding inspection procedures in a timely manner in order to facilitate prompt return of goods and/or communication with vendors.

POLITICAL INTERVENTION A - 122.25

Prohibited Expenditures

Consistent with its tax-exempt status under the Internal Revenue Code, it is the policy of NWAHSHS that the Agency shall not incur any expenditure for political intervention. For purposes of this policy, political intervention shall be defined as any activity associated with the direct or indirect support or opposition of a candidate for elective public office at the federal, state or local level. Political intervention does not include lobbying activities, defined as the direct or indirect support or opposition for legislation, which is not prohibited under the Internal Revenue Code for NWAHSHS. Examples of prohibited political expenditures include, but are not limited to, the following:

- Contributions to political action committees
- Contributions to the campaigns of individual candidates for public office
- Contributions to political parties
- Expenditures to produce printed materials (including materials included in periodicals) that support or oppose candidates for public office
- Expenditures for the placement of political advertisements in periodicals

Endorsements of Candidates

It is the policy of NWAHSHS not to endorse any candidates for public office in any manner, either verbally or in writing. This policy extends to the actions of management and other representatives of NWAHSHS when these individuals are acting on behalf of, or are otherwise representing, the Agency.

Prohibited Use of Agency Assets and Resources

It is the policy of NWAHSHS that no assets or human resources of the Agency shall be utilized for political activities, as defined above. This prohibition extends to the use of Agency assets or human resources in support of political activities that are engaged in personally by Board members, members of management, employees, or any other representatives of NWAHSHS. While there is no prohibition against these individuals engaging in political activities personally (on their own time, and without representing that they are acting on behalf of the Agency), these individuals must at all times be aware that Agency resources cannot at any time be utilized in support of political activities.

ACCOUNTS PAYABLE MANAGEMENT

Overview

NWAHSHS strives to maintain efficient business practices and good cost control. A well managed accounts payable function assists in accomplishing this goal from the purchasing decision through payment and check reconciliation.

An employee independent of the ordering and receiving process performs the recording of assets and expenses and the related liability. The amounts recorded are based on the approved purchases order and vendor invoice for the related goods or services where necessary and should be reviewed by the Fiscal Officer prior to being processed for payment. Invoices and related general ledger account distribution codes are reviewed prior to posting to the subsidiary system.

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

- Disbursements are properly authorized
- Expenditures are budgeted and funds are available and drawn down
- Invoices are processed in a timely manner
- Vendor credit terms and operating cash are managed for maximum benefits

Recording of Accounts Payable

All valid accounts payable transactions, properly supported with the required documentation, shall be recorded as accounts payable within a week to ten (10) days unless longer terms are presented on the vendor invoice.

It is the policy of NWAHSHS that only original invoices will be processed for payment unless duplicated copies have been verified as unpaid by researching the vendor records. No vendor statements shall be processed for payment except in cases where alternative documentation is unavailable.

Accounts Payable Cut-Off

For purposes of the preparation of the Agency's monthly financial statements, all vendor invoices that are received, approved and supported with proper documentation by the 15th day of the following month shall be recorded as accounts payable as of the end of the immediately preceding month if the invoice pertains to goods or services delivered by month-end. At year-end, all invoice received within the following 90 days will be recorded in the year-end financial statements.

Establishment of Control Devices

The accounting department establishes control of invoices as soon as invoices are received. Vendors will be instructed to mail all invoices directly to the Accounting department.

Preparation of a Check Voucher Package

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

- Vendor invoice
- Packing slip (where appropriate)
- Purchase order if required (food and milk, utility, recurring expenses such as rent purchases may not have a PO)
- Any other supporting documentation deemed appropriate

Processing of Check Voucher Packages

The accounting department shall apply the following procedures to each voucher package:

- Check the mathematical accuracy of the vendor invoice.
- Compare the nature, quantity and prices of all items ordered per the vendor invoice to the purchase order, packing slip and receiving report
- Document the general ledger distribution, using the Agency's current chart of accounts
- Cancel the vendor invoice so that it shows the invoice has been processed.

Upon acknowledgement of satisfactory receipt of the goods or services invoiced, agreement with all terms appearing on the vendor invoice, agreement with general ledger account codes and agreement to pay vendor in full. Approvals shall be documented with initials or signatures of the approving individual.

Payment Discounts

To the extent practical, it is the policy of NWAHSHS to take advantage of all prompt payment discounts offered by vendors. When availability of such discounts is noted, and all required documentation in support of payment is available, payments will be scheduled so as to take full advantage of the discounts.

Employee Expenses

Reimbursements for travel expenses, business meals, or other approved costs will be made only upon the receipt of a properly approved and completed Purchase Order (see further policies under "Travel and Business Entertainment"). All receipts (other than per diem receipts) greater than \$25.00 must be attached, and a brief description of the business purpose of trip or meeting must be noted on the form. Purchase Orders with expense items will be processed for payment in the next vendor payment cycle if received within two business days of the deadline. **Expenses older than two months will not be reimbursed without the Executive Director's advance approval.**

Reconciliation of A/P Subsidiary Ledger to General Ledger

At the end of each monthly accounting period, the total amount due to vendors per the accounts payable subsidiary ledger shall be reconciled to the total per the accounts payable general ledger account (control account). All differences are investigated and adjustments are made as necessary. The reconciliation and the results of the investigation of differences are reviewed and approved by the Fiscal Officer.

Also on a monthly basis, the Accounting Specialist shall perform the following procedures:

- Check all statements received to payments made for unprocessed invoices.
- Check the Purchase Order file for open P.O.'s that are more than 60 days old and follow up.

Use of a Credit Card/Purchasing Card

An approved purchase order is usually required to use a Credit Card/Purchasing Card (an example of a purchase not requiring a purchase order is a gasoline purchase for a company car). A Credit Card/Purchasing Card will not be checked out to an individual without an approved purchase order.

The Company has the following purchasing/credit cards:

Arvest Visa
Phillips 66

Wal-Mart
Harp's

Lowe's
Office Depot

All Credit Card/Purchasing Card transactions must be made for the use and benefit of the Agency. Personal purchases are not permitted in any circumstances.

The individual to whom the card has been checked out to must make all credit card/purchasing card transactions. It is the cardholder's responsibility to maintain adequate documentation of all transactions and to deliver that documentation to the accounting office within a week to ten days of purchase.

Lack of documentation may result in the charge being taken out of the employee's paycheck.

The Accounting Department is required to review credit card/purchasing card transaction activity to ensure compliance with this policy. An employee found to be in violation of this policy and/or guilty of fraudulent use of the credit card/purchasing card will be immediately terminated from employment at NWAHSHS.

TRAVEL AND BUSINESS ENTERTAINMENT

Travel Advances

All Agency travel must be approved in advance of the trip by the Executive Director, using the HS1-1. Funds will be advanced for upcoming travel only upon receipt of a completed and properly approved form HSF-9 (Authorization for Out of Area Travel). When travel has been authorized, the PDS-S will complete the HSF-9, approve and generate the Purchase Order for travel Per Diem Allowances. Travel advances are generally limited to per diem travel allowances as published by the Per Diem Committee of the Department of Defense. Travel advances are to be used only for the purpose intended. Travel expenses are to be made in accordance with the Agency's travel policies as explained later in this section.

Employees receiving travel advances are required to sign for the advance signifying their acknowledgement of, and agreement to, these policies. Employees receiving travel advances must submit a Purchase Order Expense Report of expenses, other than what was covered by the per diem (e.g. transportation cost, tips), within 30 days of returning from travel. **Any outstanding advances more than 30 days old will be deducted from an employee's next paycheck.**

Employee and Director Business Travel

At the conclusion of a NWAHSHS business trip, an employee or member of the Board of Directors that has incurred business-related expenses should complete a Purchase Order detailing and explaining their expenses in accordance with the following policies:

- Identify each separately incurred business expense (i.e. do not group all expenses associated with one trip together)
- With the exception of tips, tolls and reimbursed mileage, all business expenses must be supported with invoices/receipts that are greater than \$25.00.
- For all lodging and any expenditure other than meals, vendor receipts/invoices must be submitted. Credit card charge slips do not represent adequate supporting documentation - a hotel receipt must be obtained to substantiate all lodging expenditures.
- For airfare, airline-issued receipts should be obtained. If a traveler fails to obtain a receipt, other evidence must be submitted indicating that a trip was taken and the amount paid (for example, a combination of an itinerary, a credit card receipt, and Boarding passes).
- Mileage may be reimbursed at the current IRS rate per mile.
- The business purpose of each trip must be adequately explained on each report.

- Project/function codes must be identified for all expenditures.
- For all non-per diem business expenditures, the following must be clearly identified:
 - Names, titles, organizations, and business relationships of all persons entertained
 - The business purpose of the meal or other business event (topics discussed, etc.)
- All Purchase Order Expense Reports must be signed and dated by the employee or Board Member.
- The employee's supervisor must approve all Purchase Order Expense Reports.
- Only one Purchase Order Expense Reports form (HSF-3) should be prepared for each trip.

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

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

Reasonableness of Travel Costs

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

- Suites and other upgraded rooms at hotels shall not be allowed; travelers should stay in standard rooms
- When utilizing rental cars, travelers should rent midsize or smaller vehicles; share rental cars whenever possible
- Business-related long-distance telephone calls while away on business travel are permitted, but should be kept to a minimum. Purchase Order Expense Reports should explain long-distance charges
- Personal long-distance calls while away on business are not reimbursable.
- Whenever possible, travelers should utilize long-distance calling cards when placing calls while away on travel
- Reasonable tips for baggage handling shall be reimbursed; No receipts are required

Special Rules Pertaining to Air Travel

The following additional rules apply to air travel:

- Air travel should be at coach class; First class air travel shall not be reimbursed unless there is a documented medical reason
- Memberships in airline flight clubs is not reimbursable
- Cost of flight insurance is not reimbursable
- When airfare is \$1,000 or more, three quotes from a travel Agency, Internet and/or an airline should be obtained and attached to the Purchase Order Expense Report
- When returning on a Sunday or departing on a Saturday in order to obtain a cost savings in airfare due to the Saturday night stay-over, travelers should provide a total cost comparison (showing that the lower airfare plus an extra night lodging, meals & incidentals is less costly than airfare without the Saturday night stay-over)
- Cost of upgrade certificates is not reimbursable
- Cost of canceling and rebooking flights is not reimbursable, unless it can be shown that it was necessary or required for legitimate business reasons (such as changed meeting dates, etc.)
- Travelers must identify and pay for all personal flights, even if such flights are incorporated into a flight schedule that serves business purposes (i.e. NWAHSHS will not reimburse for the personal legs of a trip)

Spouse/Partner Travel

It is the policy of NWAHSHS not to reimburse any employee or Board Member for separate travel costs (air fare, etc.) associated with his/her spouse or partner. The cost of a shared hotel room need not be allocated between employee/director and spouse/partner for purposes of this policy.

CASH DISBURSEMENTS (CHECK-WRITING) POLICIES

Check Preparation

It is the policy of NWAHSHS to print vendor checks and expense reimbursement checks on a weekly basis. Persons independent of those who initiate or approve expenditures, as well as those who are authorized check signers shall prepare checks.

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

- Expenditures must be supported in conformity with the purchasing, accounts payable, and travel and business entertainment policies described in this manual
- Timing of disbursements should generally be made to take advantage of all early-payment discounts offered by vendors
- Generally, all vendors shall be paid within 30 days of submitting a proper invoice upon delivery of the requested goods or services
- Total cash requirements associated with each check run is monitored in conjunction with available cash balance in bank prior to the release of any checks
- All supporting documentation is attached to the corresponding check prior to forwarding the entire package to an authorized check signer
- Checks shall be utilized in numerical order (unused checks are stored in a locked file cabinet in the accounting department)
- Checks shall never be made payable to "bearer" or "cash"
- Checks shall never be signed prior to being prepared
- Upon the preparation of a check, vendor invoices and other supporting documentation shall immediately be attached to the voucher package in order to prevent subsequent reuse

Check Signing

Checks require two signatures from two of the four authorized check signers. No checks shall be signed prior to the check being completed in its entirety (no signing of blank checks).

It is the policy of NWAHSHS that with the exception of those checks approved and signed by the Executive Director; an individual other than the one who approved the transaction for payment shall sign each check. When the check is made payable to the Executive Director (a per diem for example) the check should not be signed by the Executive Director.

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

Mailing of Checks

After signature, checks are forwarded to the OA or HRA who then prepares checks immediately for mailing. Then the OA or HRA mails the checks. Individuals who authorize expenditures or print checks shall not mail checks.

Voided Checks and Stop Payments

Checks may be voided due to processing errors by making proper notations in the check register, defacing the check by clearly marking it as "VOID", and removing the signature area from the check. All voided checks shall be retained and filed in numerical order in a three ring binder to aid in preparation of the bank reconciliation. Stop payment orders may be made for checks lost in the mail or other valid reasons. Stop payments are processed by telephone instruction and written authorization to the bank by accounting personnel with this authority. A journal entry is made to record the stop payment and any related bank fees.

Record-Keeping Associated with Independent Contractors

NWAHSHS shall obtain a completed Form W-9 or equivalent substitute documentation from all vendors to whom payments are made and should be completed as part of setting up any new vendors. A record shall be maintained of all vendors to whom a Form 1099 is required to be issued at year-end. Payments to such vendors shall be accumulated over the course of a calendar year.

PAYROLL AND RELATED POLICIES

Classification of Workers as Independent Contractors or Employees

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

- Behavioral control
- Financial control
- The type of relationship of the parties

Facts associated with each of these categories that will be considered by NWAHSHS in making employee/contractor determinations shall include:

- Behavioral control:
 - Instructions given by NWAHSHS to the worker that indicates control over the worker (suggesting an employee relationship), such as:
 - When and where to work
 - What tools or equipment to use
 - What workers to hire or to assist with the work
 - Where to purchase supplies and services
 - What work must be performed by a specified individual
 - What order or sequence to follow
 - Training provided by NWAHSHS to the worker (i.e. employees typically are trained by their employer, whereas contractors typically provide their own training)
- Financial control:
 - The extent to which the worker has un-reimbursed business expenses (i.e. employees are more likely to be fully reimbursed for their expenses than is a contractor)
 - The extent of the worker's investment in the facilities/assets used in performing services for NWAHSHS (greater investment associated with contractors)
 - The extent to which the worker makes services available to the relevant market
 - How NWAHSHS pays the worker (i.e. guaranteed regular wage for employees vs. flat fee paid to some contractors)
 - The extent to which the worker can realize a profit or loss.
- Type of Relationship:
 - Written contracts describing the relationship that NWAHSHS and the individual intend to create
 - Whether NWAHSHS provides the worker with employee-type benefits, such as insurance, paid leave, etc.
 - The permanency of the relationship
 - The extent to which services performed by the worker is a key aspect of the regular business of NWAHSHS.

If an individual qualifies for independent contractor status, the individual will be sent a Form 1099 if total compensation paid to that individual for any calendar year, on the cash basis is \$599 or more, unless the contractor is a corporation. The amount reported on a Form 1099 is equal to the compensation paid to that person during a calendar year (on the cash basis). Excluded from "compensation" are reimbursements of business expenses that have been accounted for by the contractor by supplying receipts and business explanations.

If an individual qualifies as an employee, a personnel file will be created for that individual and all documentation required by the NWAHSHS personnel policies shall be obtained. The policies described in the remainder of this section shall apply to all workers classified as employees.

Payroll Administration

NWAHSHS operates on a bi-weekly payroll. For all NWAHSHS employees, a personnel file is established and maintained with current documentation, as described throughout this section.

Changes in Payroll Data

It is the policy of NWAHSHS that all of the following changes in payroll data are to be authorized in writing:

- New hires
- Terminations
- Changes in salaries and pay rates (must be reviewed by the FO and signed by the ED)
- Voluntary payroll deductions
- Changes in income tax withholding status
- Court-ordered payroll deductions

Payroll Taxes

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

It is the policy of NWAHSHS to obtain an updated Form W-4 from each employee in January of each year. Withholding of federal income taxes shall be based on the most current Form W-4 prepared by each employee.

Preparation of Personnel Activity Reports

During New Employee Orientation, the personnel activity report (PAR) process is introduced and pay rates and benefit information is discussed. Hourly employee PAR's shall be prepared in accordance with the following guidelines. Salaried employee PAR's shall be prepared in accordance with some of the following guidelines:

- Each PAR shall reflect all hours worked during the pay period (time actually spent on the job performing assigned duties), whether compensated or not
- PAR shall be prepared in blue ink
- Errors shall be corrected by crossing through the incorrect entry, filling in the correct entry, and placing the employee's initials next to the change (i.e. employees shall not use "white out" or correction tape)
- Employees shall identify and record hours worked based on the nature of the work performed
- Compensated absences (vacation, holiday, sick leave, etc.) should be clearly identified as such
- The employee and his/her immediate supervisor shall sign timesheet prior to submission

Personnel Activity Report Collection

Field Staff:

- Individual employees are responsible for accurately completing their own PAR on a day-to-day basis.
- On the final day of each pay period (every other Friday), the employee reviews their PAR for accuracy and submits it to their supervisor.
- The supervisor or Local Program Director will review and verify the hours indicated on each PAR.
- The Local Program Director is then responsible for completing the payroll spreadsheet. This spreadsheet is to be emailed to the Program Design Specialist-Human Resources no later than 5:00 p.m. on the Monday following the final day of the pay period (the first day of the new pay period).
- The Local Program Director is required to either mail or deliver the original PAR (with all required signatures) to the Central Office. The PAR must arrive at the Central Office no later than noon on Tuesday.
- The receptionist will log all incoming PAR's and documentation. The PAR's will then be delivered to the Executive Director or Program Design Specialist-Human Resources for final review and approval.
- The Executive Director will then deliver all PAR's to the HRA.

Central Office:

- The Central Office staff is responsible for submitting their PAR to their supervisor by 10:00 a.m. on the final day of each pay period (every other Friday).
- The immediate supervisor will review PAR.
- The supervisor will then deliver the PAR (with all required signatures) to the Executive Director for final review and signature.
- The Executive Director will then deliver all PAR to the HRA.

Payroll Processing

- The HRA will receive all completed PAR's from the Executive Director and attach approved leave requests to the appropriate PAR's. Leave requests will be requested if none have been submitted for the specific date in question.
- The HRA then verifies that all requested leave is available.
- The HRA will then enter all hours into the current payroll processing service. A preliminary report is processed and all hours, pay and status changes are checked by another Program Design Specialist for accuracy.
- The HRA then submits the approved NWAHS SHS payroll to the Fiscal Officer for review. The Fiscal Officer will submit the completed payroll, or authorize the HRA to submit the payroll, to the vendor by 4:00 on Tuesday.
- The contracted payroll vendor then issues a full report, which is mailed with the checks to the Central Office on Wednesday. The final report, as well as any other supporting documentation, is posted to the General Ledger and then filed by the Fiscal Officer (by pay period).
- Upon receipt of the final report, the Fiscal Officer then draws down the appropriate funds required for the payroll and issues the total pages of the report and Form 270 to ACF.
- The contracted payroll vendor issues all checks and delivers them to the Central Office on Wednesday.
- A member of the Management Team verifies that all checks are present and then places postage on each check. The HRA verifies with the Fiscal Officer that all funds have been drawn down.
- The Operations Assistant hand-delivers the checks on Thursday to the main Rogers Post Office to be mailed.

Leave Requests (Form HSP-99)

- All leave requests are sent/faxed to the HRA.
- The HRA reviews the individual's accruals to see if the requested hours are available.
- If hours are available, the request is signed and forwarded to the Executive Director.
- The Executive Director will approve/disapprove and sign the request returning it to the HRA.
- If the leave request is approved by the Executive Director, the HRA will send an email to the employee informing them of the approval or disapproval of their Leave Request.
- The completed leave requests are to be filed in a "Leave Request" file in the Human Resource office. The requests are stapled to the appropriate timesheet once these are submitted.

Accruals

- Upon receiving all Agency timesheets, the HRA then enters all hours into the appropriate worksheet or database.
- Updated accrual information is emailed to each of the centers on a regular basis or as requested.

Timesheet Organization

- After payroll has been submitted and the accruals have been updated, the HRA files each PAR.
- Each PAR is filed in the employee's own individual PAR file for the current year.
- The current-year and previous year files are located in the PAR filing cabinet outside the HRA office. The prior year files are located in the filing cabinet outside of the Accounting Office (#5). Both of these cabinets are to be secured at all times.
- Once a fiscal year has ended, the prior year files will be placed into boxes for storage until they are destroyed. The current year files are then moved into the #5 filing cabinet for storage, and a new set of employee timesheet files are created and placed in the PAR filing cabinets outside the HRA's office.

Status Change

After every "Status Change" is made, the HRA double-checks the system every payday to ensure that the proper changes have been made.

Change/Add Info: The employee must submit in writing or e-mail to the HRA to request any of the following changes:

- Name, Address, Phone Number
- Tax Filing Status (must include a revised W-4 and AR4EC form)

- Federal/State Allowances (must include a revised W-4 and AR4EC form)
- Deductions (Accounting is able to open Vanguard/AFLAC accounts, once proper paperwork has been completed)
- **Garnishments:** (Garnishments will be immediately processed by Human Resources and the Employee will be notified) HRA will inform the payroll-processing vendor of the Garnishment and fax them the necessary documentation.
- **Pay Rate Change:** The HRA will fill out a "Payroll Status Change" form (HSF-5). This form is to be placed in the personnel file for future reference. The rate change and the date of the change are also to be recorded on the inside of the personnel folder.
- **Direct Deposit:** A direct deposit form must be filled out by the employee. This form, accompanied by a copy of a voided check, is to be faxed to the payroll processing vendor. Follow up with a phone call to ensure that the paperwork was received.
- **New Employee:** An "Employee Information Sheet" (HSP-56) should be filled out for each new employee upon employment.

Questions about the payroll process should be directed to the contracted payroll vendor.

POLICIES PERTAINING TO SPECIFIC ASSET AND LIABILITY ACCOUNTS

CASH AND CASH MANAGEMENT

Cash Accounts

General Checking Account (operating account):

The primary operating account provides for routine business check disbursements. Cash transfers or payment draw -downs are done as disbursements are processed.

Bank Reconciliation

Bank account statements are received each month and forwarded unopened to the Executive Director. A member of the Finance Committee shall open the statements and review the contents for unusual or unexplained items, such as unusual endorsements on checks, indications of alterations to checks, etc. Unusual or unexplained items shall be reported immediately to the audit committee.

After this review is complete, someone in accounting who is not an authorized check signer prepares reconciliation between the bank balance and general ledger balance. It is the policy of NWAHSHS to complete the bank reconciliation process within seven to ten days of receipt of each bank statement.

All bank reconciliation's, including any adjusting journal entries resulting from preparing the bank reconciliation, is prepared by the Fiscal Officer and reviewed by the Executive Director or financial team on a monthly basis.

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

Cash Flow Management

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

It is the policy of the Agency to draw down funds when Federal Grant checks are written in order to reduce the time between draw down of funds from the Payment Management System and the issuance of checks for program purposes. The procedure for drawing down funds and issuance of checks must be followed at all times.

Stale Checks

It is the policy of NWAHSHS to reverse the payable of checks of \$1,000 or less that are more than 3 months old and have not cleared the Agency's bank. For un-cashed checks that are more than 3 months old and that exceed \$1,000, contact will be made with the payee to resolve the issue.

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

Wire Transfers

Currently it is not the Agency's practice to utilize wire transfers. If the Executive Director decides to use a wire transfer, it must be approved by a check signing Board Member. The Fiscal Officer and the Accounting Specialist are not allowed to transact wire transfers; a system shall be employed that requires the use of pass-codes for each wire transfer. Pass-codes, issued only to the above employees, are assigned by the bank and are changed annually. Confirmations of all wire transfers are delivered to the Fiscal Officer.

PREPAID EXPENSES

Accounting Treatment

It is the policy of NWAHSHS to treat payments of expenses that have a time-sensitive future benefit as prepaid expenses and to amortize these items over the corresponding time period.

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

Procedures

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

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

FIXED ASSET MANAGEMENT A-110.34

Capitalization Policy

Physical assets acquired with unit costs in excess of \$5,000 are capitalized as fixed assets on the financial statements. All items purchased with Federal Grant Funds are expensed when purchased and the Net Assets are increased for the restriction for the estimated useful life.

Capitalized fixed assets are accounted for at their historical cost and all such assets, except land and certain works of art and historical treasures, are subject to release of restriction over their estimated useful lives, as described later.

Contributed Assets

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

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

Establishment and Maintenance of a Fixed Asset Listing

All capitalized fixed assets shall be recorded in a Fixed Asset inventory log. This log shall include the following information with respect to each asset:

- Date of acquisition
- Which grant funds the item was purchased with.
- Cost
- Description
- Location of asset

- Depreciation method
- Estimated useful life

NWAHSHS will take a physical inventory of all assets capitalized under the preceding policies on an annual basis. This physical inventory shall be reconciled to the inventory log and adjustments made as necessary. The Fiscal Officer will approve all adjustments resulting from this reconciliation.

Receipt of Newly-Purchased Equipment and Furniture

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

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

Once the equipment or furniture passes receiving inspection, an inventory tag will be attached and the number forwarded to accounting.

Depreciation and Useful Lives

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

In the year of acquisition, depreciation is recorded based on the number of months the asset is in service, counting the month of acquisition as a full month (Example: an asset purchased on the 15th day of the fifth month shall have 6 full months of depreciation (eight-twelfths of one year) recorded for that year.

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

- | | |
|----------------------------|----------------------|
| • Furniture, and fixtures | Up to 7 yrs |
| • General office equipment | 3-5 yrs |
| • Computer software | 2-3 yrs |
| • Leased assets | life of lease |
| • Leasehold Improvements | remaining lease term |

Alternatively, at the direction of the Fiscal Officer, capitalized assets may be depreciated over useful lives expressed in terms of units of production or hours of service in place of the preceding useful lives expressed in terms of time. For accounting and interim financial reporting purposes, depreciation expense will be recorded in Net Assets on a monthly basis.

Repairs of Fixed Assets

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

Expenditures to repair capitalized assets shall be capitalized if the repairs increase the value of property, prolong its estimated useful life, or adapt it to a new or different use.

Costs shall be depreciated over the remaining estimated useful life of the property. If the repairs significantly extend the estimated useful life of the property, the original cost of the property shall also be depreciated over its new, extended useful life.

Dispositions of Fixed Assets

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

Write-Offs of Fixed Assets

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

LEASES

Classification of Leases

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

- The lease transfers ownership to NWAHSHS at the end of the lease term;
- The lease contains a bargain purchase option;
- The lease term is equal to 75% or more of the estimated economic life of leased property; or
- The present value of the minimum lease payments is 90% or more of the fair value of the leased property (using, as the interest rate, the lesser of NWAHSHS incremental borrowing rate or, if known, the lessor's implicit rate).

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

Accounting for Leases

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

All leases that are classified as capital leases shall be treated as fixed asset additions of NWAHSHS. Upon the inception of a capital lease, NWAHSHS shall record a fixed asset and a liability under the lease, based on the net present value of the minimum lease payments (or fair value of the leased asset, if it is less than the present value of the lease payments). Periodic lease payments shall be allocated between a reduction in the lease obligation and interest expense. The fixed asset recorded under a capital lease shall be depreciated over the term of the lease, using the straight-line method of depreciation. NWAHSHS shall also maintain a control list of all operating and capital leases. This list shall include all relevant lease terms.

ACCRUED LIABILITIES

Identification of Liabilities

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

- Salaries and wages
- Payroll taxes
- Rent
- Interest on notes payable

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

Accrued Leave

Sick leave is not paid out to an employee unless it is used, so it is not accrued as a liability. At the end of the year, unused sick leave is zeroed out. Unused annual leave and holiday pay are payable to an employee upon termination of employment, but is zeroed out at the end of the year also. ALL unused leave/holiday pay is lost at the end of the calendar year.

NOTES PAYABLE

Record-Keeping

It is the policy of NWAHSHS to maintain a schedule of all notes payable, mortgage obligations, lines of credit, and other financing arrangements. This schedule shall be based on the underlying loan documents and shall include all of the following information:

- Name and address of lender
- Date of agreement or renewal/extension
- Total amount of debt or available credit
- Amounts and dates borrowed
- Description of collateral, if any
- Interest rate
- Repayment terms
- Maturity date
- Address to which payments should be sent
- Contact person at lender

Accounting and Classification

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

Demand notes and any other notes without established repayment dates shall always be classified as current liabilities. Unpaid interest expense shall be accrued as a liability at the end of each accounting period.

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

Non-Interest-Bearing Notes Payable

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

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

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

POLICIES ASSOCIATED WITH FINANCIAL AND TAX REPORTING

FINANCIAL STATEMENTS

Standard Financial Statements of the Agency

Preparing financial statements and communicating key financial information is a necessary and critical accounting function. Financial statements are management tools used in making decisions, in monitoring the achievement of financial objectives, and as a standard method for providing information to interested parties external to the Agency. Financial statements may reflect year-to-year historical comparisons or current year budget to actual comparisons. The financial statements of NWAHSHS will be used on a quarterly basis to file the form PSC-272. The financial statement information reported will be reconciled to the form SF-269 for each budget period. The "Financial Status Report" form SF-269 will be reconciled and filed on a semi-annual basis based on the accrual method of accounting.

The basic financial statements of NWAHSHS that are maintained on an annual basis for the Agency-wide basis include:

- **Statement of Financial Position (Balance Sheet)** – completed monthly, reflects assets, liabilities and net assets of the Agency and classifies assets and liabilities as current or non-current/long-term
- **Statement of Activities (Income Statement)** – completed monthly, presents support, revenues, expenses, and other changes in net assets of the Agency, by category of net asset and by grant fund (unrestricted, temporarily restricted and permanently restricted)
- **Statement of Cash Flows** – completed at year-end, reports the cash inflows and outflows of the Agency in three categories: operating activities, investing activities, and financing activities
- **Statement of Functional Expenses** – completed at year-end, presents the expenses of the Agency in both a natural, or objective, format and by function (i.e. which program or supporting service was served)

Frequency of Preparation

The objective of the accounting department is to prepare accurate financial statements in accordance with generally accepted accounting principles and distribute them in a timely and cost-effective manner. In meeting this responsibility, the following policies shall apply:

A standard set of financial statements (Balance Sheet and Income Statements) shall be produced on a monthly basis, by the 20th of each month. The standard set of financial statements described in the preceding section shall be supplemented by the following schedules:

- Individual statements of activities on a departmental and functional basis (and/or program/grant basis)
- Comparisons of actual year-to-date revenues and expenses with year-to-date budgeted amounts

The monthly set of financial statements shall be prepared on the accrual method of accounting, including all receivables, accounts payable received by the 15th of the month.

Review and Distribution

All financial statements and supporting schedules shall be prepared, reviewed and approved by the Fiscal Officer prior to being issued by the Accounting Department.

After approval by the Fiscal Officer a complete set of monthly financial statements shall be distributed to the following individuals:

- Board of Directors
- Policy Council
- Executive Director
- Department Directors and any other employee with budget-monitoring responsibilities

Financial statements may include an additional supplemental schedule prepared or compiled by the Fiscal Officer. The purpose of this schedule is to provide known explanations for material budget variances in accordance with NWAHSHS budget monitoring policies described later in this manual (under the "Financial Management Policies" section).

Annual Financial Statements

If requested a formal presentation of the Agency's annual financial statements may be provided by the Independent Auditor to the full Board of Directors at the Agency's Annual Meeting. Prior to the presentation, the Audit Committee may vote to accept or reject the annual financial statements. See separate policies regarding the annual audit under "Financial Management Policies."

GOVERNMENT RETURNS

Overview

To legitimately conduct business, NWAHSHS must be aware of its tax and information return filing obligations and comply with all such requirements of federal, state and local jurisdictions. Filing requirements of NWAHSHS include, but are not limited to, filing annual information returns with IRS, income tax returns, sales tax returns, information returns for retirement plans, annual reporting of compensation paid, Form 269, 272, and the SF-SAC with the ACF and payroll tax withholding tax returns.

Filing of Returns

It is the policy of NWAHSHS to become familiar with the obligations in each jurisdiction and to comply with all known filing requirements. The Fiscal Officer shall be responsible for identifying all filing requirements and assuring that NWAHSHS is in compliance with all such requirements.

It is also the policy of NWAHSHS to file complete and accurate returns with all authorities. NWAHSHS shall make all efforts to avoid filing misleading, inaccurate or incomplete returns.

Filings made by NWAHSHS may include, but are not limited to, the following returns:

- **Form 990** - Annual information return of tax-exempt organizations, filed with IRS. Form 990 for NWAHSHS is due on the fifteenth day of the fifth month following year-end. An automatic 3-month extension of time to file Form 990 may be obtained filing Form 8868. Upon expiration of the first 3-month extension, a second 3-month extension may be requested using Form 8868.
- **Form 990-T** - Annual tax return to report NWAHSHS unrelated trade or business activities (if any), filed with IRS. Form 990-T is due on the fifteenth day of the fifth month following year-end. An automatic 6-month extension of time to file Form 990-T may be obtained by filing Form 8868.
- **Form 5500** - Annual return for NWAHSHS employee benefit plans. Form 5500 is due July 31, but a request for extension of time to file may be filed.
- **W-2's and 1099's** - Annual report of employee and non-employee compensation, based on calendar-year compensation, on the cash basis. These information returns are due to employees and independent contractors by January 31 and to federal government by February 28.
- **Form 941** - Quarterly payroll tax return filed with IRS to report wages paid to employees and federal payroll taxes. Form 941 is due by the end of the month following the end of each quarter, or 10 days later if all payroll tax deposits have been made in a timely manner during the quarter.
- **Other Forms:**
 - 1020 – State Unemployment
 - SF269 – Financial Status Report Due July and January prior 6 months
 - SF272 – Federal Cash Transactions Report due each calendar quarter
 - SF-SAC – Audits of State, Local, Government, and Non-Profit Organizations due annually
 - CCFP Report – For reimbursement of Child Food Program Cost – Due monthly

NWAHSHS fiscal and tax year-end is December 31. All annual tax and information returns of NWAHSHS (Form 990, Form 990-T) are filed on the accrual basis of reporting.

Federal and all applicable state payroll tax returns are prepared by the payroll-processing vendor and reviewed by the Fiscal Officer.

It is the policy of NWAHSHS to comply with all state payroll tax requirements by withholding and remitting payroll taxes to the state of Arkansas of NWAHSHS employees.

Public Access to Information Returns

Under regulations that became effective in 1999, NWAHSHS is subject to federal requirements to make the following forms "widely available" to all members of the general public:

- The three most recent annual information returns (Form 990), excluding the list of significant donors (Schedule B) that is attached to the Form 990, but including the accompanying Schedule A, and
- NWAHSHS original application for recognition of its tax-exempt status, (Form 1023 or Form 1024), filed with IRS, and all accompanying schedules and attachments.

It is the policy of NWAHSHS to adhere to the following guidelines in order to comply with the preceding public disclosure requirements:

- Anyone appearing in person at the offices of NWAHSHS during normal working hours making a request to inspect the forms will be granted access to a file copy of the forms. The Fiscal Officer shall be responsible for maintaining this copy of each form and for making it available to all requesters.
- For all written requests for copies of forms received by NWAHSHS the Agency shall require pre-payment of all copying and shipping charges. For requests for copies that are received without pre-payment, NWAHSHS will notify the requester of this policy via phone call or by letter within 7 days of receipt of the original request.
- The copying cost charged by NWAHSHS for providing copies of requested forms shall be \$1.00 for the first page and \$0.15 for each subsequent page. All copies shall be shipped to requesters via Priority Mail; thus, shipping charges will be the standard cost per shipment.
- After payment is received by NWAHSHS all requested copies shall be shipped to requesters within 30 days. Making of all copies and shipping within the 30-day time period shall be the responsibility of the accounting department.
- For requests for copies made in person during normal business hours, copies shall be provided while the requester waits.
- NWAHSHS shall accept certified checks and money orders for requests for copies made in person. NWAHSHS shall accept certified checks or money orders as payment for copies of forms requested in writing.
- NWAHSHS shall notify all requestors that copies of these forms are available free on the Internet.

UNRELATED BUSINESS ACTIVITIES

Identification and Classification

It is the policy of NWAHSHS to properly identify and classify income-producing activities that are unrelated to the Agency's tax-exempt purpose using the guidelines described in the Internal Revenue Code and underlying regulations. Such income accounts shall be segregated in separate accounts in the general ledger of NWAHSHS in order to facilitate tracking and accumulation of unrelated trade or business activities.

Reporting

It is the Policy of NWAHSHS to file IRS Form 990-T to report taxable income from unrelated trade or business activities. Form 990-T is not subject to any public access or disclosure requirements. Accordingly, it is the policy of NWAHSHS not to distribute copies of Form 990-T to anyone other than management of the Agency.

FINANCIAL MANAGEMENT POLICIES

BUDGETING A-110.21

Overview

Budgeting is an integral part of managing any Agency in that it is concerned with the translation of Agency goals and objectives into financial and human resource terms. A budget should be designed and prepared to direct the most efficient and prudent use of the organization's financial and human resources. A budget is a management commitment of a plan for present and future Agency activities that will ensure survival. It provides an opportunity to examine the composition and viability of the Agency's programs and activities simultaneously in light of the available resources.

Preparation and Adoption

It is the policy of NWAHSHS to prepare an annual budget on the accrual basis of accounting. To prepare the Agency budget, the Fiscal Officer shall gather proposed budget information from information submitted to the Grantor and all Department Directors and others with budgetary responsibilities and prepares the first draft of the budget. Budgets proposed and submitted by each department should be accompanied by a narrative explanation of the sources and uses of funds and explaining all material fluctuations in budgeted amounts from prior years.

After appropriate revisions and a compilation of all department budgets by the Fiscal Officer, a draft of the Agency-wide budget, as well as individual department budgets, is presented to the Executive Director for discussion, revision, and initial approval.

The revised draft is then submitted to the Finance Committee of the Board of Directors, and finally to the entire Board of Directors for adoption.

It is the policy of NWAHSHS to adopt a final budget at least 60 days before the beginning of the Agency's fiscal year. The purpose of adopting a final budget at this time is to allow adequate time for the accounting department to input the budget into the accounting system and establish appropriate accounting and reporting procedures (including any necessary modifications to the chart of accounts) to ensure proper classification of activities and comparison of budget versus actual once the year begins.

Monitoring Performance

It is the policy of NWAHSHS to monitor its financial performance by comparing and analyzing actual results with budgeted results. This function shall be accomplished in conjunction with the monthly financial reporting process described earlier.

On a monthly basis, financial reports comparing actual year-to-date revenues and expenses with budgeted amounts shall be produced by the accounting department and distributed to each employee with budgetary responsibilities.

Budget Modifications

After a budget has been approved by the Board of Directors and adopted by the Agency, reclassifications of budgeted expense amounts less than \$5,000 within a single department may be made by the Department Director, with approval from the Fiscal Officer. Reclassifications of budgeted expense amounts across departments of less than \$10,000 may be made only with approval of the Executive Director.

Reclassifications in excess of the preceding thresholds and any budget modification resulting in an increase in budgeted expenses or decrease in budgeted revenues shall be made only with approval of the Finance Committee or full Board of Directors.

ANNUAL AUDIT A-133

Role of the Independent Auditor

It is the policy of NWAHSHS Board of Directors to arrange for an annual audit of the Agency's financial statements to be conducted by an independent accounting firm. The independent accounting firm selected by NWAHSHS Board of Directors will be required to communicate directly with the Agency's Audit Committee upon the completion of their audit. In addition, members of the Audit Committee and Executive Committee are authorized to initiate communication directly with the independent accounting firm.

Audited financial statements, including the auditor's opinion thereon, will be submitted and presented to the Board of Directors by the independent accounting firm at an Agency's Meeting, after the financial statements have been reviewed and approved by the Audit Committee.

How Often to Review the Selection of the Auditor

NWAHSHS Board of Directors shall review the selection of its independent auditor in the following circumstances:

- Anytime there is dissatisfaction with the service of the current firm
- When a fresh perspective and new ideas are desired
- Every 3 years to ensure competitive pricing and a high quality of service (this is not a requirement to change auditors every three years; simply to re-evaluate the selection)

Any review should be conducted by November of the calendar year.

Selecting an Auditor

The selection of an accounting firm to conduct the annual audit is a task that should be taken very seriously. NWAHSHS Board of Directors shall consider the following factors in selecting an accounting firm:

- The firm's reputation in the nonprofit community
- The depth of the firm's understanding of and experience with not-for-profit organizations and federal reporting requirements under OMB Circular A-133

- The firm's demonstrated ability to provide the services requested in a timely manner
 - The ability of firm personnel to communicate with Agency personnel in a professional and congenial manner
- If NWAHSHS decides to prepare and issue a written Request for Proposal (RFP) to be sent to prospective audit firms, the following information shall be included:

- Period of services required
- Type of contract to be awarded (fixed fee, cost basis, etc.)
- Complete description of the services requested (audit, management letter, tax returns, etc.)
- Identification of meetings requiring their attendance, such as staff or Board of Director meetings
- Organization chart of NWAHSHS.
- Chart of account information
- Financial information about the Agency
- Copy of prior year reports (financial statements, management letters, etc.)
- Identification of need to perform audit in accordance with OMB Circular A-133
- Other information considered appropriate
- Description of proposal and format requirements
- Due date of proposals
- Overview of selection process (i.e. whether finalists will be interviewed, when a decision shall be made, etc.)
- Identification of criteria for selection

Minimum Proposal Requirements from prospective CPA firms shall be:

- Firm background
- Biographical information (resumes) of key firm member who will serve NWAHSHS.
- Client references
- Information about the firm's capabilities
- Firm's approach to performing an audit
- Copy of the firm's most recent quality/peer review report, including any accompanying letter of findings
- Other resources available with the firm
- Expected timing and completion of the audit
- Expected delivery of reports
- Cost estimate including estimated number of hours per staff member
- Rate per hour for each auditor
- Other information as appropriate

In order to narrow down the proposals to the top selections, the Executive Director and Fiscal Officer shall meet with or conduct a teleconference with the prospective engagement teams from each proposing firm to discuss their proposal. Copies of all proposals shall be forwarded to each member of the Audit Committee. After the Fiscal Officer narrows down the field of prospective auditors to three firms, final telephone interviews of each firm are conducted by the Audit Committee, who makes the final recommendation to the Board of Directors for approval.

Preparation for the Annual Audit

NWAHSHS Board of Directors shall be actively involved in planning for and assisting with the Agency's independent accounting firm in order to ensure a smooth and timely audit of its financial statements. In that regard, the accounting department shall provide assistance to the independent auditors in the following areas:

- **Planning** - The Fiscal Officer is responsible for delegating the assignments and responsibilities to accounting staff in preparation for the audit. Assignments shall be based on the list of requested schedules and information provided by the independent accounting firm.
- **Involvement** - Agency staff will do as much work as possible in order to assist the auditors and, therefore, reduce the cost of the audit.
- **Interim Procedures** - To facilitate the timely completion of the annual audit, the independent auditors may perform selected audit procedures prior to the Agency's year-end. By performing significant portions of audit work as of an interim date, the work required subsequent to year-end is reduced. Agency staff will do as much as possible in order to provide

requested schedules and documents and to otherwise assist the auditors during any interim audit fieldwork that is performed.

Throughout the audit process, it shall be the policy of NWAHSHS to make every effort to provide schedules, documents and information requested by the auditors in a timely manner.

Concluding the Audit

Upon receipt of a draft of the audited financial statements of NWAHSHS from its independent auditor, the Fiscal Officer shall perform a detailed review of the draft, consisting of the following procedures:

- Carefully read the entire report for typographical errors
- Trace and agree each number in the financial statements and accompanying footnotes to the accounting records and/or internal financial statements of NWAHSHS.
- Review each footnote for accuracy and completeness

Any questions or errors noted as part of this review shall be communicated to the independent auditor in a timely manner and resolved to the satisfaction of the Fiscal Officer.

It shall also be the responsibility of the Fiscal Officer to review and respond in writing to all management letters or other internal control and compliance report findings and recommendations made by the independent auditor.

Audit Committee Responsibilities

In accordance with the NWAHSHS By-Laws, there shall be an Audit Committee consisting of at least three Board members.

The Audit Committee's responsibilities include, but shall not be limited to, the following:

- Appointment of, and communication with, the Agency's independent auditors
- Review and approval of the annual, audited financial statements
- Discussion of internal control matters with the independent auditor
- Responding to any reported instances of fraud involving NWAHSHS or its employees
- Conducting a quarterly analysis of the Agency's financial statements
- Making policy and other recommendations to NWAHSHS Board of Directors regarding matters arising out of the audit

In fulfilling these duties and responsibilities, the Audit Committee is entitled to examine any and all documents within the control of NWAHSHS and its employees. In addition, the Audit Committee shall have the authority to contract with independent contractors in the fulfillment of the committee's responsibilities.

INSURANCE A-110.31

Overview

It is fiscally prudent to have an active risk management program that includes a comprehensive insurance package. This will ensure the viability and continued operations of NWAHSHS.

It is the policy of NWAHSHS to maintain adequate insurance against general liability, as well as coverage for buildings, contents, computers, equipment, machinery and other items of value.

Coverage Guidelines

As a guideline, NWAHSHS will arrange for the following types and levels of insurance as a minimum:

<u>Type of Coverage</u>	Commercial Property Commercial-General Liability
Comprehensive	Business Auto
Liability	Employee Benefits Professional Liability
Employee dishonesty/bonding	Employee/Child Accident
Fire and Water Damage	
Directors and Officers	
Theft	
Workers' Compensation	

<u>Amount of Coverage</u>	\$1,000,000 (with an appropriate deductible level)
\$1,000,000	Coverage for all items with acquisition cost greater than \$1,000
\$1,000,000	To the extent required by law
\$5,000 to \$36,000 for all accounting department employees and the Executive Director	Specific Limits for each location
\$100,000	\$500,000 Limit
	\$500,000
	\$1,000,000 Aggregate

NWAHSHS shall maintain a detailed listing of all insurance policies in effect. This listing shall include the following information, at a minimum:

- Description (type of insurance)
- Agent and insurance company, including all contact information
- Coverage and deductibles
- Premium amounts and frequency of payment
- Policy effective dates
- Date(s) premiums paid and check numbers

Insurance Definitions

Workers' Compensation and Employer's Liability

Contractors are required to comply with applicable Federal and State workers' compensation and occupational disease statutes. If occupation diseases are not compensated under those statutes, they shall be covered under the employer's liability insurance policy except when contract operations are so commingled that it would not be practical to require this coverage.

Fidelity Bond

For all personnel handling cash, preparing or signing checks, NWAHSHS shall obtain insurance that provides coverage in a blanket fidelity bond. The specific needs of the Agency will determine the dollar limit of this coverage.

Comprehensive Liability

This type of coverage may include directors, officers and employee general liability insurance, building, contents, computers, fine arts, boilers and machinery.

RECORD RETENTION A-110.53

It is the policy of NWAHSHS to retain records as required by law and to destroy them when appropriate. The Executive Director must approve the destruction of records. NWAHSHS will use the listing below as a guideline for record retention:

Accident reports/claims (settled Cases)	7 Years
Accounts payable ledgers and schedules	7 Years
Accounts receivable ledgers and schedules	7 Years
Audit reports	Permanently
Bank reconciliation	3 Years
Bank Statements	3 Years
Chart of Accounts	Permanently
Cancelled Checks	7 Years

Contracts, mortgages, notes and leases:

Expired	7 Years
Still in effect	Permanently

Correspondence:

General	2 Years
Legal and important matters only	Permanently
Routine with customers and/or vendors	2 Years
Deeds, mortgages and bills of sales	Permanently
Depreciation schedules	Permanently
Duplicate deposit slips	3 Years



Employment applications	3 Years
Expense analyses/expense distribution schedule	7 Years
Financial statements:	
Year end	Permanently
Other	Optional
Garnishments	7 Years
General ledgers/year end trial balance	Permanently
Insurance policies (expired)	3 Years
Insurance records (policies, claims, etc.)	Permanently
Internal audit reports	3 Years
Internal reports	3 Years
Inventories of products, materials and supplies	7 Years
Invoices (to customers, from vendors)	7 Years
Journals	7 Years
Minute books of directors, bylaws and charters	Permanently
Notes receivable ledgers and schedules	7 Years
Payroll records and summaries	7 Years
Personnel records (terminated)	7 Years
Petty cash vouchers	3 Years
Physical inventory tags	3 Years
Property records (incl. depreciation schedules)	Permanently
Purchase orders:	
Purchasing department copy	7 Years
Other copies	1 Year
Receiving sheets	1 Year
Retirement and pension records	Permanently
Requisitions	1 Year
Sales records	7 Years
Subsidiary ledgers	7 Years
Tax returns and worksheets, examination reports and other documents relating to determination of income tax liability	Permanently
Time sheets/cards	7 Years
Trademark registrations and copyrights	Permanently
Training manuals	Permanently
Voucher registers and schedules	7 Years
Withholding tax statements	7 Years

FUNCTIONAL EXPENSE ALLOCATIONS A-122

Overview

As one of its financial management objectives, NWAHSHS strives to determine the actual costs of carrying out each of its program service and supporting activities. In this regard, it is the policy of NWAHSHS to charge expenses to the appropriate category of program service or supporting activity. Expenses that serve multiple functions or are not readily identifiable with one function shall be allocated between functions whenever possible.

Program and supporting service functions of NWAHSHS are:

Programs:

- Federal Grant Funds
- Community Donations and United Way Funds
- In-Kind Reporting
- Child Care Food Program

Supporting Services:

- Management and general
- Fund Raising



Direct Charging of Costs

Certain internal costs shall be directly charged to the appropriate NWAHSHS function based upon underlying documentation. The following costs shall be directly charged based on the documentation or factor listed next to each:

<u>Cost</u>	<u>Basis for Charge</u>
Salaries	Approved Personnel Activity Reports
Facility Costs	Actual Costs
Telephone	Actual Costs
Photocopying	Actual Costs
Postage	Actual Costs
Supplies	Actual Costs

With the exception of salaries, which are recorded with each payroll cycle, all other costs identified above shall be initially charged to one account when incurred, then allocated and recorded to the appropriate functions via monthly allocation journal entries.

Allocation of Overhead Costs

On a monthly basis, an allocation of overhead to each program service and supporting activity area shall be recorded via a journal entry. Overhead shall be allocated based on criteria shown in the GABI system and charged to each function. Costs included in overhead to be allocated include all costs associated with building occupancy, building and equipment maintenance, and any other cost that benefits all functions of the Agency. General and administrative costs shall not be allocated to program service or other supporting functions of the Agency.

POLICIES PERTAINING TO FEDERAL AWARDS Attachment A

ADMINISTRATION OF FEDERAL AWARDS

Definitions

There are several types of agreements through which NWAHSHS may receive financial assistance from a donor/grantor Agency:

- **Grant:** A financial assistance award given to the Agency to carry out its programmatic purpose.
- **Contract:** A mutually binding legal agreement where the Agency agrees to provide supplies or services and the donor agrees to pay for them.
- **Cooperative Agreement:** A legal agreement where the Agency implements a program with the direct involvement of the donor.

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

Preparation and Review of Proposals

Individual departments are responsible for preparing proposals for projects that the department intends to pursue. The Executive Director will approve department projects before the grant is written. Final proposals shall be reviewed and approved in writing by the Board of Directors, prior to submission to government agencies or other funding sources.

The individual departments shall develop the project with a team and outline the scope of the project, the cost guidelines of the federal guidelines, what resource restrictions will apply, where the matching responsibility will be obtained and how the project will benefit the Agency.

Post-Award Procedures

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

- Verify the specifications of the grant or contract. The Accounting Department shall review the terms, time periods, award amounts and expected expenditures associated with the award. A CFDA (*Catalog of Federal Domestic Assistance*) number shall be determined for each award. All reporting requirements under the contract or award shall be summarized.
- Create new general ledger account numbers as needed. New accounts shall be established for the receipt and expenditure categories in line with the grant or contract budget as necessary.



- Gather documentation. A file is established for each grant or contract. The file contains the proposal, all the correspondence regarding the grant or contract, the final signed award document. All reports submitted to the funding sources are kept in a separate yearly file.

Compliance with Laws, Regulations and Provisions of Awards

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

- For each Federal award, a NWAHSHS employee within the department responsible for administering the award will be designated as "Grant/Project Manager" (GPM).
- Each GPM shall attend a class on grant management prior to beginning their role as a GPM (or as early in their functioning as a GPM as practical). Thereafter, all GPM's shall attend refresher/update courses on grant management as deemed necessary.
- The GPM shall take the following steps to identify all applicable laws, regulations, and provisions of each grant and contract:
 - Read each award and prepare a summary of key compliance requirements and references to specific laws and regulations
 - Review the "OMB Circular A-133 Compliance Supplement" (updated annually) published by the Office of Management and Budget (OMB) for compliance requirements unique to the award and for compliance requirements common to all Federal awards,
 - Review the section of the Catalog of Federal Domestic Assistance applicable to the award
- The Accounting Department shall forward copies of applicable laws regulations to the GPM (such as OMB Circulars, pertinent sections of compliance supplements, and other regulations).
- The GPM and/or the NWAHSHS Accounting Department shall identify and communicate any special changes in policies and procedures necessitated by Federal awards as a result of the review of each award.
- The GPM shall take all reasonable steps necessary to identify applicable changes in laws, regulations and provisions of contracts and grants. Steps taken in this regard shall include, but not be limited to, reviewing subsequent grant and contract renewals, reviewing annual revisions to the "OMB Circular A-133 Compliance Supplement", and communications with Federal awarding Agency personnel.
- The GPM shall cooperate with the Agency's Independent Auditors by informing the CPA firm as to applicable laws, regulations, and provisions of contracts and grants and communicating known instances of noncompliance with laws, regulations, and provisions of contracts and grants to the auditors.

Billing and Financial Reporting

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

NWAHSHS shall prepare and submit financial reports as specified by the financial reporting clause of each grant or contract award document. Preparation of these reports shall be the responsibility of Fiscal Officer, subject to review and approval by the Executive Director.

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

- It is the policy of NWAHSHS to request reimbursement after expenditures have been incurred, unless an award specifies another method.
- Each award normally specifies a particular billing cycle; therefore, a schedule is established for each grant and contract to ensure that reimbursement is made on a timely basis along with any other reporting that is required in addition to the financial reports.
- Requests for reimbursement of award expenditures will use the actual amounts as posted to the general ledger as the source for all invoice amounts.
- All financial reports required by each federal award will be prepared and filed on a timely basis. To the extent NWAHSHS year-end audit results in adjustments to amounts previously reported to federal agencies, revised reports shall be prepared and filed in accordance with the terms of each federal award.



Accounts Receivable

NWAHSHS shall maintain separate billing records in addition to the official general ledger accounting records. Billing records shall be reconciled to the general ledger on a monthly basis.

At the time draw-downs (requests for reimbursement) are prepared, revenue and cash shall be recorded on the books of NWAHSHS by the Accounting Department.

If a federal award authorizes the payment of cash advances to the Agency, the Fiscal Officer may request that a request for such an advance be made. Upon receipt of a cash advance from a federal Agency, NWAHSHS shall reflect a liability equal to the advance. As part of the monthly close out and invoicing process, the liability shall be reduced, and revenue recognized, in an amount equal to the allowable costs incurred for that period.

Cash Draw-downs Under Letters of Credit

Cash draw-downs under letters of credit from federal agencies shall be made as needed in conjunction with the accounts payable and payroll schedule. All federal funds shall be deposited into an interest-bearing cash account under the cash receipts policies and procedures described in this manual.

The Fiscal Officer or Accounting Specialist shall draw cash from the U.S. Treasury based on a computer listing of anticipated cash disbursements due. Adjustments to this estimate shall be made for known exceptions, such as staff going on or returning from leave, non-recurring purchases, etc.

Procurement Under Federal Awards

Procurement of goods and services whose costs are charged to federal awards received by NWAHSHS are subject to all of the specific NWAHSHS purchasing policies described earlier, under "Policies Associated with Expenditures and Disbursements." In addition, procurements associated with Federal awards are subject to the following supplemental policies:

- NWAHSHS shall avoid purchasing items that are not necessary for the performance of the activities required by a Federal award.
- Where appropriate, an analysis shall be made of lease and purchase alternatives to determine which would be the most economical and practical procurement for the Federal government.
- Documentation of the cost and price analysis associated with each procurement decision shall be retained in the procurement files pertaining to each Federal award.
- For all procurements in excess of the small purchase acquisition threshold (currently \$100,000), procurement records and files shall be maintained the include all of the following:
 - The basis for contractor selection.
 - Justification for lack of competition when competitive bids or offers are not obtained.
 - The basis for award cost or price.
- NWAHSHS shall make all procurement files available for inspection upon request by a Federal Awarding Agency.
- All contracts with vendors shall require the vendor to certify in writing that it has not been suspended or disbarred from doing business with any federal Agency.

In addition, no employee, officer, or agent of NWAHSHS shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agent, any member of her or his immediate family, his or her partner, or an Agency which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award.

Solicitations of Bids from Vendors

All purchases where the unit cost of a line item exceeds \$1,000, three quotes should be obtained and documented on the Bid Summary Form HSF-15. Any purchases where the unit cost of a line item exceeds \$5,000, three written quotes specific to NWAHSHS should be obtained.

NWAHSHS shall not utilize the "cost-plus-a-percentage-of-cost" method of contracting with vendors.



All other policies and procedures associated with procurement under Federal awards shall be governed by the policies applicable to all purchases of NWAHSHS described in the section of this manual on "Policies Associated With Expenditures and Disbursements."

Provisions Included in all Contracts

It is the policy of NWAHSHS that all contracts to which we are a party include all of the following provisions, as applicable:

- **Equal Employment Opportunity:** All contracts shall contain a provision requiring compliance with E.O. 11246, "Equal Employment Opportunity," as amended by E.O. 11375, "Amending Executive Order 11246 Relating to Equal Employment Opportunity," and as supplemented by regulations at 41 CFR part 60, "Office of Federal Contract Compliance Programs, Equal Employment Opportunity, Department of Labor."
- **Copeland "Anti-Kickback" Act (18 U.S.C. 874 and 40 U.S.C. 276c):** All contracts and subgrants in excess of \$2,000 for construction or repair awarded by NWAHSHS and its subrecipients shall contain a provision for compliance with the Copeland "Anti-Kickback" Act (18 U.S.C. 874), as supplemented by Department of Labor regulations 29 CFR part 3, "Contractors and Subcontractors on Public Building or Public Work Financed in Whole or in Part by Loans or Grants from the United States." This Act provides that each contractor or subrecipient shall be prohibited from inducing, by any means, any person employed in the construction, completion, or repair of public work, to give up any part of the compensation to which he or she is otherwise entitled. It is the policy of NWAHSHS to report all suspected or reported violations to the Federal Awarding Agency.
- **Davis-Bacon Act, as amended (40 U.S.C. 276a to a-7):** If included in the federal Agency's grant program legislation, all construction contracts of more than \$2,000 awarded by NWAHSHS and its subrecipients shall include a provision for compliance with the Davis-Bacon Act (40 U.S.C. 276a to a-7) and as supplemented by Department of Labor regulations (29 CFR part 5, "Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction"). Under this Act, contractors are required to pay wages to laborers and mechanics at a rate not less than the minimum wages specified in a wage determination made by the Secretary of Labor. In addition, contractors shall be required to pay wages not less than once a week. It is the policy of NWAHSHS to place a copy of the current prevailing wage determination issued by the Department of Labor in each solicitation and the award of a contract shall be conditioned upon the acceptance of the wage determination. NWAHSHS shall also obtain reports from contractors on a weekly basis in order to monitor compliance with the Davis-Bacon Act. NWAHSHS shall report all suspected or reported violations to the federal awarding Agency.
- **Contract Work Hours and Safety Standards Act (40 U.S.C. 327-333):** All contracts awarded by NWAHSHS in excess of \$2,000 for construction contracts and in excess of \$2,500 for other contracts that involve the employment of mechanics or laborers shall include a provision for compliance with Sections 102 and 107 of the Contract Works Hours and Safety Standards Act (40 U.S.C. 327-333), as supplemented by Department of Labor regulations (29 CFR part 5). Under Section 102 of the Act, each contractor is required to compute wages of every mechanic and laborer on the basis of a standard workweek of 40 hours. Work in excess of the standard workweek is permissible provided that the worker is compensated at a rate of not less than 1-1/2 times the basic rate of pay for all hours worked in excess of 40 hours in the workweek. Section 107 of the Act is applicable to construction work and provides that no laborer or mechanic shall be required to work in surroundings or under working conditions that are unsanitary, hazardous, or dangerous. These requirements do not apply to the purchases of supplies or materials or articles ordinarily available on the open market, or contracts for transportation or transmission of intelligence.
- **Rights to Inventions Made Under a Contract or Agreement:** Contracts or agreements for the performance of experimental, developmental, or research work shall provide for the rights of the Federal Government and NWAHSHS in any resulting invention in accordance with 37 CFR part 401, "Rights to Inventions Made by Nonprofit Organizations and Small Business Firms Under Government Grants, Contracts and Cooperative Agreements," and any implementing regulations issued by the awarding Agency.
- **Clean Air Act (42 U.S.C. 7401 et seq.) and the Federal Water Pollution Control Act (33 U.S.C. 1251 et seq.), as amended:** Contracts and sub grants of amounts in excess of \$100,000 shall contain a provision that requires the recipient to agree to comply with all applicable standards, orders or regulations issued pursuant to the Clean Air Act (42 U.S.C. 7401 et seq.) and the Federal Water Pollution Control Act, as amended (33 U.S.C. 1251 et seq.). Violations shall be reported to the Federal awarding Agency and the Regional Office of the Environmental Protection Agency (EPA).
- **Byrd Anti-Lobbying Amendment (31 U.S.C. 1352):** For all contracts or sub-grants of \$100,000 or more, NWAHSHS shall obtain from the contractor or sub-grantee a certification that it will not and has not used Federal appropriated funds to pay any person or organization for influencing or attempting to influence an officer or employee of any Agency, a member of Congress, officer or employee of Congress, or an employee of a member



of Congress in connection with obtaining any Federal contract, grant or any other award covered by 31 U.S.C. 1352. Likewise, since each tier provides such certifications to the tier above it, Example NPO shall provide such certifications in all situations in which it acts as a sub-recipient of a sub-grant of \$100,000 or more.

- **Debarment and Suspension (E.O.s 12549 and 12689):** For all contracts in excess of the small purchase threshold fixed at 41 U.S.C. 403(11) (currently \$100,000), NWAHSHS shall obtain from the contractor a certification that neither the contractor nor any of its principal employees are listed on the General Services Administration's List of Parties Excluded from Federal Procurement or Nonprocurement Programs.
- **Remedies:** All contracts in excess of the small purchase threshold fixed at 41 U.S.C. 403(11) (currently \$100,000) shall contain contractual provisions or conditions that allow for administrative, contractual, or legal remedies in instances in which a contractor violates or breaches the contract terms.
- **Termination:** All contracts in excess of the small purchase threshold fixed at 41 U.S.C. 403(11) (currently \$100,000) shall contain suitable provisions for termination by NWAHSHS including the manner by which termination shall be effected and the basis for settlement. In addition, such contracts shall describe the conditions under which the contract may be terminated for default as well as conditions where the contract may be terminated due to circumstances beyond the control of the contractor.

Equipment and Furniture Purchased With Federal Funds

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

For purposes of Federal award accounting and administration, "equipment" shall include all assets with a unit cost greater than or equal to \$5,000.

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

- Any equipment that is owned by the Federal government and given to NWAHSHS for use in a program shall be marked as such.
- Adequate insurance coverage will be maintained with respect to equipment and furniture charged to Federal awards.
- For equipment (or residual inventories of supplies) with a remaining per unit fair market value of \$25,000 or less at the conclusion of the award, NWAHSHS shall retain the equipment without any requirement for notifying the federal Agency. If the remaining **per unit** fair market value is \$25,000 or more, NWAHSHS shall gain a written understanding with the federal Agency regarding disposition of the equipment. This understanding may involve returning the equipment to the federal Agency, keeping the equipment and compensating the federal Agency, or selling the equipment and remitting the proceeds, less allowable selling costs, to the federal Agency.
- The NWAHSHS shall determine whether a specific award with a Federal Agency includes additional equipment requirements or thresholds and requirements that differ from those described above.
- A physical inventory of all equipment purchased at a cost greater than \$5,000 with federal funds shall be performed at least once every year. The results of the physical inventory shall be reconciled to the accounting records of and federal reports filed by NWAHSHS.

Standards for Financial Management Systems

In accordance with OMB Circular A-110, it is the policy of NWAHSHS to maintain a financial management system that provides for the following:

- Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements of Circular A-110 and/or the award.
- Records that identify adequately the source and application of funds for federally sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.
- Effective control over and accountability for all funds, property and other assets. NWAHSHS shall adequately safeguard all such assets and assure they are used solely for authorized purposes.
- Comparison of outlays with budget amounts for each award. Whenever possible, financial information shall be related to performance and unit cost data.
- Written procedures to minimize the time elapsing between the transfer of funds to NWAHSHS and the U.S. Treasury and the issuance or redemption of checks, warrants or payments by other means for program purposes by the recipient.



- Written procedures for determining the reasonableness, allowableness, and allocation of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.
- Accounting records including cost accounting records that are supported by source documentation.

Budget and Program Revisions

It is the policy of NWAHSHS to request prior approval from Federal awarding agencies for any of the following program or budget revisions:

- Change in the scope or objective of the project or program, even if there is no associated budget revision requiring prior written approval.
- Change in a key person (project director, etc.) specified in the application or award document.
- The absence for more than three months, or a 25 percent reduction in time devoted to the project, by the approved project director or principal investigator.
- The need for additional Federal funding.
- The transfer of amounts budgeted for indirect costs to absorb increases in direct costs, or vice versa, if the Federal-awarding Agency requires approval.
- The inclusion, unless waived by the Federal awarding Agency, of costs that require prior approval in accordance with OMB Circular A-122.
- The transfer of funds allotted for training allowances (direct payment to trainees) to other categories of expense.
- Unless described in the application and funded in the approved awards, the subaward, transfer or contracting out of any work under an award (However, this provision does not apply to purchases of supplies, materials, equipment or general support services).

Close Out of Federal Awards

NWAHSHS shall follow the close out procedures described in OMB Circular A-110 and in the grant agreements as specified by the granting Agency.

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

CHARGING OF COSTS TO FEDERAL AWARDS

Overview

It is the policy of NWAHSHS that only costs that are reasonable, allowable and allocable to a Federal award shall be charged to that award directly or indirectly. All unallowable costs shall be appropriately segregated from allowable costs in the general ledger in order to assure that unallowable costs are not charged to Federal awards.

Segregating Unallowable From Allowable Costs

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

- The budget and grant or contract for each award shall be reviewed for costs specifically allowable or unallowable.
- Accounting personnel shall be familiar with the allowability of costs provisions of OMB Circular A-122, "Cost Principles for Non-Profit Organizations", particularly:
 - The list of specifically unallowable costs found in Attachment B (Selected Items of Cost), such as alcoholic beverages, bad debts, contributions, fines and penalties, lobbying, etc.
 - Those costs requiring advance approval from Federal agencies in order to be allowable in accordance with Attachment B, such as foreign travel, equipment purchases, etc.
- No costs shall be charged directly to any Federal award until the cost has been determined to be allowable under the terms of the award and/or OMB Circular A-122.
- For each Federal award, an appropriate set of general ledger accounts shall be established in the chart of accounts of NWAHSHS to reflect the categories of allowable costs identified in the award or the award budget.
- All items of miscellaneous income or credits, including the subsequent write-offs of uncashed checks, rebates, refunds, and similar items, shall be reflected for grant accounting purposes as reductions in allowable expenditures if the credit relates to charges that were originally charged to a Federal award or to activity associated with a Federal award. The



reduction in expenditures shall be reflected in the year in which the credit is received (i.e. if the purchase that results in the credit took place in a prior period, the prior period shall not be amended for the credit.)

Criteria for Allowability

It is the policy of NWAHSHS that all costs must meet the following criteria in order to be treated as allowable direct or indirect costs under a Federal award:

- The cost must be "reasonable" for the performance of the award, considering the following factors:
 - Whether the cost is of a type that is generally considered as being necessary for the operation of the organization or the performance of the award;
 - Restraints imposed by such factors as generally accepted sound business practices, arm's length bargaining, Federal and state laws and regulations, and the terms and conditions of the award;
 - Whether the individuals concerned acted with prudence in the circumstances;
 - Consistency with established policies and procedures of the Agency, deviations from which could unjustifiably increase the costs of the award.
- The cost must be "allocable" to an award by meeting one of the following criteria:
 - The cost is incurred specifically for a Federal award;
 - The cost benefits both the Federal award and other work, and can be distributed in reasonable proportion to the benefits received; or
 - The cost is necessary to the overall operation of the Agency, but, where a direct relationship to any particular program or group of programs cannot be demonstrated.
- The cost must conform to any limitations or exclusions of OMB Circular A-122 or the Federal award itself.
- Treatment of costs must be consistent with policies and procedures that apply to both Federally financed activities and other activities of the Agency.
- Costs must be consistently treated over time.
- The cost must be determined in accordance with generally accepted accounting principles.
- Costs may not be included as a cost of any other Federally financed program in the current or prior periods.
- The cost must be adequately documented.

Direct Costs

Direct costs include those costs that are incurred specifically for one award or non-Federal function. NWAHSHS identifies and charges these cost exclusively to each award or program.

Each invoice shall be coded with the appropriate account number reflecting which program received direct benefit from the expenditure. Invoices are approved by the appropriate project director and reviewed by the Accounting Department.

Time sheets or personnel activity reports, described earlier, are also submitted on a regular basis reflecting employees' work and which programs directly benefited from their effort. Time sheets or personnel activity reports shall serve as the basis for charging salaries directly to Federal awards and non-Federal functions.

Equipment purchased for exclusive use on a federal award and reimbursed by a federal Agency shall be accounted for as a direct cost of that award (i.e. such equipment shall not be capitalized and depreciated).

Accounting for Specific Elements of Cost

NWAHSHS shall utilize the following methods of charging specific elements of cost to federal awards as direct or indirect costs:

Salaries and Wages

Salaries and wages shall be charged directly and indirectly based on the functions performed by each employee, as documented on each employee's timesheet, as follows:

Direct costs

The majority of the employees of NWAHSHS charge their time directly since their work is specifically identifiable to specific grants or other (non-federal) programs or functions of the Agency.

Indirect costs

The following staff charge 100 percent of their salary costs indirectly:



Executive Director
Accounting Specialist
Operations Assistant

Fiscal Officer
Program Design Specialist-Human Resources

Compensated absences (vacation leave earned, sick leave used, and holiday pay) are considered part of salary costs. The accounting system of NWAHSHS records salaries associated with compensated absences as a direct or indirect cost in the same manner that salary costs are recorded.

Employee Benefits

NWAHSHS incurs costs for the following statutory and non-statutory employee benefits:

- FICA and Medicare
- Unemployment insurance
- Worker's compensation
- Health insurance Allowance
- Contributions to pension plan
- Life Insurance

The total cost of all of the preceding employee benefits shall be determined by summing the cost associated with each benefit. This total employee benefit costs shall then be allocated directly and indirectly in the same proportions as salaries and wages.

Occupancy Expense

Monthly rent expense and related pass-through expenses shall be allocated directly and indirectly, based on approximate square footage of space utilized, as follows:

Direct cost

The cost of space occupied by staff whose salaries are directly charged to federal awards is charged directly to those same awards

Indirect costs

The costs of space occupied by staff whose salaries are indirectly charged are also charged indirectly. The cost of space for staff whose salaries are charged on a mixed basis (directly and indirectly) shall be allocated on a mixed basis in the same ratio as their salaries are allocated.

Utilities

Utilities costs incurred by NWAHSHS include electricity and water. Such utilities costs shall be charged directly and indirectly in the same proportion as salary costs.

Supplies and Materials

To the maximum extent possible, office supplies and materials are charged directly to the grant or program/function that uses the supplies or materials, based on the completion of a supplies usage form. All supplies and materials used by staff that is engaged in indirect activities shall be charged indirectly.

Postage and Shipping

The maximum extent possible, postage and shipping costs shall be charged directly to the grant or program/function that benefits from the postage or shipping costs.

Photocopying and Printing

Photocopying costs include all paper and copy supplies, copier maintenance charges and the actual lease cost or depreciation expense of the copier. Photocopying costs shall be charged directly and indirectly based on the administrative % calculated. All printing costs are charged directly to the benefiting grant or program/function.

Communications

Communications costs include the costs of local telephone service and long-distance telephone charges, including charges associated with telephone calls, facsimile transmissions, and Internet connections.

Local telephone service costs are charged directly and indirectly based upon the number of telephone units assigned to NWAHSHS. No telephone units shall be charged as mixed-use units due to the immateriality of the costs involved. Telephone costs are allocated based on the administrative cost percentage.

Outside Service



NWAHSHS incurs outside service costs for its annual audit, legal fees, and for staff development specialists. Outside service costs shall be charged as follows:

Audit fees

Cost of the financial statement audit and preparation of Form 990 shall be charged as an indirect cost. Additional audit costs associated with that portion of the audit associated with OMB Circular A-133 shall be charged directly to the audited programs, based on estimates received from the independent CPA firm.

Legal fees

Legal fees shall be charged directly to the program/function that benefits from the services. Legal fees that are not identifiable with specific direct grants or programs shall be charged indirectly.

Staff Development Specialists

Costs associated with staff development specialists shall be charged directly to the program/function that benefits from the services. Fees that are not identifiable with specific direct grants or programs shall be charged indirectly.

Insurance

To the extent that insurance premiums are associated with insurance coverage for specific grants or programs, those premium costs shall be charged directly. All insurance costs that are not identifiable with specific direct grants or programs shall be charged indirectly.

Credits

The applicable portion of any credits resulting from cash discounts, volume discounts, refunds, write-off of stale outstanding checks, trade-ins, scrap sales or similar credits shall be credited directly or indirectly in the same manner as the purchase that resulted in the credit.

Cost Sharing and Matching

It is the policy of NWAHSHS to value contributed services and property that are to be used to meet a cost sharing or matching requirement at their fair market values at the time of contribution, unless award documents or Federal Agency regulations identify specific values to be used.

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

- They are verifiable from NWAHSHS records
- They are not included as contributions for any other federally assisted project or program.
- They are necessary and reasonable for proper and efficient accomplishment of project or program objectives.
- They are allowable under OMB Circular A-122.
- They are not paid by the Federal government under another award, except where authorized by Federal statute to be used for cost sharing or matching.
- They are provided for in the approved budget when required by the Federal-awarding Agency.
- They conform to all provisions of OMB Circular A-110.
- In the case of donated space, the space is subject to an independent appraisal to establish its value.

Contributed services used for cost sharing or matching purposes shall be valued at rates consistent with those rates paid for similar work in the Agency (match up experience and skill level) including an estimate of reasonable fringe benefits. In cases in which the required skills are not found in the Agency, rates used shall be consistent with those paid for similar work in the labor market in which NWAHSHS competes.

It is the policy of NWAHSHS to require volunteers to document and account for their contributed time in a manner similar to the time-keeping system followed by NWAHSHS employees. All time must be listed on the form HSF-4 and specified as to date volunteered, what service was performed and the hours it took to accomplish the task.

