

in Covina, California

ACCOUNTING POLICIES & PROCEDURES




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INTRODUCTION

California Association for Bilingual Education (CABE) is responsible for receipt, deposit and expenditure of funds for payment of salaries, supplies, purchase of equipment and other expenses that are necessary for the operations of CABE.

CABE is responsible for reporting to its different funding sources regarding budgeting, accounting and financial transactions in accordance with established procedures. In order for the administrative staff to follow all guidelines established by The Financial Accounting Standards Board (FASB) and all other funding sources, the practices and procedures set forth in this Manual will be maintained with an accounting system that provides for controls and adequate and timely reports.

An accounting system involves a series of operations relating to recording, classifying and summarizing information received into financial statements or reports. Presently, CABE's accounting information is computerized and maintained by the contract accounting at FMJ, LLP along with CABE Staff. The work of the contract accountant, including computerized accounting entries, grant reporting and other required reporting, is reviewed on a regular basis by the Chief Executive Officer (CEO) to ensure compliance with grantors, regulators, and FASB regulations. CABE's computerized financial information tracks receipts by source of income, disbursements by type of expense, and permits reporting as required by CABE's Board of Directors, its funders and its independent auditors. Digital back-up materials are maintained for the computerized financial data. CABE currently uses QuickBooks Accountant 2013 software.

GENERAL

POLICY

The accounting principles of CABE will be consistent with all applicable laws. These include: Generally Accepted Accounting Principles, the Financial Accounting Standards Board Accounting Standards for non-governmental, not-for-profit organizations, SOP 87-2 on Joint Costs, SOP 94-2 on the applicability of the accounting rules to nonprofits, SOP 98-3 on accounting for federal awards and California Senate Bill 1262. Operations and Finance are responsible through the Executive Director, the Finance Committee and the Board of Directors for the implementation of this policy.

Certain procedures resulting from these accounting pronouncements and releases are discussed below.

1.1 Records

Adequate care shall be exercised to safeguard the accounting records and supporting documentation. Any destruction or theft of CABE's accounting records or supporting documentation shall be immediately reported to the major governmental funding sources and proper authorities.

1.2 Retention

All accounting records (e.g., journals, ledgers, etc.), financial records and supporting documentation (e.g., invoices, receipts, checks, etc.) must be retained in accordance with CABE's Records Retention Schedule.

1.3 Supporting Documentation

All revenues and expenditures shall be supported by original vouchers, invoices, receipts, or other documentation and shall be maintained in the manner described herein.

1.4 Filing

All relevant supporting documentation for reported program expenditures and revenues shall be filed in a systematic and consistent manner. It is recommended that supporting documents be filed as follows:

- Checks – alphabetically,
- Deposits – by date,
- Timecards – pay period and alphabetically.

1.5 Referencing

Accounting transactions posted to CABE's books shall be appropriately cross-referenced to supporting documentation. It is recommended that revenue and expenditure transactions on CABE books be cross-referenced to the supporting documentation as follows:

- Accounts Payable Invoices – vendor name, invoice number and date
- Checks – payee, number
- Revenue – customer, invoice number, and date
- Journal Entry – evidence to support the journal entry

1.6 Audits

CABE will make available for inspection and audit, all of its books and records for a period of ten years. These records are to be available to representatives/auditors from funding sources, governmental/taxing authorities and the independent CPA firm conducting the annual audit. All such books and records shall be maintained at a location in CABE Office and Accounts Payable records can be retrieved online through Bill.com or online with a reputable back up service.

CABE will contract each year with an independent CPA firm to conduct a financial audit of the entire organization. The prospective proposals will be reviewed by the Audit Committee of CABE. The Audit Committee will negotiate the compensation of the auditor and present recommendations for retention and termination to the Board of Directors for approval. Such audit will be conducted in accordance with generally accepted auditing standards, government auditing standards issued by the Comptroller General of the United States, and the specific requirements of government funding sources. At the end of the audit, an audit report, meeting those standards and requirements, shall be presented by the CPA firm to the CABE Audit Committee for approval. An exit interview is to be held by the CPA Firm with the Audit Committee and CABE CEO in attendance, then an executive session without staff. The Audit Committee will confer with the CPA

Firm to satisfy the committee members that the financial affairs of CAFE are in order, then determine acceptance of the audit report.

In preparation for the annual audit, an "audit workbook" will be created in Excel by the contract accountant and reviewed by the CEO and will contain back-up for all major Statement of Financial Position and Statement of Activities accounts. This will assist the CPA Firm in their audit procedures and provide another level of review of the contract accountant.

1.7 Single Audit Requirements

OMB Circular 133, "Audits of State, Local Governments and Non Profit Organizations" require that organizations receiving in excess of \$500,000 in federal awards, including pass-through awards, have annual audits to confirm compliance with requirements applicable to major federal programs. Details are contained in the respective Circular. Copies of the Single Audit reports must be filed with the major governmental funding sources within the timeframes prescribed by the applicable Circular.

1.8 Internal Controls

Internal controls safeguard CAFE's assets from misappropriations (theft and embezzlement) and misstatements.

Access to computerized and manual accounting records is limited to those with a logical need for such access.

Employees directly handling deposits, cash receipts, and cash disbursements are required to take annual vacations of no less than one (1) week of 5 consecutive business days. During the vacation period, other employees are to perform those duties.

1.9 Bonding

All officers, employees and agents who handle cash or have access to the agent's funds shall be bonded, or covered by special insurance.

1.10 Responsibilities

Financial responsibilities are segregated so that no one CAFE employee, officer or contractor has sole control over authorizing, recording, custody, and reconciling of these processes:

- Cash receipts,
- Cash disbursements,
- Payroll disbursements, or
- Bank reconciliations

CABE is structured as follows:

Board of Directors and Committees

The Board of Directors reviews financial operations and activities on a quarterly basis. Their review includes the following:

- Review and approval of monthly financial reports prepared by the contract accountant and reviewed by the CEO.
- Approval of the annual budget.
- Approval of accounting policies and procedures.
- Approval of investment policies and procedures.

The Finance Committee reviews financial operations and activities on a quarterly basis. Their review includes the following:

- Review and approval of monthly budget to actual variance reports.
- Review of cash flow projections through the fiscal year.
- Review of compliance with grant expenditures and budget to actual variance,
- Review investment portfolio.
- Review and recommend approval of investment policies and procedures to the Board of Directors.
- Review and recommend approval of accounting policies and procedures to the Board of Directors.

The Finance Committee also reviews internal year-end financial reports and annual budgets and recommends approval to the Board of Directors.

The Audit Committee oversees the audit requirements of CABE on a regular basis. Their duties include the following:

- Recommend to the Board of Directors the retention and termination of the independent CPA Firm.
- Negotiate the compensation of the auditor on behalf of the Board of Directors.
- Confer with the auditor to satisfy the committee members that the financial affairs of CABE are in order.
- Review and determine-acceptance of the audit report as presented by the CPA firm.
- Approve performance of any non-audit services to be provided by the CPA firm.
- Presentation of the audit report to the Board of Directors.

Chief Executive Officer (CEO)

CEO has responsibility for the following finance-related items:

- Fiscal management, including a thorough review of financial statements and other reports (in conjunction with program directors) generated by the contract accountant.
- Attendance at all finance-related meetings with the Board of Directors and committees, including budget and audit-related meetings.
- Opening the bank statements [when they arrive and performing a cursory review

of the deposits and disbursements to check for reasonableness] before forwarding a copy to the contract accountant.

- Payroll review [when they arrive and performing a cursory review of the deposits and disbursements to check for reasonableness] before forwarding a copy to the contract accountant.
- Direct oversight of contract accountant.

Contract Accountant

The contract accountant is responsible for the following:

- Regular accounting functions including:
 - Bill payment review and administration,
 - Review remittance of retirement contributions to the outside vendor,
 - Review and approve cash receipts, cash payments, and credit cards payments log detail prior to making deposit and entering into the accounting system by CABA staff,
 - Assistance with grant reporting and budgeting,
 - Preparation, maintenance, and reconciliation of grant reports,
 - Maintenance of the general ledger and back-up documentation for all balance sheet accounts,
 - Updates to the chart of accounts as requested by the CEO,
 - Bank reconciliations,
 - Certificates of Deposits reports,
 - Revision to manual of procedures, and
- Monthly accounting reporting, including:
 - Year-to-date financial statements,
 - Year-to-date budget to actual variance analysis report,
 - Cash flow projection through the end of the fiscal year, and
 - Grant allocation entries and grant report preparation
- Quarterly accounting reporting, including:
 - Preparation of sales taxes to the Board of Equalization,
 - Review 941 report received from ADP, and
 - Prepare workers' compensation reporting.
- Yearly assistance with the following:
 - Preparation of annual budgets,
 - Assist CABA staff in preparation of 1099 forms,
 - Preparation for annual financial statement audits, tax returns and information returns, and
 - Assist with workers' compensation annual audit.

Receptionist

- Open all mail addressed directly to the organization other than payroll-related mail. Payroll- and bank-related mail should be forwarded to the Contract Accountant (as noted below). Mail for checks is opened and recorded by two individuals.

- Separate cash receipts for Membership Fees into a different batch from other cash receipts.
- Fill out the daily revenue log completely for all checks, credit card payments, and/or cash receipts. Required information includes payer name, amount received and check number.
- Forward the daily revenue log sheet to the Accounts Receivable Coordinator.
- Forward the daily revenue log sheet for membership fees to the Accounts Payable/Membership Coordinator.
- Provide unopened bank statements to CEO for review.
- Give payroll related documents to Accounts Payable/Membership coordinator. Then she forwards to the CEO for approval.
- Scan bills and upload to Bill.com.

Accounts Receivable Coordinator

- Received the daily revenue log and complete the revenue log by placing a revenue account code, class code and job code, if applicable, next to each listed check, credit card or cash item received including purchase order. The contract accountant will provide a revenue coding index for this purpose.
- Generate invoice for purchase order received.
- Email revenue log sheet with supporting documentations along with generated invoice to the contract accountant for review and approve prior to making deposit with remote desktop deposit system.
- Deposit checks with the bank-provided remote desktop deposit system (scanner).
- Use the bank-provided remote desktop deposit system to produce a report.
- File the 1) remote deposit report, 2) revenue log, and 3) related correspondence (e.g., grant agreements, invoice copies, etc.) to the secure, cloud-based system for transfer to the contract accountant.

Accounts Payable/Membership Coordinator

Payroll

- Collect timesheets and time-off requests and email to the contract accountant for review.
- Scan W4 form and direct deposit information and email to contract accountant for review.
- Administer health insurance, retirement, and public transportation benefits for employees.
- Process payroll bi-weekly and email preview payroll register to the contract account for review and approve.
- Transmit payroll to ADP.
- Receive payroll related documents from Receptionist. Give payroll related documents to the CEO for approval before emailing a copy to the contract accountant.

Accounts Payable

- Assign expense coding and enter onto Bill.com to each appropriate bill that uploaded to Bill.com by the Receptionist. The contract accountant will provide an expense coding index for this purpose.
- When manual checks are required, receive Secure Bag from the contract accountant and give prepared checks to check signer(s).
- Mail checks.
- After the CEO reviewed the bank statement. Send a copy of bank statement monthly to the contract accountant.
- Receive payroll related documents from Receptionist. Give payroll related documents to the CEO for approval before emailing a copy to the contract accountant.
- File original bank statements and payroll reports.

Membership Fees

- Received the daily revenue log from the Receptionist and complete the revenue log by placing a revenue account code, class code and job code, if applicable, next to each listed check or cash item received. The contract accountant will provide a revenue coding index for this purpose.
- Email revenue log sheet with supporting documentations to the contract accountant for review and approve prior to making deposit with remote desktop deposit system.
- Enter cash receipts and membership information onto IMIS.
- Enter
- Give revenue log sheet, checks and supporting documentations to Accounts Receivable for making remote desktop deposit.

1.11 Separation of Duties

An employee who does not handle cash shall record all cash receipts. When cash counts are required, the count must be done in the presence of another staff member and counted by each person, to confirm accuracy. The staff responsible for counting the cash will not be responsible for preparing the deposit slip and taking the cash to the bank.

1.12 Budgeting and Financial Reporting

It is the responsibility of the Board of Directors to review and approve CABE's annual budget on the recommendation of the Finance Committee.

After a detailed review of the current grants, the CEO and the Program Directors will decide upon CABE's program of activities for the upcoming year. The Program Directors will produce individual program budgets based on their current grants and contracts and anticipated grants. The contract accountant will consolidate all the program budgets to produce a total agency budget. Budget guidelines are maintained, along with agreed-upon assumptions based on determined priorities using reasonably anticipated revenue figures and the previous year's expenditures for those programs which are continuing. New programs will use a zero-based approach to budgeting. The CEO will meet with the contract accountant to review the draft of the upcoming year's annual budget.

The CEO will present the draft budget to the Finance Committee prior to the Board of Directors meeting.

Revisions to the annual budget, as noted at the Finance Committee meeting, are to be completed before the Board meeting held in June of each year, at which time the budget will be presented to the Board for final approval. Should there be further revisions approved at that Board meeting, the budget must be revised and sent to the Finance Committee within (15) days of the June Board meeting.

FINANCIAL REPORTING

ACCOUNTING AND FINANCIAL REPORTING POLICY

The CEO bears ultimate responsibility for the timeliness and accuracy of all financial reports to the Board of Directors and to CABA's funding sources. The contract accountant prepares the following financial reports using CABA's computerized General Ledger:

Regular Reports

Income Statements (Statements of Activities) with budget to actual comparison are prepared by the 22nd of each month for the preceding month.

Complete financial statement package, which includes: Statement of Financial Position (with previous year comparison), Budget vs. Actual Statements showing variances and Statement of Cash Flows.

Special Reports

Special financial reports required by government agencies or funding sources are prepared by the contract accountant on an as needed basis. The CEO and appropriate Program Director are to review all such reports prior to submission to the funding source.

2.1 Basis of Accounting

CABA will use the accrual basis method of accounting for recording of financial transactions.

2.2 Accrual Basis

Under the accrual basis, revenues are recorded in the accounting period in which they are earned (rather than when cash is received). Expenditures are recorded in the accounting period in which they are incurred (rather than when cash is spent).

2.3 Accruals

Accruals shall be recorded observing the following:

- Accruals will be made for all expenses incurred during the fiscal year, but which have not yet been invoiced.
- Recorded accruals must be reversed in the subsequent accounting period.

ACCOUNTING SYSTEM

CABE shall maintain a double entry accounting system (utilizing debits and credits) with a General Journal, a Cash Receipts Journal, a General Ledger, and a Cash Disbursements Journal. A Payroll Register also shall be maintained. Postings to the General Ledger and Journals shall be made on a monthly basis, or as needed.

3.1 General Ledger

A General Ledger shall be maintained with accounts for all assets, liabilities, fund balances, expenditures, and revenues. Separate coding must be maintained for each major funding source. It is the responsibility of the contract accountant to maintain the computerized General Ledger in proper form and balance. Currently, CABE uses QuickBooks software as the accounting system.

Posting to the computerized General Ledger of cash receipts, cash disbursements, payroll and general journal entries are under the direction of the CEO; however, such adjustments are recommended and prepared by the contract accountant.

The General Ledger is supported by the Unified Chart of Accounts for Non-for-Profit Organizations and a system of coding which permits the accurate and efficient running of the required reports. The systems used for coding generally include the following in QuickBooks:

- Revenue and expense line items within the chart of accounts
- Class list broken down by program and funding sources
- Vendor name list, and
- Customer name list

3.2 Chart of Accounts

- A Chart of Accounts shall be maintained.
- Each account title must clearly identify the nature of the transaction(s) posted to the account.
- Transactions of a similar nature must be consistently posted to the same account.
- New accounts may be added/edited by the contract accountant, only with prior approval from the CEO.

3.3 General Journal

A General Journal shall be used for recording entries, reversing entries, closing entries, and other financial transactions not normally recorded in the Cash Receipts Journal or Cash Disbursement Journal. Entries in the General Journal must be adequately documented, and entered in chronological order with sufficient explanatory notations.

3.4 Customer Module

The Customer Module in QuickBooks shall be used for recording all cash receipts and anticipated revenues (e.g., grants, contributions, interest income, etc.).

3.5 Vendor Module

The Vendor Module in QuickBooks shall be used for recording all cash disbursements and anticipated expenses (entering bills not yet paid).

3.6 Check Register

The check register may be substituted for a Cash Receipts/ Disbursements Journal when reviewing monthly deposits and cash outlays. The Check Register must contain the same expense classifications and description information required when a Cash Disbursement Journal is used, and the same revenue classifications and description information when a Cash Receipts Journal is used.

3.7 Payroll Register

A Payroll Register must be maintained for recording all payroll transactions

REVENUE CYCLE/CASH RECEIPTS

4.1 Separate Fund or Cost Center

All contract revenues shall be maintained in the operating bank account. If revenues from other sources are maintained in the same bank account, revenues for each source must be clearly identifiable on the accounting records through the use of cost centers or separate accounts.

CABE is committed to using grantor funds towards their stated purpose. If specifically stated in a federal grant agreement, all interest earned on cash advances from grant funds held by CABE in excess of \$250 will be returned to the Treasury of the United States.

4.2 Cash Receipts and Deposit

All checks shall be endorsed upon receipt. All mail is to be opened in the CABE mail room by the Receptionist and Accounts Receivable Coordinator prepares a log with revenue coding, deposits checks using the bank-provided remote access system. Deposits are made twice weekly. Checks totaling \$25,000 or more are deposited by the next business day. Checks received totaling less than \$25,000 shall be deposited within two days of receipt.

Copies of incoming checks (from the bank-provided remote access system reporting) and revenue logs are uploaded to the secure, cloud-based system for transfer to the contract accountant once a week. After receiving the approved documents from the contract accountant, the Accounts Receivable Coordinator enters the information into the system. For payments on already invoiced amounts, the Accounts Receivable Coordinator will utilize the “payments” option in the “banking navigator” section of the accounting system. For payments without an invoice, the contract accountant will utilize the “sales receipts” function.

For cash collection on special events, the individual handling collections must account for all tickets, reconcile cash receipts to tickets sold, and account for tickets unsold.

Post-dated checks, disputed items, unidentified receipts, NSF checks, checks charged back by banks, and similar items are to be investigated by persons independent of the preparation of deposits and posting of accounts receivable.

4.3 Invoices

Invoices shall be numbered, and prepared identifying, among others, the type of services, the period of time covered, the number of units claimed.

4.4 Collection Policy

The following procedures shall be followed in the collection of overdue accounts by all CABE executives, directors and managers who oversee product and services to customers (including members) on a credit basis:

Contact Lists

Contact lists have been established by CABE to facilitate the communications process. The contact list contains the names and numbers of the individuals at each of the approved affiliated institutions who typically transact for CABE products and services.

Monitoring and Reporting

On a monthly basis, the contract accountant creates and distributes to the CEO; the Accounts Receivable, which outlines the outstanding balances in the aged receivables.

Collecting on Accounts

When an account becomes past-due, service to that customer or future purchases on account *may* be terminated to reduce the exposure to excessive losses due to bad debt. Additional collection activities may include the following:

Direct Calling

At 90-days past due, the appropriate program director or manager will contact the customer's accounts payable department to inquire about the payment status. Duplicate invoices will be emailed or faxed to the customer if requested. If the customer does not dispute the invoice, a payment commitment date will be confirmed. If the commitment date is not met, the program manager will follow-up with additional phone calls to the customer as necessary.

Collection Letters

A series of collection letters may also be used as a tool in collecting overdue amounts. Collection letters may be sent out at the following times:

- When the account becomes 90-days past-due
- When payment has not been received at 120-days past-due

Resolving Customer Disputes

It is not uncommon for customers to dispute certain outstanding charges. Below is a list of common customer payment issues:

- The invoice does not match their original purchase order (P.O.) amount

- The P.O. provided at the time of purchase was incorrect
- The customer disputes some or all of the costs on the invoice
- The product was not received
- The product was returned

The Program Director will work with the customer and CEO and contract accountant to resolve all customer disputes and arrive at a satisfactory agreement on outstanding monies owed.

Writing-off Uncollectible Accounts

After a customer receivable account has remained open for 6 months, the account may be written off to the Allowance for Bad Debt Account in the general ledger. However, if the original charge was posted to Accounts Receivable, the write-off will be posted directly to that account and then later moved to Allowance for Bad Debt Account. Internal collections activities may continue, and if collections are successful, the write-off will be reversed and the payment applied to the account.

When all internal collection efforts have been exhausted and an account is deemed permanently uncollectible (i.e. it is no longer worthwhile to pursue the claim when the expense to recover is greater than the amount to be recovered), internal collections efforts will cease. The accounts with material balances may be turned over to an outside collection agency. The outside collection agency will proceed with additional collection alternatives, including written/verbal correspondence, and legal action. If moneys are later collected on the written off account, the write off is reversed to allow for proper payment posting to the account

4.5 Bank Account Reconciliations

It is a best practice that bank statements be received and reconciled by someone with no cash handling or check writing functions. To mitigate the risks associated with this lack of segregation of duties, the bank statements will be opened by the CEO who will perform a cursory review of the statement looking for any large, suspicious or unusual activity. The statement will then be filed. The contract accountant get the statement outline.

Monthly bank reconciliations are to be prepared within 20 days of the bank statement date. Reconciling items should be resolved in a timely manner.

4.6 Bank Activity

Only the Board of Directors may authorize check signers and the establishment of new bank accounts. The Board of Directors annually re-authorizes the bank accounts and the check signers. The check signers are: board officers, the CEO and one senior executive.

The Bank is immediately notified of the changes of authorized check signers.

EXPENDITURE CYCLE/CASH DISBURSEMENTS

5.1 General

Disbursements of CABA's funds are mainly done using the online service Bill.com. Documentation for a cash disbursement is first uploaded to Bill.com, then coded and approvers assigned. Disbursements less than \$15,000 are to be approved by a Program Director, if appropriate, and the CEO, as evidenced by electronic signature. Disbursements of \$15,000 and over are to be approved by a Program Director if appropriate, the CEO, and a board member, as evidenced by electronic signature.

All disbursements for expenditures, other than petty cash, shall be made by Bill.com-issued check, credit card or a manual check, when necessary.

Disbursements must be properly documented. All invoices must be:

- Uploaded to Bill.com
- Reviewed by the contract accountant, and
- Reviewed and approved by Program Director, CEO, and/or board member as described in this section.

Invoices, receipts and canceled checks (if they are available) will be required to support outlay of funds.

Checks shall not be made payable to "cash" or signed in advance. Checks should not be written to employees other than for payroll, mileage, travel, petty cash custodian checks, or other unique circumstances. Checks written to employees for reimbursement of out-of-pocket costs must be supported by proper documentation (receipts and invoices).

In general, photocopied invoices and receipts, internally generated documents (i.e., vouchers, request for check forms, requisitions, canceled checks, etc.), and account statements do not constitute valid supporting documentation for purchases.

5.2 Supporting documentation

Supporting documentation for non-payroll expenditures (i.e., operating expenditures) should be cross-referenced to the corresponding check issued for payment. Supporting documentation is required for various miscellaneous types of expenditures as follows:

- **Consultant services** - contracts, time and attendance records, billing rates, travel vouchers detailing purpose, time and location of travel, purchase orders and invoices for supplies and invoices or other supporting documentation detailing the nature of services provided.
- **Travel** - travel expense vouchers showing location, date and time of travel, purpose of trip, rates claimed; vehicle mileage logs showing dates, destination and headquarters, purpose of trip, and mileage. In general, reimbursement rates for mileage shall not exceed applicable funding sources guidelines (see also below under "Mileage Rates").

Receipts shall be required for meals and lodging for approved out-of-town travel dates. The maximum reimbursable lodging amount rate for employees for a single occupancy hotel accommodation must be consistent with funding sources guidelines.

- **Mileage Rates** - Mileage reimbursement rates for CABE are based on the IRS standard “per diem rate.” The rate applies to all programs run by the organization. In case the authorized rate is higher than the rate allowed by a particular contract, the contract accountant will charge the rate difference to the administrative program code.
- **Operating Expenses** (e.g., utilities, office supplies, equipment rentals, etc.) - - bona fide contracts or lease agreements, if any, and invoices and receipts detailing the cost and items purchased will constitute the primary supporting documentation.
- **Outside Meals** - receipts and/or invoices for all meals, a record of the nature and purpose of each meal, and identification of the participants.

5.3 Payments to Affiliated Organizations or Persons

CABE shall not make payments to affiliated organizations or persons for program expenses (e.g., salaries, services, rent, etc.) that exceed the lower of actual cost or the reasonable cost for such expenses. A reasonable cost shall be the price that would be paid by one party to another when the parties are dealing at arm's length (fair market price).

5.4 Check Stock

Blank check stock shall be secured and accounted for to preclude unauthorized use. All blank checks are to be kept in a secure location and handled only by the contract accountant.

Voided checks shall be marked void with the signature block cut out. The voided checks must be filed with the canceled checks.

All supporting documentation shall be attached to check vouchers and marked "paid" or otherwise canceled to prevent reuse or duplicate payments.

5.5 Un-cleared Checks

Each month after the bank reconciliations are finished, a report of Un-cleared Checks will be pulled from QuickBooks and Bill.com. Checks that are more than 2 months old will be researched in these steps:

- 1) Look at the online bank access to determine if any checks have cleared since the last bank statement – no action needed if check has since cleared
- 2) Look for duplicate checks mistakenly cut for the same bill – void (do not delete) the duplicate bill and check in QuickBooks; if transaction occurred in prior fiscal year, create journal entries in QuickBooks to replicate the bill and check, then reverse in current fiscal year
- 3) Look for un-cleared checks from current employees – email employee and set deadline for depositing check; void old check and reprint new check if previous one was lost; remind employee to turn in check to Accounting if it's later found; if employee is unresponsive, pay amount through payroll (without tax withholdings)
- 4) All remaining checks

- a. If check was mailed within 2-4 months, call accounting department of payee to see if check is truly lost or perhaps just yet to be deposited; void old check and reprint new check if needed
- b. If check was mailed over 4 months ago, mail letter requesting confirmation of check status
 - i. If payee responds that money is outstanding and check was lost, void old check and reprint new check if needed
 - ii. If payee responds that money is not outstanding, void (do not delete) the bill and check in QuickBooks; if transaction occurred in prior fiscal year, create journal entries in QuickBooks to replicate the bill and check, then reverse in current fiscal year; keep letter confirming no payment is due in file
 - iii. If payee doesn't respond, repeat sending letter every 6 months. Under California's Unclaimed Property Law, property becomes "unclaimed" and reportable to the state after a specified period of time or account inactivity, generally three years. These requirements are subject to change, so visit the California State Controller's office website and search for "steps for reporting unclaimed property" at the time to confirm all requirements are met. At the time of writing, the requirements are available at http://www.sco.ca.gov/Files-UPD/outreach_rptg_hol_genrptinfo.pdf.

5.6 Approvals and Separation of Duties

Persons responsible for approving cash disbursements and/or signing of checks shall examine all supporting documentation at the time the invoices are approved and paid. Payments cannot be made in Bill.com until all approvers have approved an invoice. User accounts are maintained by the Contract Accountant and set up to ensure that no one person can initiate, approve and pay a transaction.

Disbursements less than \$15,000, excluding petty cash purchases, shall be approved by:

- Program Director, if appropriate, and
- CEO

And paid via Bill.com by

- CEO

Disbursements \$15,000 and over shall be approved by:

- Program Director, if appropriate
- CEO, and
- One board member

And paid via Bill.com by

- CEO

Prior to approval the coding sheet and vendor invoices are compared.

Check numbers are reconciled to make certain they are voided, blank or deposited.

Checks are recorded in the disbursement journal as prepared. Bill.com is synced with QuickBooks on a weekly basis.

All supporting documentation should accompany checks presented for signature, and should be properly cancelled to prevent duplicate payments.

5.7 Petty Cash

A petty cash fund of \$200 shall be maintained by the Executive Assistant for payment of small incidental expenses incurred (e.g., small purchases of office supplies, postage due, etc.).

Invoices, store receipts or other external authenticating documents indicating the item purchased and the employee making the purchase must support petty cash disbursements. Petty cash disbursements should not be used as substitute for normal purchasing and disbursement practices (i.e., payment by check). Petty cash will be reconciled at least annually.

5.8 Credit Cards

The use of credit cards, both association-issued credit cards and an employee's personal credit card used on behalf of CAFE, should be limited to purchases where normal purchasing and disbursement practices are not suitable.

Credit cards issued in CAFE's name must be adequately protected and usage monitored to ensure that only authorized and necessary items are purchased.

Credit card purchases should be pre-approved by CAFE management to ensure that they are reasonable and necessary. Under no circumstances are personal items to be charged on company assigned credit cards. Abuse of credit card privileges will result in loss of such privileges and may lead to termination.

Original invoices, store receipts or other external authenticating documents, indicating the item purchased and the employee making the purchase must support all credit card disbursements. In general, credit card statements are not sufficient support for credit card purchases.

Procedure for Approval of CEO Credit Card Charges:

1. The CEO will review and approve all receipts on Bill.com.
2. The Accounts Payable Coordinator will attach receipts the credit card statement and submit for processing.
3. A Board Officer will approve the CEO's credit card statement on Bill.com.

Procedure for Approval of the CEO Expenses:

1. The CEO will submit all receipts with expense report every month.
2. The Accounts Payable Coordinator will complete the expenses report at the end of each month and attach receipts.
3. A Board Officer will approve the receipts on Bill.com.

OTHER ASSETS

6.1 Prepaid Expenses

Prepaid expenses (e.g., insurance, service agreements, lease agreements, expenses for upcoming events, etc.) should only be expended during a given fiscal year to the extent goods and services are received during that fiscal year.

6.2 Deposits

Refundable deposits (e.g., rent, utilities, etc.) are to be recorded as such and maintained as an “other asset” on the balance sheet until repaid. Non-refundable deposits are to be recorded as expenditures when incurred.

OTHER LIABILITIES

7.1 Pass-Through Contributions

Any pass-through contributions will be recorded as liabilities in the other liabilities section of the balance sheet as the cash is received. The liabilities are to be reduced as payments are made on the pass-through contribution to the sub-contractor.

PROPERTY AND EQUIPMENT (FIXED ASSETS)

8.1 Policy

A fixed asset is defined as an article of non-expendable tangible personal property having a useful life of more than one year. CAFE capitalizes all acquisitions, which cost \$2,500 and more having a useful life of more than one year.

Acquisition cost means the net invoice unit price of an item, including the cost of taxes, delivery, and any modifications, attachment, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it was acquired.

8.2 Identification and Inventory

All fixed assets purchased with Contract funds are to be used solely for the benefit of the Contract.

A current listing of fixed assets, including the item description, serial number, date of purchase, acquisition cost and sources of funding shall be maintained.

A physical inventory of all fixed assets shall be conducted at least once each year to ensure that all fixed assets are accounted for and maintained in proper working order.

8.3 Security

Physical security shall be adequately maintained over fixed assets to prevent misuse and theft of the organization’s property.

8.4 Property Management

CABE shall assume responsibility and accountability for the maintenance of all non-expendable property purchased, leased, or rented with Contract funds.

CABE shall report promptly, in writing, to the funding sources any incidents of theft, loss, damage, or destruction of fixed assets. The report shall contain at a minimum, item identification, recorded value, facts relating to loss, and a copy of the law enforcement report.

PAYROLL

9.1 Payroll Register

The Payroll Register should contain the following:

- Name
- Position
- Social Security Number
- Salary (hourly wage for non-exempt employees)
- Payment Record including:
 - Payroll period
 - Gross pay
 - Itemized payroll deductions
 - Net pay amount
 - Check number

9.2 Timekeeping/Timecards

Timecards or time reports must be prepared for each pay period. Time cards or time reports must indicate total hours worked each day by program and total hours charged to each of CABE's programs. Time estimates do not qualify as support for payroll expenditures and will be disallowed on audit. All time cards and time reports must be signed in ink by the employee and the employee's supervisor to certify the accuracy of the reported time.

Authorized persons independent of payroll functions shall approve all employee hires and terminations, or pay rate changes.

The Payroll Service will ensure compliance with all applicable Federal and State requirements for withholding payroll taxes (FIT, FICA, SDI, SIT, etc.), reporting, filing (such as 941, DE-6 and W-2), and all applicable tax deposits. The contract accountant prepares the annual Form 1099s in consultation with the CEO.

The CEO will ensure compliance with Internal Revenue Service guidelines in properly classifying employees and independent contractors.

9.3 Tax Withholdings

Employees have to fill out and sign a W-4. Independent Contractors have to fill out and sign a W-9 form each year.

9.4 Outside Payroll Preparation

An independent provider of payroll services is contracted to prepare the payroll, maintain the payroll register, file tax reports, and to remit to the applicable Federal and State authorities the payroll taxes. The reports and statements produced by the payroll services provider are reviewed by the contract accountant.

9.5 In-House Payroll Duties

Even if the payroll service provider prepares the payroll and related tax reports, it is the responsibility of the contract accountant to:

- Issue the 1099 forms (by January 31 of each year).

It is the responsibility of the CAFE staff to:

- Distribute the W-2 forms (by January 31 of each year);
- Conform to any federal and state rules and regulations regarding timely provision to former employees.

The following records must be retained: Time and attendance records submitted electronically by the employee and approved by the supervisor, time distribution records by program accounting for total work time on a daily basis for all employees, records by program accounting for total work time on a daily basis for all employees, records showing actual expenditures for Social Security and Unemployment Insurance, State and Federal quarterly tax returns and Federal W-2 forms.

Procedures for preparing the payroll are as follows:

- Information on new employees is entered into the payroll system by the Accounts Payable/Membership Coordinator after properly executed payroll authorization forms have been completed by the employee.
- Other than for the CEO, an Employee Status Change Form is completed for any necessary adjustments to salaries/wages and/or deduction amounts with evidence of approval by the CEO and Program Director is to be included in the personnel file of the employee and in payroll documentation for that payroll period.
- Temporary and permanent changes (i.e. change in salary deduction, W-4 withholdings, address changes, etc.) are transmitted to the payroll service provider and evidence of approval by the employee is to be maintained in their personnel file.
- Payroll detail and changes/adjustments are transmitted online to the payroll service by the Accounts Payable/Membership Coordinator.
- Payroll is deposited in employees' individual bank accounts on the payroll date by the payroll service provider, unless a live check is preferred by the employee. The payroll service provider will automatically generate paychecks or pay stubs (for those with direct deposit) and messenger them to CAFE no later than the pay date. All employees receive a paycheck paystub confirming each payroll deposit.
- The CEO opens the payroll packet, review it for accuracy, and distribute the paystubs and paychecks to the staff.

- The CEO initials the payroll packet to indicate it was reviewed and the payroll packet is then filed at CABC's office.

9.6 Insiders' Compensation

The insiders of the organization are as follows:

- Any member of the Board of Directors
 - Any Officer of the organization
 - CEO
 - Top financial person of the organization (e.g. Chief Financial Officer / Finance Director / Controller / Business Manager)
 - Any key employees (as defined by the Internal Revenue Service for purposes of completing Part VII of the Form 990)
 - Any family member for any of the aforementioned
- Definition of compensation: All-inclusive, including all compensatory benefits received (other than nontaxable fringe benefits); includes salaries, bonuses, taxable fringe benefits, retirement plan contributions, loan agreements, and deferred compensation amounts.
 - Definition of reasonable compensation: An amount of compensation a similar enterprise, whether taxable or tax-exempt, would pay for similar services under similar circumstances; reasonableness of compensation can be established by independent compensation surveys and actual written offers from similar institutions.
 - When determining the annual compensation for any insider, the organization shall always undertake and satisfy all three prongs of the rebuttable presumption set forth in the Internal Revenue Code regarding intermediate sanctions (§4958).
 1. Compensation arrangement approved in advance by independent members of the organization's governing body (Board of Directors or a subcommittee thereof) that is composed of persons who do not have a conflict of interest with respect to the compensation arrangement.
 2. Before making the reasonable compensation determination, the governing body (or subcommittee thereof) relied upon comparability data (comparability data includes compensation paid by comparable and similarly situated entities) in deciding whether to approve the compensation.
 3. Governing body contemporaneously documents its basis for making a reasonable compensation determination, as follows:
 - a. Terms of the approved compensation and the date approved by the Board
 - b. Members of the Board present during debate on the compensation amount and those who voted on it and how they voted on it

- c. Description of the comparability data obtained and relied upon and how such data was obtained
 - d. Any actions by a Board member having a conflict of interest (e.g. disclosure of the conflict of interest; recusal from the discussion)
 - e. Documentation of the basis for the compensation determination before the later of the next Board meeting or 60 days after the final actions of the authorized body are taken
- It is essential that any individual whose compensation is being discussed not be present during such discussions.
 - All identified payments of unreasonable compensation to an insider should be corrected (undoing of the unreasonable compensation to the extent possible) as soon as feasibly possible; for example, the insider should payback to the organization the unreasonable compensation amounts plus interest to put the organization in a financial position no worse than that in which it would be if the insider were dealing under the highest fiduciary standards.
 - The reasonable compensation discussion should be undertaken by the Board at least annually; the reasonable compensation binder maintained for each insider should also be prepared, or at least updated, annually.
 - The organization shall refrain, whenever possible, from paying contingent compensation to insiders and also avoid the payment of golden parachute payments to insiders.

COST PRINCIPLES/A-133 SINGLE AUDIT REQUIREMENTS

POLICY

It is the policy of CAFE to use grant funds for the purpose of providing services required by the contractual agreements and to serve the targeted community. CAFE shall use these funds to support actual expenses in an economical and efficient manner and ensure they are reasonable, proper and necessary costs of providing services and are allowable in accordance with the applicable OMB Circular.

10.1 Limitation on Expenditures of Program Funds

CAFE shall comply with the Agreement and the applicable OMB Circular. The Circular defines direct and indirect costs, discusses allowable cost allocation procedures and the development of Indirect Cost Rates, and specifically addresses the propriety of a variety of different costs.

In the event that the CAFE is unsure of the propriety of any particular type of cost or individual cost, it shall request advance written approval from the funding source prior to incurring the cost.

10.2 Expenses Incurred Outside the Agreement Period

Expenses charged against program funds may not be incurred prior or subsequent to the grant period of the Agreement.

10.3 Necessary, Proper and Reasonable

Only those expenditures that are necessary, proper and reasonable to carry out the purposes and activities of the programs are allowable.

10.4 Allowable Costs

CABE shall allocate expenditures that benefit programs or funding sources on an equitable basis.

In accordance with the applicable OMB Circular, CABE shall define its allocatable costs as either direct or indirect costs (as defined below) and allocate each cost using the basis most appropriate and feasible method.

CABE shall maintain documentation related to the allocation of expenses (e.g., timecards, time summaries, square footage measurements, number of employees, etc.) Under no circumstances shall allocated costs be charged to an extent greater than 100% of actual costs. There can be no duplication in charging the same cost both directly and indirectly.

10.5 Direct Costs

Direct costs are those costs that can be identified specifically with a particular final cost objective (i.e., particular program, service, or other direct activity of the organizations).

Examples of direct costs include salaries and benefits of employees working on the program, supplies and other items purchased specifically for the program, costs related to space used by employees working on the program, etc.

For all employees, other than general and administrative, the hours spent on each program (activity) should be recorded on employees' timecards and the payroll expenses shall be treated as direct charges and distributed on the basis of recorded hours spent on each program.

10.6 Joint Costs

Joint costs (i.e., costs that benefit more than one program or activity), which can be distributed in reasonable proportion to the benefits, received, may also be direct costs.

Examples of methods for allocating joint costs and direct costs:

- Number of direct hours spent on each program
- Number of employees in each program
- Square footage occupied by each program
- Other equitable methods of allocation

10.7 Indirect Costs

Indirect costs are those costs that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost object. Examples of indirect costs include salaries, employee benefits, supplies, and other costs related to general

administration of the organization, depreciation and use allowances, and the salaries and expenses of executive officers, personnel administration and accounting.

Examples of bases for allocating indirect cost:

- Total direct salaries and wages
- Total direct costs (excluding capital expenditures and other distorting items such as subcontractor payments)

10.8 Acceptable Indirect Cost Allocation Methods

OMB Circulars describe the following allowable methods for allocating indirect costs.

- Simplified allocation method
- Direct allocation method
- Multiple allocation based method
- Negotiated indirect cost rate

10.9 Unallowable Costs

OMB Circulars address the propriety of a variety of different costs. For all costs, there are certain restrictions and limitations. However, the following costs are not allowable under any circumstances:

- Bad debts
- Contingency provisions
- Contributions and donations
- Fines and penalties
- Fundraising activities
- Interest expense (unless expressly allowed by Federal guideline)
- Losses on other awards

10.10 Miscellaneous Requirements

10.10.1 Insurance

CABE is responsible for securing and maintaining insurance coverage as required by the various contractual agreements. CABE must notify the funding sources when insurance is revoked, reduced to a level or coverage less than required, or otherwise made ineffective.

Insurance shall include an endorsement naming the funding source as an additional insured and specifically identify contract/agreement number.

10.10.2 Activity

No funds, materials, property, or services contributed to CABE shall be used in the performance of any political activity, the election of any candidate, or the defeat of any candidate for public office.

10.11 Cost Allocation Plan

10.11.1 Accounting

- Basis of Accounting: Accrual Basis
- Fiscal Period: July 1 through June 30
- Allocation Basis: Simplified Allocation Basis
- Indirect Cost Rate Allocation Base: Total direct labor costs
- CAFE maintains adequate internal controls to insure that no cost is charged directly and indirectly to Federal grants.
- CAFE accumulates all indirect costs under "Program Administration Expenses".

10.11.2 Description of Cost Allocation Methodology

A. Salaries and Wages

1. Direct Cost: The majority of CAFE employees directly charge their salary cost since their work is specifically identifiable to specific grants. The charges are supported by auditable time records, which reflect the actual activities of employees.
2. Indirect cost: Administration staff charge 100% of their salary costs indirectly.
3. Mixed Charges: The following employees(s) may charge their salary cost to both direct and indirect activities:

a. Program staff

The distinction between direct and indirect is primarily based on functions. When the positions shown are performing functions that are necessary and beneficial to all programs they are indirect. When the functions are specific to one or more programs they are direct because they do not benefit all.

Auditable time records, which reflect the actual activities of the employees, are maintained to support the mix of direct/indirect charges. The CEO shall certify the time records. Release time cost (vacation leave earned, sick leave used, holiday pay, etc.) is considered part of salary cost. Consequently, separate claims for release time costs are not made. CAFE accounting system records release time as a direct or indirect cost in the same manner that direct hours are recorded.

B. Fringe Benefits

CAFE contributes to the following fringe benefits for its employees: unemployment insurance; F.I.C.A. taxes; worker's compensation insurance; health, dental, and life insurance; 403b retirement plans; parking or public transportation expense.

CABE's accounting system tracks fringe benefits by individual employee and charges those cost directly or indirectly in the same manner as salary and wage cost are recorded.

C. Travel

Travel costs are charged as either a direct, as per nature of the trips, or an indirect charge in the same proportion as the employee's time records reflect the employee time activity. Costs incurred for travel are supported by auditable travel vouchers, receipts, etc., and are limited to those allowable under the Federal Travel Regulations, unless expressly allowed by a contract or grant.

D. Supplies and Material

Office supplies, small equipment, and materials are directly charged to the grant that uses the supplies or materials. Supplies and materials used by staff that is engaged in indirect activities will be charged on an indirect basis.

E. Utilities

The cost of utilities (natural gas, electricity, and sewer) is included in monthly rent expense.

F. Communications

Telephone service costs are charged indirectly and allocated based on total direct salaries and wages.

Postage costs are charged indirectly and allocated based on total direct salaries and wages

G. Photocopying, reprographic and printing

Photocopy expenses are charged indirectly and allocated based on the total direct salaries and wages. Printing expenses are charged to the benefiting activity.

H. Outside Services

CABE incurs outside services costs for its annual audit, accounting, legal fees, and other consultants.

The cost of the annual audit and contract accountant are charged directly to management and general per GAAP.

In general, legal fees are charged directly to the benefiting program or activity.

Legal fees that are not identifiable to a specific program(s) are charged to management and general per GAAP.

I. Capital Items

Capital expenditures are charged directly to programs only in cases where a contract or grant specifically authorizes such charges. No capital item is

charged indirectly. The cost of capital items purchased with non-Federal or non-State funds are recovered through depreciation charges.

J. Depreciation Charges

The cost of capital items purchased with non-Federal or non-State funds, which are used in a manner which benefits Federal and State programs, is recovered through depreciation charges. CAFE covers the cost of capital items using straight-line depreciation methods in accordance with generally accepted accounting principles. In general, depreciation charges are charged indirectly.

K. Unallowable Costs

CAFE recognizes that the following costs are unallowable charges to Federal and State awards and has internal controls in place to insure that such costs are not charged to Federal and State awards:

Interest and financing costs, fund raising costs, the cost of entertainment/alcoholic beverages, lobbying costs, advertising costs (other than recruitment of staff or for the disposal of property), and capital expenditures unless expressly authorized as a direct charge to a Federal and State award.

L. Consistency of Allocation

Indirect Rate

An indirect cost rate is simply a device for determining fairly and expeditiously, within the boundaries of sound administrative principles, that portion of an organization's indirect costs each of its cost centers or cost objectives should bear.

The use of an indirect cost rate provides for a systematic, consistent allocation of indirect costs benefiting cost objectives in reasonable proportions with the benefits derived.

The indirect cost rate is the ratio expressed as a percentage of an indirect cost pool and some direct cost base.

$$\frac{\text{INDIRECT COST POOL}}{\text{DIRECT COST BASE}} = \text{Indirect Rate \%}$$

M. Simplified Method using an indirect cost rate

This method is used where all of an organization's direct program activities receive services from all of its indirect or administrative activities in approximately the same degree or where the organization has only a single direct function or activity with multiple sources of funding.

10.11.3 Drawdowns Federal Fund Federal fund drawdowns are based on cost reimbursements basis. CAFE accountant prepares drawdowns request on a monthly

basis for expenses incurred in the prior month period. The drawdown request shall be made within thirty (30) days after the month-end closed.

Procedures

A process for the electronic draw of federal funds at CABA follows the following steps:

1. Reconcile federal grant expenses charged to the federal grant.
2. Run the current month expense report.
3. Run Transaction Detail by Account.
4. Prepare federal grant actual vs budget report for the current reporting period.
5. Complete and submit Drawdown Request Form (DRF) along with the above documents to the i3 Grant Director for review and approve.
6. Forward the approved DRF to CEO for final review and approve. Once approved, CEO goes to G5 on-line system for drawdown the amount from the approved request form.

The electronic drawdowns process occurs each month. Once the online payment request is completed, the U.S. Treasury Department wires the funds within two (2) business days directly to an account established with Citizens Business Bank for CABA. A cash payment entry then prepared to apply the EFT payment to the grant receivable for i3 grant.

Records of the drawdown request, the drawdown expense report, and the financial report for the i3 grant are filed and maintained for review by staff and auditors.

MONTH/YEAR END CLOSING

General

There are two types of closings, monthly and year-end. The monthly closings have been designed to be as simple as possible, considering only those accounts which need to be adjusted. Bills, statements and obligations are paid as they become known or are due during the operating year. Except for cash accounts, which are reconciled monthly and balanced to the accounts in the General Ledger, all accounts are adjusted only as necessary during the year. All accounts are adjusted as appropriate at year-end to reflect the expenses incurred and correctly accounted for in the current operating year. Some CABA funding sources require special quarterly closings and reports. Adjustments of certain accounts which would not provide meaningful interim information, such as depreciation which does not affect cash flow, are not affected by monthly changes. These accounts are used at the end of the year for annual reporting requirements.

Year-End Closings

CABA's fiscal year ends on June 30. Before the year-end closing is done, every attempt is made to post as many transactions as possible before processing and preparing the trial balance, financial statements and general ledger. All revenue and reinvestment schedules are analyzed, adjusted and/or recorded as correctly as possible. All accounts payable are accrued, to the extent possible, to insure minimal adjustments are proposed during the financial audit and review. Also, additional procedures are performed under the direction of the independent auditor during the year-end closing.

Audit Period and Examination

- Payables relating to year-end accruals
- Adjustments to trial balance are prepared
- Expenses closed to revenue and fund balances
- All other closing adjusting entries
- Property inventory and depreciation schedules
- After-closing trial balance
- New General Ledger is set up using prior year-end balance from the audit report and after-closing trial balance.

END