

FISCAL POLICIES AND PROCEDURES

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FISCAL POLICIES AND PROCEDURES

PURPOSE

The purpose of this Manual is to provide detailed fiscal policies and procedures that are applicable to funds under Federal, State, and other related awards. These policies and procedures are intended to promote the following.

- A. Outline the procedures the agency will follow in monitoring fiscal activities
- B. Prescribe policies and procedures that will safeguard public funds
- C. Promote the overall efficient financial operations of awards
- D. The efficiency and effectiveness of the financial operations will be monitored through the audit responsibilities specified in this Manual

DEFINITIONS

Agency: means this agency, organization, or company

Award: means the grant or contract agreement whereby Federal, State, and related funds are provided to the agency to carry out specified services or activities

Award Closeout: means the process by which the granting agency determines that all applicable administrative actions and all required work of the award have been completed by the agency

Budget: is a plan covering fiscal operations of agencies. May occasionally refer to both fiscal operations and service delivery of agencies

Budget Year: the beginning and ending dates of the award as specified on the award document

CFDA: Catalog of Federal Domestic Assistance

Contract: see "Award"

Cost: means cost as determined if on a cash, accrual or other basis acceptable to the granting agency in the discharge of the agency's accountability of funds

Cost Allocation Plan: means the documentation identifying, accumulating and distributing allowable costs under awards, together with the allocation methods used

Cost Objectives: means a pool, center or area established for the accumulation of cost. Such areas include organizational units, functions, objectives or items of expense, as well as ultimate cost objectives, including specific awards, projects, contracts and other activities

Department, Department on Aging, IDOA: means the Illinois Department on Aging

EAAA or Egyptian AAA: means the Egyptian Area Agency on Aging, Inc.

Federal Agency: means the Administration on Aging under the U.S. Department on Health and Human Services

Fiscal Year: October 1 of each year until September 30 of the following year unless another twelve month period is specifically identified by the governing Board

Government Agency: means any public agency (State or local government) that has been organized to fulfill those purposes that a governmental body has been given responsibility to provide (goods, facilities and services) under statutes

Grant: see "Award"

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Grant Funds: means grants or contracts funds awarded by the granting agency through an award document

Grant (or Award) Program: means those activities and operations of the agency that are necessary to carry out the purposes of a grant or contract, including any portion of the grant program financed by the agency

Granting Agency: means the authority that awards funds for the procurement of goods, facilities, and / or services

NGA: The Notice of Grant Award made to the agency that authorizes the expenditure and reimbursement of funds. The NGA may be a grant or contract

OAA: Older Americans Act of 1965, as amended

Prior Approval: means to secure the granting agency's permission in advance to incur costs for designated items. Where an item of cost requiring prior approval is specified in the budget of an award, approval of the budget constitutes approval of that cost

Program: activities approved for funding whether it is in the form of a grant or a contract; or the services provided

Program Income: means gross income earned by the agency from activities in which part or all of the cost is either borne as a direct cost by an award or counted as a direct cost toward meeting a cost sharing or matching requirement of such an award.

Services: means goods, facilities, and services

Subaward: means all types of agreements and orders for the procurement of supplies or services between the agency and a vendor that is not the granting agency. It includes awards and notices of awards; contracts of a fixed price, reimbursement rate, cost or incentive type, contracts providing for the issuance of job orders, task orders, or task letters there under, letter contracts and purchase orders. It also includes supplemental agreements with respect to any of the foregoing

Supporting Services: This means auxiliary functions necessary to sustain the direct effort involved in administering an award or an activity that provides a service to the award

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ACCOUNTING SYSTEM

SETTING UP AND MAINTAINING AN ACCOUNTING SYSTEM

- A. The agency will establish and maintain an accounting system for properly handling funds and for recording all pertinent transactions.
- B. On an ongoing basis, the agency will monitor its accounting system to ensure that there is adherence to the required accounting standards. Where inadequacies are found, corrections will be made by the agency.
- C. The agency will ensure that its subcontractors establish and maintain appropriate accounting systems.

ACCOUNTING STANDARDS

The expenditure of all funds will be accounted for in accordance with the following minimum criteria.

- A. All nonfederal matching resources will be accounted for separately from other award funds received in the agency's accounting system.
- B. Records will be maintained that identify adequately the source and application of funds for supported activities. These records will contain information pertaining to the award and authorizations, obligations, obligated balances, assets, liabilities, outlays and income.
- C. Effective control over, and accountability for, all award funds and real and personal property acquired with such funds will be developed. The agency will adequately safeguard all such property and shall ensure that it is used solely for authorized purposes.
- D. A system will be designed whereby comparison of expenditures is made of actual with budgeted amounts for the approved award.
- E. Procedures will be implemented to minimize the time elapsing between the receipt and expenditure of funds. All requests for cash will be made in accordance with reporting guidelines established by the granting agency.
- F. Procedures will be designed and carefully followed in determining if expenditures are allowable and insure allocation of eligible costs in accordance with the applicable cost principles present in this Manual.
- G. Accounting records will be supported by source documentation, such as cancelled checks, paid bills, payroll records, etc. Each entry in the accounting records shall refer to the document that supports the entry. Supporting documents shall be filed in such a way that they can be readily located.
- H. The accounting system will contain an adequate means of internal control to safeguard assets, check the accuracy and eligibility of accounting data, promote operational efficiency, and encourage adherence to prescribed management policies.
- I. All accounting records, support documents, statistical records, and other records pertinent to the award are to be kept readily available for examination by Federal, State, and/or other granting agencies (or other appropriate persons).

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- J. Service cost obligations incurred by the agency will be liquidated according to the standards set in this Manual. No obligations will be incurred after the ending date of the approved award or fiscal year, whichever occurs first.
 - 1. Construction and Renovation – Outstanding obligations in this category will be liquidated within twelve (12) months following the close of the fiscal year in which they were incurred.
 - 2. Project Service Costs – These obligations will be liquidated within sixty days (60) from the close of the fiscal year in which they were incurred.

INFORMATION UNDER ACCOUNTING SYSTEMS

- A. The agency will provide access to any books, documents, papers, or records that the granting agencies, or any of their duly authorized representatives, determine are pertinent to an approved project, plan, or budget.
- B. Records will remain confidential for any of the following reasons.
 - 1. Prevent a clearly unwarranted invasion of personal privacy.
 - 2. Comply with any Executive Order or statute that specifically requires the records to be kept confidential.
 - 3. Protect commercial or financial information obtained from a person or a firm on a privileged or confidential basis.
 - 4. Protect information that can be improperly exploited for personal or commercial gains.
 - 5. Comply with the Freedom of Information Act limitations.
 - 6. Protect the confidentiality of individual participants and their participation information.

BONDING

- A. Construction and Facility Improvements
 - 1. This subsection covers requirements for bid guarantees, performance bonds, and payment bonds, when the agency will contract for construction or facility improvement (including alterations and renovations of real property) under an award.
 - 2. Definitions
 - a. Bid guarantee – A firm commitment such as a bid bond, certified check, or other negotiable instrument accompanying a bid as assurance that the bidder will execute the required contractual documents within the time specified.
 - b. Performance bond – A bond executed in connection with a contract to secure fulfillment of all the contractor's obligations under the contract.
 - c. Payment bond – A bond executed in connection with a contract to ensure payment as required by law of all persons supplying labor and material in the execution of the work provided in the contract.
 - 3. Bids and contracts of \$100,000 or less – The agency will follow its own requirements and practices relating to bid guarantees, performance bonds, and payments unless the granting agency specifies otherwise.

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4. Bids and contracts exceeding \$100,000 – The agency will follow the granting agency's policy and requirements. The minimum requirements shall be as follows.
 - a. Bid guarantees from each bidder equivalent to five percent (5%) of the bid price
 - b. Performance bond on the part of the contractor for 100 percent of the contract price
 - c. Payment bond on the part of the contractor for 100 percent of the contract price

B. Fidelity Bonds

1. A fidelity bond is a bond indemnifying the agency against losses resulting from the fraud or lack of integrity, honesty or fidelity of one or more employees, officers or other persons holding a position of trust.
2. The agency will carry adequate fidelity bond coverage where the absence of coverage for the award activity is considered as creating an unacceptable risk. In such cases, a fidelity bond not in excess of four months of the agency's average cash flow would be reasonable and would be considered an allowable cost to the award.
3. Any bonds required under the provisions of this section shall be obtained from companies holding certificates of authority as acceptable sureties.

- C. Insurance coverage – The agency and its subcontractors will carry adequate insurance protection of comprehensive general liability, fire, theft, and product liability.

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AWARD FUNDS

OBLIGATION OF FUNDS

The approval and acceptance of an award document officially obligates funds for that award for a given period. Obligations establish a ceiling for award funds as distinguished from actual expenditures or payments of such funds. In order to secure all obligated funds, the agency will expend and earn the awarded funds in accordance with the approved award document. The following conditions govern obligations.

- A. The agency will not officially obligate a fiscal year's funds prior to the beginning date of the award document. However, award documents may be executed prior to the beginning date of the budget period provided they do not become effective until the beginning date and contain a statement to that effect.
- B. The award document establishes a ceiling for Federal and State participation in the cost of operating an approved project. This ceiling applies to the total of new and approved carry over funds.
- C. No funds of an award will be transferred to a subcontractor for the same activities without prior approval of the granting agency.
- D. Funds will be committed, obligated, or encumbered for ordinary and reasonable costs contemplated in the budget, as revised, for a given fiscal period. In addition, the obligation involved should be consummated by the receipt of goods and services and payment for such within 30 days after the end date of the award document. In limited circumstances, a sixty-day extension may be granted if approval of the granting agency is obtained.

For outstanding obligations involving construction and renovation, completion should reasonably be expected within twelve months following the end date of the award document if prior approval is given by the granting agency.

MATCHING FUNDS

- A. The agency will exert all deliberate efforts to ensure that, by the end of each reporting period, sufficient local cash, allowable in-kind contributions, or a combination of both are available to meet the minimum match requirement, if any, under the award.
- B. Interest earned on cash advances of awarded funds will not be used as match.
- C. The agency will not replace funds from local sources, in the amount stated on the notification of award, with funds from Federal or State sources.

FUNDS INCLUDED AS PROGRAM INCOME

- A. Program income includes, but is not limited to, the following.
 - 1. Income from service fees obtained through the use of a sliding fee scale or suggested donation
 - 2. Proceeds from the sale of personal or real property with an acquisition cost of less than \$5,000
 - 3. Usage or rental fees

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4. Sale of assets purchased with award funds with an acquisition cost of less than \$5,000
 5. Royalties on patents and copyrights of items partially or fully developed or invented as a result of award funds
 6. Contributions by the agency and interest on such contributions
- B. In other cases not specifically excluded or defined in this Manual, the following tests will determine if a specified revenue is to be classed as program income, and it shall be subject to the provisions of this section if the revenue.
1. Clearly shown to have been generated from some particular activity conducted by the sub-recipient
 2. Was generated by an activity supported in whole or in part by award funds, related matching funds, or other funds
- C. The following specific revenues shall not be included as program income.
1. Interest income on Federal / State funds whether earned on advances – This does not included interest on contributions made by participants of service under a project that is considered program income
 2. Rebates, discounts, and recoveries
 3. Income earned by individuals or a group, when such income accrues directly to the participants (i.e., quilt raffle, etc.)
 4. Proceeds from the sale of personal or real property with an acquisition cost of more than \$5,000
 5. Sale of assets purchased with award funds where the acquisition cost was more than \$5,000
 6. Contributions made by representatives of service recipients, relatives, nonrelated individuals or entities, in behalf of service recipients are not program income. They are considered local cash.
 7. Organized fund raising activities carried out by the agency

ALLOWABLE USES OF PROGRAM INCOME

- A. Royalties received from copyrights and patents during the project period will be used in conformance with the provisions of paragraph C below. Royalties received after the termination of the project period in excess of \$200 shall be divided into a Federal share and a matching share according to the ratio of the Federal to the matching share for total project cost (i.e., project costs for all budget years of the entire period).
- B. Proceeds from the sale of real or tangible personal property whose acquisition cost was in part or in whole with awarded funds will be used in accordance with the procedures in paragraph C below.
- C. Additional Requirements
1. All program income received from participants of a service will be kept at the provider level and used by the provider to pay for costs of the service provided in order to expand, continue, and support that service, except as stated in item “D” below.

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2. All program income received will be obligated during the fiscal year in which it is earned.
 3. All program income received in the form of cash will be expended as it is earned to minimize cash draw down.
- D. All participant contributions for transportation services will be reported as program income. Program income collected will be pro-rated under Section 5311 (mass transit) and Title III Part B in direct proportion to the total amount of funding from each program. Thus, the same riders' donations will not be reported in the same amount under both funding sources, nor will all of the program income be reported under only one funding source.

HANDLING PROGRAM INCOME

Program income will be deposited into an appropriate bank account at least weekly or when \$50 has been accumulated, whichever happens first.

ACCOUNTABILITY FOR PROGRAM INCOME

- A. The agency will utilize generally accepted accounting standards for collecting and recording participant contributions or other program income. Cash participant contributions will be counted by two persons in each other's presence, placed in a safe and secure place until deposited, deposited intact, and deposit receipts compared with count sheets.
- B. The agency will account for program income on an ongoing basis, and report such income to the granting agency on the established financial reporting system.
- C. Accounting records and reports submitted by the agency will provide a clear audit trail on all program income and its uses. Account records and reports will accurately reflect the receipt of such funds separately from the receipt of Federal funds, sub-recipient funds, and the use of such resources.
- D. Interest income earned on Federal funds is not considered program income
- E. The agency will maintain adequate accounting records on any interest income earned on federal funds.
- F. Rebates, discounts, and recoveries on leases will be treated as applicable credits and credited to the Federal award accounts.

EXPENDING AWARD FUNDS

- A. Federal, State, and other funds will be expended in accordance with established cost policies and procedures.
- B. The following general policies and procedures for expenditure of grant awards.
 1. Approved award documents will specify the maximum amount of funds that the agency is eligible to receive. No additional funds beyond the amount specified in the award document will be available unless a Budget Revision Request is submitted to the granting agency and approved.
 2. If, at any time during the budget year, the granting agency determines that award funds are being expended improperly, the granting agency may require the agency to cease incurring costs. Ineligible or other improper expenditures will be reimbursed.

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3. Funds can be committed by the agency only during its approved budget year, as specified on the approved award document. All funds must be disbursed by the specified timeframes.

COST PRINCIPALS

A. Purpose and Scope

1. This section sets forth policies for determining allowable costs. The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of Federal, State, or local participation in the financing of a particular award. They are designed to provide that federally assisted award programs bear their fair share of costs recognized under these principles, except where restricted or prohibited by law. No provision for profit or other increment above cost is intended under awards.
2. The application of these principles is based on the fundamental premises that the agency is responsible for the efficient and effective administration of award programs through the application of sound management practices, assumes the responsibility for seeing that funds have been expended and accounted for consistent with all agreements and award program objectives, and will have the primary responsibility for employing whatever form of organization and management techniques that may be necessary to ensure proper and efficient administration.
3. These principles will be applied in determining costs incurred. These principles also shall be used as a guide in the pricing of fixed price contracts and subcontracts.

B. Basic Guidelines

1. Costs will meet the following general criteria.
 - a. Reasonable for the performance of the award and be allocable thereto under these principles
 - b. Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items
 - c. Consistent with policies and procedures that apply uniformly to both Federal financed and other activities of the organization
 - d. Accorded consistent treatment
 - e. Determined in accordance with generally accepted accounting principles
 - f. Not included as a cost or used to meet cost sharing or matching requirements of any other federally financed activity in either the current or a prior period
 - g. Adequately documented
2. Allocation of funds may occur in the following ways.
 - a. Costs are incurred specifically for an award
 - b. Benefits to both the award and related work and can be distributed among them in reasonable proportion to the benefits received
 - c. Costs are necessary to the overall operation, although a direct relationship to any cost objective cannot be shown

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Any cost allocable to a particular award or cost objective under the principles provided for in this section may not be shifted to other federal award programs to overcome fund deficiencies, avoid restrictions imposed by law or award agreements, or for other reasons.

3. Applicable credits

- a. Reduction of expenditure type transactions that off sets or reduces expense items allocable to awards as a direct or indirect cost
- b. When Federal funds are received or are available from sources other than the awards involved to finance operations or capital items. This includes cost arising from the use or depreciation of items denoted or financed by the Federal government to fulfill matching requirements under another award. These types of credits will be used to reduce related expenditures in determining rates or amounts applicable to a given award.

C. Composition of Cost

1. The total cost under awards is comprised of the allowable direct cost incident to the conduct of award activities, plus its allocable portion of allowable indirect costs, less applicable credits.
2. Each item of cost will be treated consistently either as a direct or as an indirect cost.

D. Direct costs are those that can be identified specifically with a particular award cost objective.

E. Indirect costs are those that are not readily identifiable with award activities, but are incurred for the joint benefit of the award or any other awards that received a share of the same services.

F. The principles contained in Office of Management and Budget (OMB) Circular, Cost Principles for Nonprofit Organizations including any amendments to the Circular published in the Federal Register by OMB and State policies (location) are to be used in determining allowable costs of activities conducted.

G. Federal funds will not be used to match Older Americans Act or other related funds. Federal cash or in-kind resources acquired during current or prior years will not be used to match funds. Donated space or usage value of facilities built with Federal funds will not be used as match. Unless otherwise specified by the granting agency, State funds administered by the granting agency will not be used to match other Federal or State funds.

PROCUREMENT STANDARDS

Goods and services obtained from a third party (an individual, institution or organization outside the agency's own organization) are subject to the conditions in this section. Third party agreements include fixed-price contracts, cost reimbursable contracts, purchase orders and affiliation agreements (an agreement between parties to accomplish a mutually beneficial objective).

A. General

1. When implementing the award through the execution of a contract, the agency will comply with all applicable procurement regulations, particularly as they relate to competitive bidding and selection.
2. The agency will use its procurement policies.

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3. The third party agreement utilized, i.e., purchase order, contract or affiliation agreement, must be selected to impose the minimum administrative burden necessary to ensure the prudent stewardship of funds.
 4. The agency will not delegate to another agency the authority to administer funds.
 5. All agreements will be evidenced in writing, including the terms and conditions appropriate to the type of agreement used.
 6. Contract or third party agreements may be used only to secure professional services that are necessary for award activities.
 7. Special attention will be devoted to the negotiations of cost-reimbursement type contracts. Federal funds will not be obligated from a succeeding budget year's allotment for services performed during a prior budget year.
 8. The agency is the responsible authority regarding the settlement and satisfaction of all contractual and administrative issues arising out of procurement entered into in support of its functions. This includes, but is not limited to, disputes, claims, protests of award, source evaluation, or other matters of a contractual nature.
- B. The agency will maintain a code of standard of conduct that will govern the performance of its officers, employees, and agents in contracting with and expending funds. The agency's officers, employees, and agents will neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or potential contractors. To the extent permissible under State or local laws, rules, or regulations, such standards shall provide for appropriate penalties, sanctions, or other disciplinary actions to be applied for violations of such standards by the officers, employees, or agents, or by subcontractors.
- C. All procurement transactions, regardless of whether negotiated or advertised and without regard to value, will be conducted in a manner so as to provide maximum open and free competition. The agency will be alert to organizational conflicts of interest or noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade.
- D. Procurement will be reviewed by agency officials to avoid purchasing unnecessary or duplicate items. Where appropriate, analysis shall be made of lease and purchase alternatives to determine which would be the most economical and practical procurement.
- E. "Invitations for bids", "requests for proposals", or "requests for funding" will be based on a clear and accurate description of the technical requirements for the material, product or service to be procured. Such descriptions shall not, in competitive procurement contain features that unduly restrict competition. "Brand name or equal" description may be used as a means to define the performance or other salient requirements of an procurement; and when so used, the specific features of the named brand which must be met by vendors should be clearly specified.
- F. Positive efforts shall be made to utilize small business and minority-owned business sources of supplies and services. Such efforts should allow these sources the maximum feasible opportunity to compete for contracts.
- G. The type of procuring instruments used (i.e., fixed price contracts, reimbursement rate contracts, cost reimbursable contracts, purchase orders, incentive contracts, etc.) will be appropriated for the particular procurement and for promoting the objectives of the project award. The "cost-plus-a-percentage-of cost" method of contracting shall not be used.

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- H. Small purchase procedures are those relatively simple and informal procurement methods that are sound and appropriate for a procurement of services, supplies or other property, costing not more than \$25,000. If small purchase procedures are used for procurement under an award, price or rate quotations shall be obtained from an adequate number of qualified sources.
- I. Formal advertising with adequate purchase description, sealed bids, and public openings shall be the required method of procurement unless negotiation pursuant below is necessary to accomplish sound procurement. However, procurement of \$25,000 or less need not be so advertised unless otherwise required by local law or regulation.
1. A sufficient time prior to the date set for opening of bids, the bids will be solicited from an adequate number of known suppliers. In addition, the invitation should be publicly advertised.
 2. The invitation for bids, including specifications and pertinent attachments, will clearly define the terms or services needed in order for the bidders to respond properly to the invitation.
 3. All bids will be opened publicly at the time and place stated in the invitation for bids.
 4. A firm fixed price contract will be made by written notice to the responsive bidder whose bid, conforming to the invitation for bids, is lowest.
 5. Any or all bids may be rejected when there are sound documented business reasons in the best interest of the award.

In competitive sealed bids, sealed bids are publicly solicited and a firm fixed price (lump sum or unit price) contract is awarded to the responsible bidder whose bid, conforming to all the material terms and conditions of the invitation for bids, is lowest in price.

- J. Competitive negotiation may be used if conditions are not appropriate for the use of formal advertising. In competitive negotiation, proposals are requested from a number of sources and the request for proposal is publicized, negotiations are normally conducted with more than one of the sources submitting offers, and either a fixed price or cost reimbursement type contract is awarded, as appropriate.

If competitive negotiation is used for procurement under an award, the following requirements will apply.

1. Proposals will be solicited from an adequate number of qualified sources to permit reasonable competition consistent with the nature and requirements of the procurement. The request for proposals shall be publicized and reasonable requests by other sources to compete shall be honored to the maximum extent practicable.
2. The request for proposal will identify all significant evaluation factors, including price or cost where required and their relative importance.
3. The agency will provide mechanisms for technical evaluation of the proposals received, determination of reasonable vendors for the purpose of written or oral discussions, and selection for contract award.
4. Awards may be made to the responsible vendor whose proposal will be most advantageous to the procuring party, price and other factors considered. Unsuccessful vendors should be notified promptly.
5. The agency may utilize competitive negotiation procedures for procurement of architectural/engineering professional services, whereby competitor's qualifications are evaluated and

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the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation.

6. The agency may utilize competitive negotiation procedures for procurement of service / equipment in emergencies, whereby the competitor's technical and maintenance qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation, and if prior written approval is obtained from the granting agency

K. Noncompetitive Negotiation or Sole Source Awards

1. Notwithstanding the existence of circumstances justifying negotiation, competition will be obtained to the maximum extent practicable.
2. Noncompetitive negotiation is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate. Noncompetitive negotiation may be used when the award of a contract is not feasible under small purchase, competitive bidding (formal advertising) or competitive negotiation procedures. Circumstances under which a contract may be awarded by noncompetitive negotiation are limited to the following.
 - a. The item is available only from a single source
 - b. Public exigency or emergency when the urgency for the requirement will not permit a delay incident to competitive solicitation
 - c. The granting agency authorizes noncompetitive negotiations
 - d. After solicitation of a number of sources, competition is determined inadequate

L. Records for Negotiated Procurement

1. Justification for the use of negotiation in lieu of advertising should include the following.
 - a. For social services rather than professional consultation services, it should document the steps it has taken during the planning process to negotiate with local and area wide agencies that were interested in participating in the award
 - b. For professional consultant services, it should outline the reasons why a formal advertising procedure is not in the best interests of the award (urgency to initiate the scope of services, expertise of a specific firm, a continuation of related work previously conducted by a firm, etc.)
2. Contractor selection must be documented
3. Justification for the use of negotiation in lieu of advertising may be provided on a class basis or on an individual contract basis

M. Contracts will be made only with responsible contractors who possess the potential ability to perform successfully under the terms and conditions of a proposed procurement. Consideration will be given to such matters as contractor integrity, record of past performances, financial and technical resources, and accessibility to other necessary resources. Contractors must be incorporated or a partnership.

N. A system for contract administration will be maintained to ensure contractor compliance with terms, conditions, and specifications of the contract or order, and to ensure adequate and timely follow-up of all purchases.

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O. Contract Provisions

1. The agency will include provisions to define a sound and complete agreement in all contracts that it awards when the contract costs are to be borne as direct charges in whole or in part by award funds.
2. In awarding subcontracts, the agency will comply with the following requirements.
 - a. Subcontracts will contain provisions or conditions that allow for administrative, contractual, or legal remedies in instances where contractors violate or breach contracts terms, and provide for such sanctions and penalties as may be appropriate
 - b. Subcontracts in excess of \$2,500 will contain suitable provisions for termination by the agency, including the manner such action will be effected, and basis for settlement. In addition, such contracts shall set forth the conditions under which the contract may be terminated for default, as well as, conditions where the contract may be terminated because of circumstances beyond the control of the contractor
 - c. All negotiated subcontracts (except those less than \$2,500) shall include provisions giving access to, and requiring retention of, the contractor's records
 - d. Subcontracts will contain provisions for compliance with applicable orders, rules, and laws
 - e. Subcontracts will include a provision that prohibits the subcontractor from accepting gifts or loans from program participants
 - f. Subcontracts will have a beginning and ending date
 - g. Subcontracts will indicate a maximum dollar amount payable

TREATMENT OF AWARD FUNDS NOT SPENT

Grant funds are awarded with the clear expectation that they will be fully and effectively expended in the year for which they are awarded in order to provide the services and activities prescribed. Any portion of the balance of grant funds at year-end that is not obligated at the end of the timeframes may revert to the granting agency to be used at its discretion.

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RETENTION OF RECORDS

LENGTH AND STARTING DATE

- A. Except as provided herein, records must be retained for three (3) years from the date below.
- B. The retention period for each year's records starts from 30 days after the date of submission to the granting agency the agency's annual or last expenditure report for that year.
- C. If any litigation, claim, negotiation, audit or other action involving the agency's records has been started before the expiration of the retention period, the records must be retained until completion of the action and resolution of all issues that arise from it, or until the end of the retention period, whichever is later.
- D. Copies of original records may be substituted for the original records if authorized in advance by the granting agency. Such copies may be made by computer, photocopying, microfilming or other similar methods.
- E. The retention period for equipment records starts from the date of the equipment's disposition, replacement or transfer at the direction of granting agency.
- F. In some cases, requirements concerning the disposition of program income may be satisfied by applying the income to costs incurred after expiration or termination of an award for the activity generating the income. In such a case, the retention period for the records pertaining to the costs starts from the end of the agency's fiscal year in which the costs are incurred.

In some cases, there may be copyright royalties or other program income that is earned after expiration or termination of an award. Under such conditions, the retention period for the records pertaining to the earning of the income starts from the end of the agency's fiscal year in which the income is earned.

- G. Indirect cost rate proposals, cost allocation plans, etc.
 - 1. This paragraph applies to the following types of documents and their supporting records.
 - a. Indirect cost rate computations or proposals
 - b. Cost allocation plans
 - c. Any similar accounting computations of the rate at which a particular group of costs is chargeable (such as computer usage, charge back rates, or composite fringe benefit rates)
 - 2. If a proposal, plan, or other computations are submitted to the granting agency to form the basis for the negotiation of the rate, then the retention period for its supporting records starts from the date of such submission.
 - 3. If the proposal, plan, or other computation is not required to be submitted to the granting agency, then the retention period for the proposal, plan or computation and its supporting records starts from the end of the fiscal year (or other accounting period) covered by the proposal, plan or other computation.

ACCESS TO RECORDS

- A. The U.S. Department of Health and Human Services, the Comptroller General of the United States, the Illinois Department on Aging, granting agency, or any of their authorized

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representatives shall have the right to access any books, documents, papers or other records of grantees and contractors which are pertinent to an award of Federal or State funds made by the granting agency in order to make audit examinations, excerpts and transcripts. The provisions above shall extend to sub-grantees and subcontractors of the agency.

- B. The right of access in this section will not be limited to the required retention period but will last as long as the records are retained.

CONFIDENTIALITY OF PERSONAL INFORMATION

All information that is identifiable with any specific individual must be kept confidential unless the person concerned gives informed consent for the information to be released. This applies to both client information and personnel records.

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AUDITS

GENERAL AUDIT REQUIREMENTS

- A. Financial and compliance audits must be made in accordance with generally accepted auditing standards, including the standards of the U. S. General Accounting Office's publications, Standards for Audit of Governmental Organizations, Programs, Activities, and Functions and Guidelines for Financial and Compliance Audits of Federally Assisted Programs.
- B. Financial and compliance audits shall be performed by a licensed firm of Certified Public Accountant(s) in good standing who are sufficiently independent of those who authorize the expenditure of agency funds in order to produce unbiased opinions, conclusions or judgments.
- C. The organization conducting the financial and compliance audit will be provided with background information on the Federal or State award involved and the financial management standards specified in this Manual.
- D. Financial and compliance audits will be conducted on an annual basis.
- E. An organization-wide financial and compliance audit will be obtained so long as the audit procedures used and the audit report address the all awards of the agency. In addition, the audit expense must be allocated proportionally to each award of the agency.

RELATION TO FEDERAL OR STATE AUDIT

These financial and compliance audits may affect the frequency and scope of Federal or State audits. However, nothing in this section is intended to limit the right of the Federal government, the Illinois Department on Aging, or other granting agency to conduct an audit of the agency's activities.

AUDIT ENGAGEMENT LETTER

The agency will ensure the contract with the auditor is covered by an audit engagement letter that, at a minimum, should include all of the following.

- A. Scope of the audit and any limitations thereof
- B. Audit period
- C. Type of audit
- D. Provision for an expression of positive assurance on the compliance of the audited entity with regulatory requirements for tested items, and negative assurance for not tested items
- E. Provision for a letter of a non-material finding(s) developed in the audit and excluded from the report
- F. Basis for allocation of fee
- G. Due date for submission of the financial and compliance audit
- H. Submission of one full, complete copy of the compliance audit working papers to the audited entity
- I. Any additional terms, agreements or relationships affecting the audit agreement
- J. Degree of responsibility and disposition of any findings and/or questioned costs

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SCOPE OF AUDIT

The scope of the financial and compliance audit must include, but not necessarily be limited to the following.

- A. The agency is responsible for securing its own nonfederal organization-wide financial and compliance audit.
- B. The agency will allow the review of the audit by the granting agency.
- C. Audit of the degree of conformance the agency has attained in complying with significant compliance requirements that could have a material effect upon the agency's financial position.
- D. Organization-wide audits will be performed based on the agency's fiscal year.

AUDIT REPORTS

The agency will follow the Single Audit requirements of OMB Circular A-133 (or OMB Circular A-128 if applicable) unless the agency receives less than the minimum total federal funding and/or federal in-kind donations required for a Single Audit. The agency, if it receives less than the total federal funding required for a Single Audit, will undergo an audit using either Circular A-133 or Government Accounting Standards ("Yellow Book" standards).

- A. The agency and / or its auditor must submit the following reports to the granting agency,
 - 1. Statement of Financial Position, State of Activities, and Statement of Cash Flows relating to each award
 - 2. Statement of Budgets, Expenditures and Balances by line item for each award
 - 3. A separate opinion regarding the internal control of the agencies and reference to any deficiencies and recommendations for improving them
 - 4. A list of any costs which vary with prevailing Federal laws and regulations, compliance requirements in Supplement to OMB federal management circulars or prevailing Federal and / or State laws, policies, and rules
 - 5. A separate opinion as to extent of compliance with prevailing Federal and State laws and regulations as promulgated in the Supplement to OMB circulars
 - 6. Prior to submitting the final audit report to the audited entity, the independent auditor should prepare a letter of representation on the audited entity's letterhead stationery. The letter of representation will be included in the final report, and is to be signed by the Chairman of the Board or officially authorized representative and the Financial Officer of the audited entity when agreement has been reached on the content of the audit
 - 7. As part of the audit report, the auditor will inventory all agency audit reports for compliance with appropriate OMB circulars, summarize the findings of each, and summarize the agency's disposition of any questioned costs
 - 8. Such other statements and narratives as the auditor may consider appropriate in the circumstances
 - 9. A schedule of Federal Awards identifying all major awards and the expenditures for each award in accordance with the provision of OMB circulars

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- 10. A detailed schedule of revenue received from the granting agency(s). The schedule should include a description of funds, identification as federal or state funds, if federal funds, the CFDA number, and the total amount received from the granting agency(s)
- B. The agency's audit fieldwork will begin within seventy-five (75) days of the close of the agency's fiscal year.
- C. If any deficiencies or recommendations are included in the audit report, the agency will indicate how it proposes to take corrective action. This response must be included as a part of the final audit report of the agency for the period under audit.

RESOLUTION OF AUDIT FINDINGS

The agency will take no more than 180 days from the date of receipt of the final audit report to resolve any audit findings and / or questioned costs. Repayment based upon any negotiated settlement will be completed within 30 days thereafter.

DISTRIBUTION OF THE COST OF A UNIFIED AUDIT

In a circumstance where the agency and its subcontractors desire to retain an auditor to perform a financial and compliance audit of its own books and that of all or part of its subcontractors, called a unified audit, the cost of the financial and compliance audit will be apportioned to the agency and subcontractors in proportion to the workload of the auditor.

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CLOSING OUT THE AGENCY'S BOOKS

GENERAL REQUIREMENTS

- A. In closing out an award, the following requirements will be observed.
 - 1. Request prompt payment for any allowable reimbursable costs not covered by previous payments.
 - 2. Refund or otherwise dispose of, in accordance with instructions from the granting agency, any unobligated balance of cash advanced to the agency.
 - 3. Submit, within 60 days of the date of expiration or termination, all financial, performance and other reports required by the terms of the award.
 - 4. Request a settlement for any upward or downward adjustment of the Federal or State share of costs, to the extent called for by the terms of the award.
- B. The closeout of an award does not affect the agency's responsibilities with respect to property or with respect to any program income for which the agency is still accountable under the provisions of this Manual.
- C. The closeout of an award does not affect the retention period for, or Federal or State rights of access to, award records.
- D. The agency will clear all obligations incurred during a budget year within 30 days after the end of that budget year (or the termination date of the project) and before the Final Financial Report is completed.

AWARD CLOSEOUT

- A. The agency will close its books for a budget year as soon as possible after the final project year-ends, but no later than 30 days after the fiscal year ends.
- B. The agency will close out its books as soon as possible after the date on which the agency ceases operations, but no later than 30 days after operations terminate.
- C. The policies and procedures in this Manual will be adhered to during closeout.
- D. The closeout of a grant or contract does not affect the retention period for, or Federal or State rights of access to, grant or contract records.

AMOUNTS PAYABLE

For each award, the following sums will constitute a debt or debts owed by the agency to the granting agency. If not paid upon demand, be recovered from the agency or its successor or assignees by appropriate action as provided by law.

- A. Any award funds paid to the agency in excess of the amount to which the agency is finally determined to be entitled under the terms of the award.
- B. Any royalties or other special classes of program income that, are required to be remitted.
- C. Any amounts due under the property provisions of this Manual.
- D. Any other amounts finally determined to be due under the terms of the award.

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- E. The agency will assure that altered or renovated facilities using grant funds are used for appropriate purposes for at least five years after completion of the alteration or renovation. The granting agency will recapture a portion of Federal / State funds from the agency if within five years after completion of the alteration or renovation, the owner of the facility ceases to be a public or nonprofit private agency or organization, or the facility is no longer used for the purpose of the award.

The amount recovered under the above paragraphs is a prorated share of the original cost of the alteration/renovation. The amount recovered under the above paragraphs is a refund of prior year's cost and will be incorporated into prior period adjustments. The agency will revise the final report for the year in which the award was made to reflect the reduced cost.

Cash recaptured under this policy displaces funds to be received under the agency's current Notification of Grant award. Such cash will be treated as "Cash on Hand" or carryover funds.

DISPOSAL OF EQUIPMENT

The agency will dispose of equipment purchased in whole or in part with the granting agency's funds according to procedures outlined in this Manual, entitled "Property Management Policies."

RETENTION OF RECORDS

When the agency closes its books or ceases to receive sub-awards, it nevertheless will retain certain records for a prescribed period. The specific policies that will be followed are described in this Manual, entitled "Retention of Records."

TERMINATION OF OBLIGATIONS

If the agency's awards are terminated or closed prior to the end of a fiscal year, no further obligations will be made beyond the termination or closing date.

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SUSPENSION AND TERMINATION

SUSPENSION

- A. "Suspension" of an award means temporary withdrawal of the agency's authority to obligate funds pending corrective action by the agency or a decision by the granting agency to terminate the award.
- B. New obligations incurred by the agency during the suspension period will not be allowed unless the granting agency expressly authorizes them in the notice of suspension or an amendment to it. Necessary and otherwise allowable costs that the agency could not reasonably avoid during the suspension may be allowed at the granting agency's discretion.
- C. Adjustments
 - 1. If the agency is suspended, the granting agency will determine whether all or a portion of the agency's balance of funds on hand must be returned.
 - 2. Appropriate adjustments to payments under the suspended award may be made by withholding subsequent payments or not allowing the agency credit for disbursements made in payment of unauthorized obligations incurred during the suspension period.
- G. Federal and / or State funds will be expended only after a suspension is lifted. The funds unearned at the time of suspension remain available to the agency if approved by the granting agency.

TERMINATION

- A. "Termination" means permanent withdrawal of the agency's authority to obligate previously awarded funds before the authority would otherwise expire. It may also mean the voluntary relinquishment of that authority by the agency. Termination does not include the following.
 - 1. Withdrawal of funds awarded because the agency underestimates the unobligated balance in prior period not obligated
 - 2. Denial by the granting agency to extend an award or extend additional funds
 - 3. Withdrawal of the balance of the expiration of an award not obligated
 - 4. Annulment, i.e., voiding, of an award upon determination that the award was obtained fraudulently or was otherwise illegal or invalid from inception
- B. Termination may be initiated by the granting agency with the consent of the agency, in which case the two parties shall agree upon the termination conditions, including the effective date and, in the case of partial terminations, the portion to be terminated; or by the agency upon written notification to the granting agency.
- C. If the agency's award(s) is terminated, the agency will submit final activity and financial reports to the granting agency. A final audit will be conducted. Equipment and supplies purchased with Federal or State funds (in whole or in part) will be disposed of in accordance with the procedures prescribed by this Manual.

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PROPERTY MANAGEMENT

A. Definitions

1. "Acquisition of property" includes purchases, construction, or fabrication of property.
2. "Acquisition cost" of nonexpendable personal property acquired by purchase means the net invoice price of the property, including any attachments, accessories, or auxiliary apparatus necessary to make the property usable for the purpose for which it was acquired. Ancillary charges such as taxes, duty, protective in-transit insurance, freight, or installation shall be included in the acquisition cost in accordance with the sub-recipient's regular accounting practices.
3. "Nonexpendable personal property" means tangible personal property having a useful life of more than one year and/or acquisition cost of \$5,000 or more per unit.
4. "Expendable personal property" means all tangible personal property other than "nonexpendable property."
5. "Personal property" means property of any kind except real property. It may be tangible (having physical existence) or intangible (having no physical existence, such as patents, inventions, and copyrights).
6. "Real property" means land, improvements, structures and appurtenances thereto, excluding movable machinery and equipment.

B. Title to real property that was purchased in whole or in part with award funds will vest in the agency upon acquisition. In the absence of applicable statutory provisions governing the use of disposition of such property, it will be subject to the following requirements (in addition to any other requirements imposed by the terms and conditions of the award).

1. The agency will use the real property for the purposes authorized by the award as long as needed.
2. The granting agency may authorize the agency to use the property for the following purposes when the granting agency determines that the property is no longer needed for the originally authorized purposes.
 - a. Activities sponsored by other Federal / State awards (regardless of which Federal / State agency makes the other awards)
 - b. Activities that have purposes consistent with those the awarded funds
 - c. Such other public interest purposes that are in the interest of the U.S. Government as determined by the granting agency
3. When no longer used in accordance with the above, the agency will return the control of all real property to the granting agency when its cost was borne in whole with funds from the granting agency.

C. Title to non-expendable personal property whose acquisition cost is borne in whole or in part by funds awarded will be vested in the agency upon acquisition and, except as provided herein, will be subject to the restrictions on "Use" and "Disposition" set forth below.

1. Use of the property by the agency as long as there is a need for such property to accomplish the objectives of awarded funds, whether or not the agency continues to be supported by such funds.

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2. When there is no longer a need for the property to accomplish the objectives of the award program, the agency may use the property in connection with other Federal awards it has received in the following order of priority for other awards made by the granting agency, and for awards of other Federal awards needing the property.
 3. When the agency no longer has need for such property in any of its Federal or State financed activities, the property may be used for the agency's own official activities in accordance with the following standards.
 - a. If the property had an acquisition cost of less than \$5,000 per unit, and had been used four years or more; then the agency may use the property without reimbursement or sell the property and retain the proceeds, if approved by the granting agency.
 - b. For all such property not covered above, the agency may retain the property for its own use if a fair compensation is made to the granting agency for the Federal and State share of the property. The amount of such compensation will be computed in accordance with this subsection.
 4. If the agency has no need for property, disposition of the property will be made as follows.
 - a. If the property had an acquisition cost of less than \$5,000 per unit, the agency will sell the property and reimburse the granting agency in accordance below.
 - b. If the property had an acquisition cost of over \$5,000 per unit, the agency will request disposition instructions from the granting agency.
- D. The granting agency may reserve the right to require the agency to transfer title to the property.
- E. The agency will adhere to the property management standards for nonexpendable personal property covered by this Manual and follow the procedural requirements below.
1. Property records shall be maintained accurately and provide for the following.
 - a. Description of the property
 - b. The manufacturer's serial number or other identification number
 - c. Acquisition date and cost
 - d. Source of the property
 - e. Percentage of award funds used in the acquisition of the property
 - f. Location, use and condition of the property
 - g. Ultimate disposition data, including sales price or the method used to determine current fair market value if the agency reimburses the granting agency for the Federal / State share
 2. A physical inventory of property will be taken and the results reconciled with the property records at least every two years to verify the existence, current utilization and continued need for the property.
 3. A control system shall be established to ensure adequate safeguards to prevent loss, damage or theft to the property. Any loss, damage or theft of nonexpendable personal property shall be investigated and fully documented.
 4. Adequate maintenance procedures shall be implemented to keep the property in good condition.

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5. Proper sales procedures shall be established for unneeded property that would provide for competition to the extent practicable and result in the highest possible return.
 6. The agency will maintain and regularly update an inventory listing of property in its custody.
- F. The cost of consumable supplies or materials is allowable only to the extent that supplies or materials are reasonably necessary to carry out the agency's award funds. Amounts in excess of need are therefore not allowable costs.
- G. In many cases, items of expendable personal property (other than consumable supplies or materials) whose acquisition cost was purchased in whole or in part by an award may have a useful life longer than the period of need by the award for which they were acquired. The agency may, at its option, either retain or sell such items when no longer needed for any Federal / State sponsored activity (including activities sponsored by Federal agencies other than the U.S. Department of Health and Human Services). However, compensation to the granting agency will be made if the aggregate fair market value of all such items acquired exceeds \$5,000 when no longer needed for any Federal / State sponsored activity. The amount of compensation shall be computed in accordance below.
- H. When a book or other copyright material is developed under an award, the author or agency is free to copyright the work, but the granting agency have a royalty free, non-exclusive and irrevocable license to reproduce, publish, or otherwise use (and to authorized others to use) the work for government purposes. The granting agency will provide information regarding copyright procedures.
- I. Various provisions of these policies and procedures require a determination of the percentage of Federal / State participation in the cost of the award in order to compute the amount of compensation for the value or proceeds from the sale of property. The percentage to be used should be the same as the matching share utilized in the award during the year in which the property was acquired.

END OF FISCAL POLICIES AND PROCEDURES