

AUDIT ASSISTANCE GUIDE

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INTRODUCTION

The Audit Assistance Guide has been developed by the Division of Administration, Audit Services Branch, of the Department of Alcohol and Drug Programs to provide alcohol and drug programs with reference material to help maintain sound accounting systems. The accounting, internal control, and reporting principles presented in this guide represent the most commonly identified Generally Accepted Accounting Principles. This guide is not intended to replace existing sound financial controls and procedures or preclude the use of other financial and reporting methods which meet Generally Accepted Accounting Principles.

Funding requirements occasionally are in contradiction with these principles. When this occurs, the funding requirements prevail. Contractors are responsible to be aware of and comply with all existing regulations, statutes, or laws for the expenditure of public funds. It must be understood that this Guide does not contain the Department of Alcohol and Drug Programs' regulations. For a complete discussion of the nature of Generally Accepted Accounting Principles, refer to Section 0550 of this Guide.

If a county, city, or private auditor reviews your accounting system (including internal controls), please share this Guide with him or her.

The policies and procedures described in this guide are the basic components of the financial, management, accounting, and reporting systems which each organization should adopt.

The purpose of the policies and procedures adopted by the organization is four-fold:

- o To provide clear responsibility for financial management and reporting.
- o To provide regular and systematic financial reporting to the Board of Directors, governmental agencies, and private agencies.
- o To develop public accountability for all funds received. This includes not only funds received from various levels of government (federal, state, and local) but funds from private organizations, charities, and individual contributions.
- o To develop an accounting system that will provide reasonable internal and external control over the revenues, cash payments, expenses, assets, and liabilities of the

ACCOUNTING SYSTEMS

0300

Accounting Systems - General

0310

Each organization, under Generally Accepted Accounting Principles, is required to maintain all records (including source documentation) as evidence of costs incurred. It is the responsibility of the participating organization to insure that:

- (1) an accounting system which conforms to Generally Accepted Accounting Principles is in effect;
- (2) procedures are established;
- and (3) supporting documentation is developed to substantiate all costs.

This guide identifies minimum accounting requirements under Generally Accepted Accounting Principles for grants/contracts awarded by the Department of Alcohol and Drug Programs (ADP) and the various counties. Compliance with Generally Accepted Accounting Principles will help assure that an organization can meet the financial reporting requirements of contracts with ADP and the counties and be able to prepare internal financial reports to satisfy program information needs.

It is essential that the organization's accounting system provide effective financial controls. Organizations should recognize that audits of grants and contracts will be made and unless commonly accepted standards of financial responsibility have been followed, these audits may result in the disallowance of

expenditures for which the organization will be liable.

Elements Of Accounting Systems General Account Structure 0320

Accounting systems involve a series of operations relating to the classifying, recording, summarizing, and reporting of transactions performed. The elements of the system should consist of an account structure, the accounting records, source documents, financial reports, and the procedures that prescribe the manner in which these operations are performed.

Accounting Systems Standards 0330

Adequate accounting systems for organizations should meet the following criteria:

- o Accounting records should provide the information needed to separately identify the receipt and expenditure of federal, state, and other funds. Such records are required for each grant or contract awarded by ADP or the counties.
- o Entries in accounting records should be readily traceable to subsidiary records and source documentation which support the entries.
- c The accounting system should provide accurate and current financial reporting information.

- o The accounting system should be integrated with an adequate system of internal controls to safeguard the organization's funds and assets, increase the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed management policies.

In addition to the control and documentation of financial activities, the financial system can be an important instrument for managerial decision. Proper use of financial information will assist in determining what activities merit priority or emphasis, where efficiency can be improved, and how resources can best be utilized.

Accounting System Objectives

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The objectives of the organization's accounting system are:

- o To provide management with financial data to assist in the planning, control, measurement, and evaluation required for the efficient and economical operation of the organization and the grant program.
- o To provide management control of funds and other assets, so as to insure that the expenditure of funds and use of other property is in conformity with applicable laws and regulations.

- o To insure, by means of cost and property control and prudent management, that optimal use is made of all resources.
- o To meet any requirements for reporting periodically on financial operations.
- o To classify current and projected costs as required for budgeting purposes.

BASIS OF ACCOUNTING

0400

Organizations may elect to use an accrual basis, cash basis, or modified accrual basis of accounting for recording financial transactions.

Accrual Basis of Accounting

0410

Under the accrual basis of accounting, revenue is recorded in the period when it is earned, regardless of when it is collected, and expenditures for expense and asset items are recorded in the period in which they are incurred, regardless of when they are paid.

Cash Basis of Accounting

0420

Under the cash basis of accounting, revenues are recognized only when cash is received and expenditures for expense and asset items are not recorded until cash is disbursed for them.

If an organization elects to use the cash basis for recording financial transactions during the year, adjustments must be made to the annual cost report at the close of each fiscal year. These adjustments are accruals. All computations, supporting records and explanatory notes used in converting from the cash basis to the accrual basis for year-end adjustments must be retained.

Each organization should have an Accounting Procedures Manual which details the major structures and procedures of the accounting system. This is particularly important, in the face of employee turnover, to guarantee consistent treatment of all the major accounting functions. The Manual should be designed to provide the organization's staff with a working knowledge of the day-to-day financial activity of the organization. A manual not only helps to formalize the accounting system but assists in the orderly flow of information for reporting purposes. A manual also serves as a training manual for new financial staff and a reference guide for current staff.

A Procedures Manual should include a detailed description of all accounting procedures, job descriptions for all financial staff, and sample forms with instructions for completing them. The manual should be reviewed at least yearly for corrections and modifications of procedures to current practices.

The contents of an Accounting Procedures Manual should include but is not limited to the following:

1. List of all accounting records
2. Detailed chart of accounts
3. Filing system
4. Cash receipts procedures

5. Cash disbursement procedures
6. Payroll, sick leave and vacation procedures
7. General ledger description
8. Other journals and subsidiary ledgers
9. Bank reconciliation and petty cash procedures
10. Tax reports: timetable and description
11. How to maintain property records
12. Insurance policies and procedures
13. Preparation of financial statements and reports for funding agencies
14. Budget preparation and monitoring procedures
15. Reference manuals
16. Internal controls review

See Appendix B for an example of a manual for a small organization.

NEW

The purpose of an audit engagement is to determine whether financial statements are fairly presented in accordance with generally accepted accounting principles (GAAP). Furthermore, the first reporting standard of generally accepted auditing standards (GAAS) requires that the audit report explicitly state whether the financial statements are prepared in accordance with GAAP.

GAAP may be defined as the rules and practices necessary at a particular time which represent accepted accounting principles and practices. Accounting principles encompass unwritten rules and written rules. The written rules are commonly referred to as promulgated GAAP.

GAAP is constantly changing. Although it would be convenient to have a single authoritative source of GAAP, it now exists in a wide variety of publications in the form of standards, conventions, assumptions, principles, rules, and so forth, all of which are referred to as generally accepted accounting principles.

The seven basic accounting principles are as follows:

1. Cost principle
2. Revenue principle

3. Matching principle
4. Objectivity principle
5. Consistency principle
6. Financial reporting principle
7. Modifying or exception principle

The cost principle permeates the entire accounting process. It often is referred to as the historical cost principle, as opposed to the market value or replacement cost theories. The cost principle holds that cost is the appropriate basis for initial accounting recognition (at date of the transaction) of all asset acquisition. Cost values are retained throughout the account process.

The revenue principle (a) defines revenue, (b) specifies how revenue should be measured, and (c) pinpoints the timing of revenue recognition.

Revenue can be defined as the monetary expression of the aggregate of products or services transferred by an enterprise to its customers during a time period.

The revenue principle dictates that revenue should be measured as the net cash equivalent price derived in an arm's-length exchange transaction. Thus, revenue is best measured by the net cash exchange value of the product, service, or other asset in the exchange.

The timing of revenue recognition evolves around the revenue realization concept. This basic concept is that revenue is realized, and should be recorded as earned, when (a) there has been an exchange transaction involving a transfer of goods or services, and (b) the earning process is essentially complete.

The matching principle states that for any period for which income is to be reported, the revenues recognized should be determined according to the revenue principle; then the expenses incurred in generating that revenue should be determined and reported for that period. If revenue is carried over from a prior period or deferred to a future period in accordance with the revenue principle, all identifiable elements of expense related to that revenue likewise should be carried over from the prior period or deferred, as the case may be. The matching principle requires the use of accrual basis accounting as opposed to cash-basis accounting, to record and report expenses.

The objectivity principle asserts that to the fullest extent possible, accounting and reporting should be based on data that is (a) objectively determined and (b) verifiable.

Objective determination means that accounting should be based on complete arm's-length exchange transactions involving the entity. An arm's-length transaction is characterized by an agreement between two or more parties that have adverse interests.

Verifiability means that to the fullest extent possible, accounting data should be supported by business documents originating outside the business entity. Events recognized that do not result from transactions must be supported by internally prepared documents that can be verified. Verifiability relates to the adequacy of evidence to support the data processed in the accounting system and reported on the financial statements.

The consistency principle states that in recording and reporting economic events there must be consistent application of accounting principles, standards, and procedures from one accounting period to the next. Consistent application in accounting for an entity is essential so that the resulting financial statements for successive periods are reasonably comparable.

The financial reporting principle, often called the full disclosure principle, maintains that financial statements should be designed and prepared to reasonably assure complete and understandable reporting of all significant information relating to the economic affairs of the accounting entity. The financial statements must be complete in the sense that all information reported is necessary for a "fair" presentation so that a reasonably prudent investor would not be misled; that is, sufficient information must be presented to permit a knowledgeable user to reach an informed decision. The financial

reporting principle pertains to the nature of the statements, information to be shown, classification of information on the statements, parenthetical information in the statements, and explanatory notes included in the statements. Full disclosure emphasizes the necessity of including explanatory notes and parenthetical information to supplement the basic amounts reported in the tabular parts of the financial statements.

The modifying or exception principle encompasses three basic concepts, which are materiality, conservatism, industry and peculiarities.

The concept of materiality asserts that although all transactions and other events must be recorded, those involving insignificant economic effects need not be accorded strict theoretical treatment because the economic effect is not material enough to affect the decision maker. A less costly and timesaving approach may be used to account for immaterial amounts.

The concept of conservatism holds that where acceptable alternatives for an accounting determination are available, the alternative having the least favorable immediate influence on the organization should be selected. In recognizing assets where two alternative valuations are acceptable, the lower valuation should be accepted, and the higher of two alternative liability amounts should be recorded. In recording expenses and revenues where there is reasonable doubt as to the appropriateness of

alternative amounts, the one having the least favorable effect on net income should be chosen.

Because accounting focuses on usefulness, feasibility, and pragmatism, the peculiarities and practices of an industry (utility, railroad, or banks) may warrant certain exceptions to accounting principles and practices. The modifying principle permits special accounting for specific items where there is a clear precedent in the industry based on uniqueness, usefulness, and feasibility.

INTERNAL CONTROL

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Definition

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Internal control comprises the plan of the organization and all of the coordinate methods and measures adopted within a business to the following:

- o Safeguard the assets from loss or misappropriation.
- o Check the reliability of its accounting data.
- o Promote operational efficiency.
- o Encourage adherence to prescribed managerial policies.

Types of Internal Controls

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1. Accounting Controls include but are not limited to the following:

- o Systems of Authorizations and Approvals
- o Segregation of Duties
- o Physical Control Over Assets
- o Internal Auditing

2. Administrative Controls include but are not limited to the following:

- o Performance Reports
- o Statistical Analysis
- o Quality Control
- o Training Programs

Objectives of Internal Control

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The objectives of Internal Control are to provide reasonable assurance that:

1. Transactions are executed in accordance with management's general or specific authorizations.
2. Transactions are recorded in appropriate detail to:
 - o Permit preparation of financial statements in conformity with Generally Accepted Accounting Principles or any other criteria applicable to such statements; and
 - o Maintain accountability for assets.
3. Access to assets is limited to those individuals who have specific authorization from management.
4. Accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with

respect to any differences.

5. Segregation of duties is such that no one person controls a transaction from beginning to end.

Segregation of Duties

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The segregation of duties provides a system of checks and balances, and therefore, is the central part of any system of internal control. There are four main areas where duties must be segregated:

1. The authorization of a transaction must be segregated from the processing of the actual transaction to minimize the potential for diverting the organization's resources to an employee's personal benefit. For example, the individual who authorized a bill to be paid should be different from the individual who writes the check and records it in the accounting records.
2. Operations should be segregated from the accounting and record-keeping systems since the internal accounting system represents the primary quantitative information which is used for control purposes. If the Operation Managers were able to control the internal accounting system, the system would not perform its control functions. For example, if a Personnel Manager controlled the accounting system, the

manager would be in a position to input false payroll information and would be able to pass the false information through the accounting system undetected.

3. The custody of assets must be separated from the accounting function to minimize the potential concealment of any irregularities and to ensure the prompt detection of errors or irregularities pertaining to the disposal of assets such as cash, inventories, and equipment. For example, cashiers should not be involved in any accounting for cash and receivables.
4. The important parts of accounting functions must be separated so that parts of the transaction are handled by different people. Checks built into the system should be performed by persons who are not involved in recording the transaction themselves. This separation provides reasonable assurance that errors are discovered within a reasonable time frame. For example, responsibility for general ledger accounts should be separated from related subsidiary records. In this manner, an error which went undetected may still be found through a monthly reconciliation process.

Other Principles of Internal Control

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1. Employees should possess competence in the duties they are hired to perform and have the integrity to perform these

duties honestly and to the best of their ability.

2. Duties should be periodically rotated to prevent the manipulation of account balances and to facilitate the detection of such manipulations.
3. Employees in certain high-risk positions (particularly those who have access to cash) should be bonded to provide for the recovery of assets which may be lost due to the dishonesty of an employee.
4. Periodic supervisory reviews should be performed to prevent the system of internal control from deterioration and to provide a measure of management control.
5. All transactions should be properly documented to reduce the likelihood of errors and the nondetection of errors. In addition, documentation should leave a proper audit trail both in documenting the transaction and in documenting the control procedures performed. It is also important that documentation be secured from destruction and tampering.
6. Organizational property should be protected by restricting access to valuable items and taking measures to prevent their destruction.

The Department of Alcohol and Drug Programs auditors comply with the Standards for Audit of Governmental Organizations, Programs, Activities and Functions as promulgated by the Comptroller General of the United States. Under these auditing standards it is recognized that an organization may be "so small that it is not feasible to have adequate internal controls." In these cases, the auditors will disclose in the audit report the fact that the organization size precludes placing any reliance on the internal controls and that the audit testing was expanded to assure the auditor of the fairness of the financial statements.

The prime consideration for safeguarding assets is that no one person controls an entire transaction from the beginning to the end. This guide is an aide which the small organization may utilize to create a closer relationship to the ideal situation.

Example: 1. An adequate internal control for cash disbursement can be established with just three people. The program director authorizes the disbursements, the secretary/bookkeeper draws the check and makes the accounting entries, and the president of the board of directors signs all checks after comparing them to the invoices and vouchers.

Example: 2. An adequate internal control for cash receipts can also be achieved using a board member. The program director

opens the mail in the presence of the secretary/bookkeeper. The cash items are segregated and the secretary/bookkeeper makes out deposits and book entries. The program director deposits funds in the bank. Once a month the board treasurer reconciles the bank statements to the books.

The extent that adequate separation of duties is achieved in a small organization is only limited by the imagination of the members of that organization.

DOCUMENTATION

0700

The organization must be able to support each reported expenditure and revenue by records which clearly identify the expenditure or revenue to the funding source. This documentation (often called source documentation) includes, but is not limited to, such items as timesheets, invoices, receipts, purchase orders, duplicate deposit slips, cancelled checks, board minutes, bylaws, and bank statements.

The source documentation provides the input to all entries in the various records and books maintained by the organization. A filing system should be established for the source documentation such that all items entered into the books and records are readily traceable to the source documents. Such traceability is often referred to as the audit or accounting trail.

Books, Records and Reports

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The organization must maintain various records, books, and reports in order for management to control the organization's operations and to promote fiscal integrity. Typical books, records and reports which the organization should maintain are shown in the following sections.

An essential element of any accounting system is the composition of the Chart of Accounts. The composition of the Chart of Accounts depends on the size and complexity of the organization to which it pertains, as well as on the reporting or summary detail required by management, government agencies, and other interested parties. Likewise, the Chart of Accounts should have codes to provide flexibility for recording and for converting from a manually operated accounting system to a computer operated system.

Example:

A Chart of Accounts should be designed to provide the following:

1. An adequate control for balance sheet, revenue, and expenditure accounts by funding source, program, agency, and cost category.
2. An easy identification of accounts by funding source, program, agency, and cost categories by providing a definite and uniform pattern and/or codes to facilitate the accumulation of costs or expenditures for reporting to management, grantors, and other government agencies.

Basically, the Chart of Accounts may be divided into the following categories:

1. Assets Accounts
2. Liability Accounts
3. Fund Accounts
4. Revenue Accounts
5. Expenditure Accounts

For the purposes of segregating costs, each funding source, cost center, or program account is identified by a specific code. For an example of a Chart of Accounts see Appendix C.

Journals

0720

Cash Receipts Journal

0720.1

The Cash Receipts Journal is a book of original entry which records all transactions related to cash received by the organization from grantors and other sources of funds, including nonfederal cash contributions. The normal accounting entry in this journal is: Debit - Cash; Credit - Appropriate Unapplied Resource, Applied Resource, Income, Receivables Accounts (See Appendix D for an example).

Cash Disbursement Journal

0720.2

The Cash Disbursement (Accounts Payable) Journal is a book of

original entry which records all transactions pertaining to payments made by the organization to other parties, whether for expenditures, advances, or loans. This Journal may contain the Accounts Payable Purchase Register, Accounts Payable Purchase Journal and Cash Requirements Report. All payments are by check. The same procedures apply to manual or computer-generated checks (see Appendix D for an example).

Donations/Contribution Journal

0720.3

This Journal is a special book of original entry designed to record all donations/contributions received by the organization. Donations/contributions are recorded as expenditures indicating the program account, the specific cost category, and the value of the services rendered or fair market value of the property donated (see Appendix D for an example).

General Journal

0720.4

The General Journal will be used for all entries that do not involve cash receipts or cash disbursements.

Logs

0730

Purchase Order Log

0730.1

This log is a record of all purchase orders (PO's) issued by the organization. This record is the control for all PO's issued,

billed, and paid. It provides a check of status of all expenses incurred by the organization with vendors and assures no duplicate payments can occur (see Appendix D for an example).

Ledgers 0740
General Ledger 0740.1

This ledger is the final book of consolidation of all the preceding books of accounts and the source of all fiscal reporting. The ledger can be either computer generated or manual, utilizing the check points, input data and verifications of the previous sections. Reconciliation of the ledger with bank accounts is done monthly (see Appendix D for an example).

Trial Balance 0750

At the end of each month, a Trial Balance is set up to check the accuracy of the posting and prove the equality of debits and credits in the General Ledger. From the Trial Balance the monthly financial statements are developed (see Appendix D for an example).

Financial Statements 0760

The Financial Statements consist of the Income Statement and the Balance Sheet.

1. Income Statement - The Income Statement reveals the financial progress of an organization over a period of time. This statement is very important in the private sector because it shows whether the business is operating at a profit or a loss. The statement can also be used by nonprofit organizations and public agencies to show if the organization's expenses are being kept within budget (usually determined by revenue from grant sources). Expenses are subtracted from revenue to determine Net Income. The Income Statement should be prepared every month so as to provide the organization's board of directors with current information as to the financial health of the organization (see Appendix D, Figure 7 for an example).

2. Balance Sheet - The Balance Sheet reveals the financial condition of a business as of a specific date. The Balance Sheet is important for both profit and nonprofit organizations, because it shows the Net Worth or Fund Balance of an organization when Liabilities are subtracted from Assets (see Appendix D, Figure 6 for an example).

Bank Accounts/Fund Accounts

0770

An important tool in insuring adequate internal control over the receipt and disbursement functions is the establishment of a bank checking account by private contractors and a fund by county. In the case of the private contractor, the bank represents an

the case of the private provider, the bank represents an independent third party who is involved in each cash transaction. This gives independent verification that a dollar transaction shown on the organization's books took place. What it does not guarantee is that the payee or purpose of the transaction, as shown on the books, took place since it is possible to alter cancelled checks.

In the case of a county, the establishment by the county treasurer of a fund for the specific program is analogous to the establishment of a bank account and has the same advantages and pitfalls as noted above for checking accounts.

Once a month the checking account and/or fund must be reconciled to the organization's books. The organization should request its bank statements with a cut-off on the last day of each month. This will facilitate the reconciliation process. The actual reconciliation should be performed by an individual who is not otherwise involved in the accounting process.

MAJOR ACCOUNTING FUNCTIONS

0800

Sections 0900 through 1300 detail the control considerations for the five main areas of accounting faced by all organizations regardless of size:

- o Cash Disbursements See Section 0900
- o Cash Receipts See Section 1000
- o Payroll Accounting See Section 1100
- o Property Management See Section 1200
- o Cost Allocation See Section 1300

CASH DISBURSEMENTS

0900

Management Objectives

0910

Cash disbursement controls are established to assure management that no unauthorized transactions are entered into by officers or employees. Cash disbursement control objectives include the following:

1. All disbursements are authorized and supported by documentation.
2. Disbursement transactions are correctly recorded in the accounting records.
3. The purposes and objectives of the program are economically attained.

Preferred Practices

0920

1. All disbursements, except petty cash, are made by check.
2. All disbursements are properly supported by evidence of prior authorization, receipt, and approval of the related goods and services.
3. Blank checks are not signed in advance.

4. Bank accounts are reconciled monthly.
5. Signers of bank accounts and checks are authorized by the board of directors.
6. All checks over an amount specified by the board of directors have two signatures.
7. Checks are controlled and accounted for with safeguards over unused, returned, and voided checks. All voided checks are defaced and the signature lines removed to prevent subsequent use.
8. Checks drawn to cash are prohibited.
9. Supporting documents--such as invoices, purchase orders, and receiving reports--accompany checks for the check signers' review.
10. Vouchers and supporting documents are appropriately cancelled (stamped or perforated) to prevent duplicate payments.
11. If check-signing plates are used, they are adequately controlled (i.e., maintained by a responsible person who reviews and accounts for prepared checks).

12. The person who prepares the check or initiates the voucher is not the same person who mails the check.

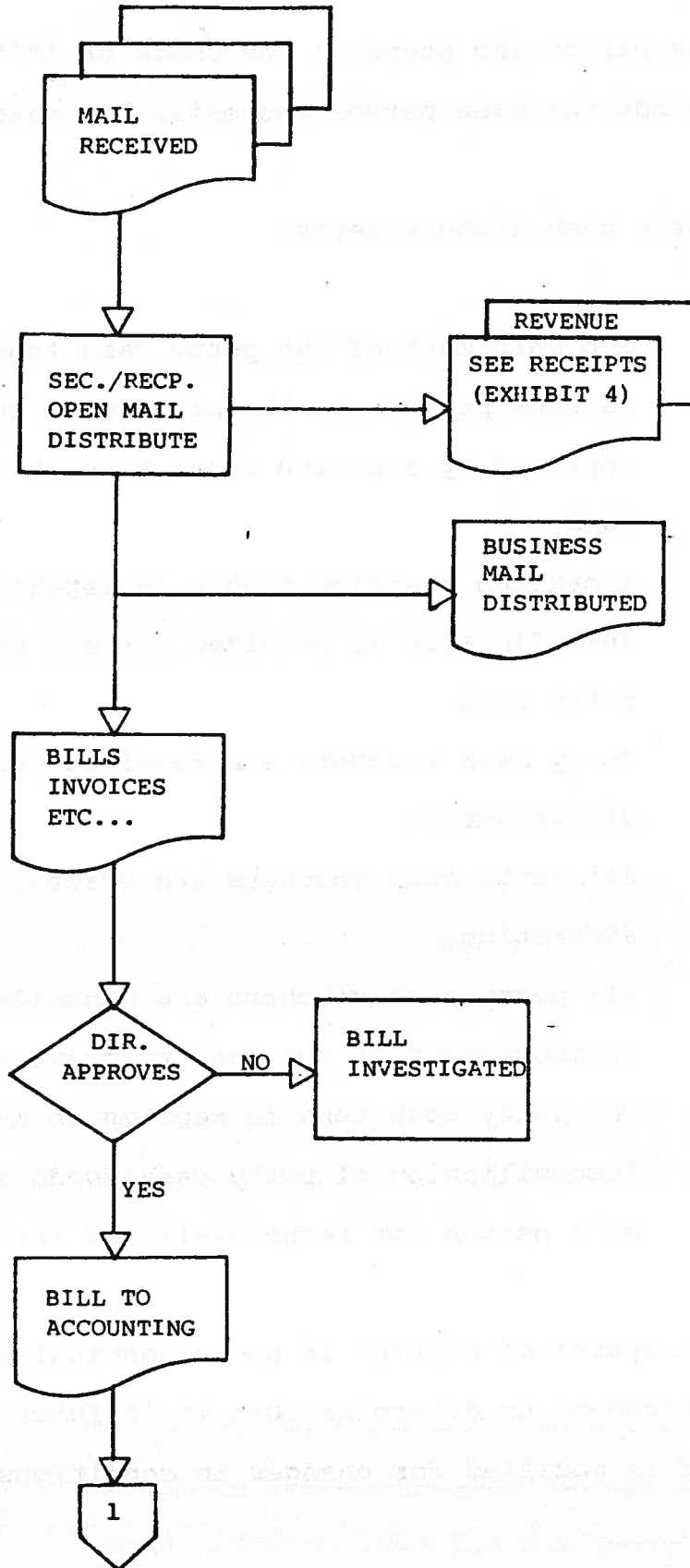
13. Petty cash disbursements:

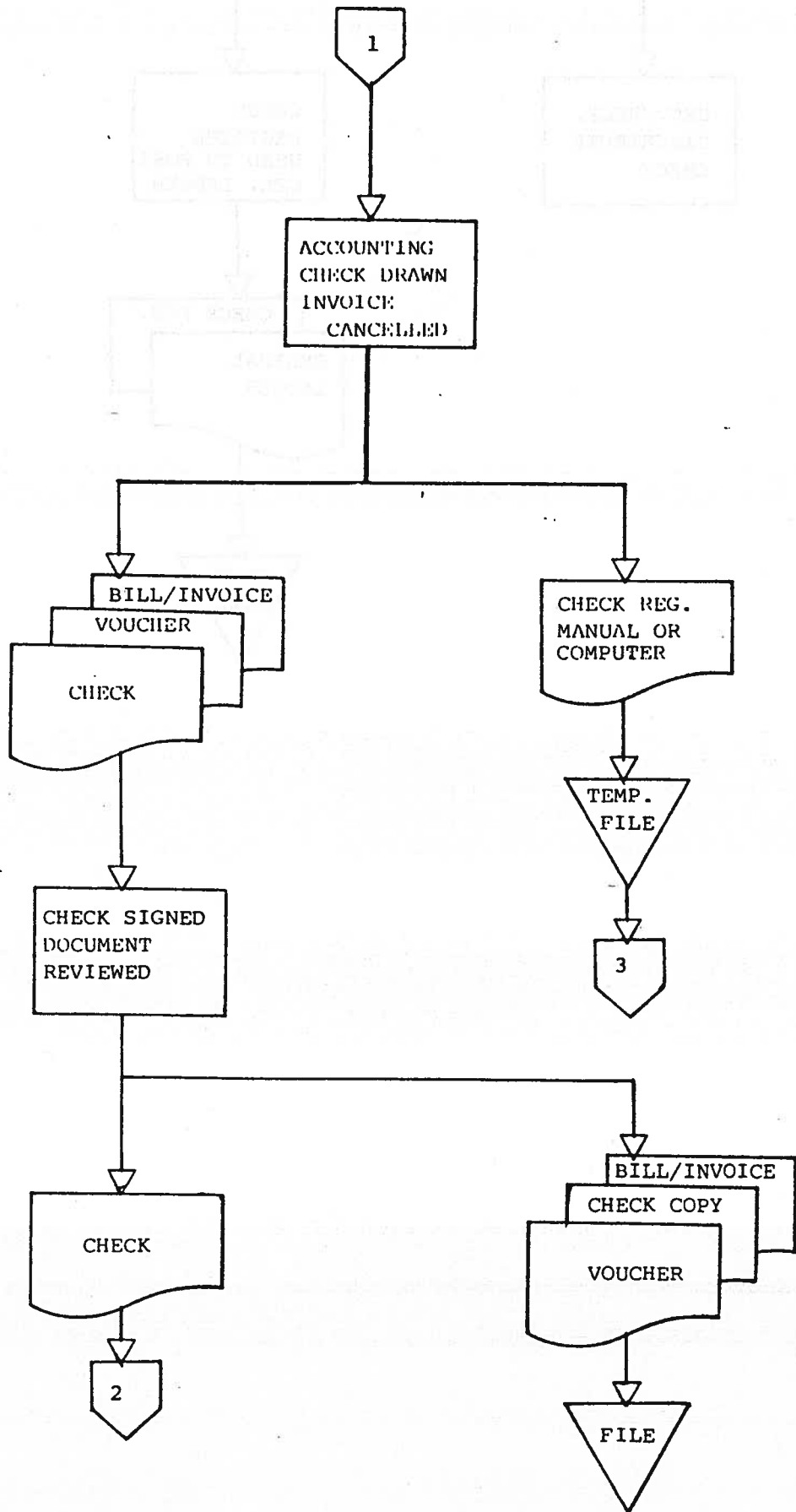
- a. Replenishment of the petty cash fund is by check only, is made payable to the petty cash custodian, and is approved by a person other than the custodian of the fund.
- b. A maximum spending amount is established.
- c. Justification is provided for all payments made from petty cash.
- d. Petty cash vouchers are required for each fund disbursement.
- e. All petty cash vouchers are written in ink to prevent alteration.
- f. All petty cash vouchers are cancelled upon reimbursement of the fund to prevent their reuse.
- g. The petty cash fund is kept on an imprest basis.
- h. Reconciliation of petty cash funds is periodically made by a person not responsible for the petty cash.

14. The system of control is under continuing supervision by management to determine that it is functioning as prescribed and is modified for changes in conditions.

CASH DISBURSEMENTS

0930





Petty Cash

0940

Petty cash funds are authorized by the organization and issued to the named petty cash custodian for small day-to-day operating expenses which are deemed necessary to improve operations. Petty cash funds are established to provide a readily available source of funds for the payment of small, incidental, miscellaneous expenses such as supplies, postage, newspapers, etc. The purpose of such funds is to avoid the need for writing checks for small items and to facilitate quick, minor disbursements.

Restrictions and Controls

0950

The organization should designate a staff person to conduct periodic and unannounced audits of petty cash funds. Such audits include a counting of cash, an explanation of unredeemed cash vouchers, and a reconciliation of the petty cash fund with the general ledger balance.

The following restrictions are observed regarding petty cash funds:

1. The amount to be disbursed shall not exceed \$X.XX per transaction (amount to be established by the board of directors).
2. Only the person to whom the fund has been assigned may have access to the cash.

3. No other monies shall be mixed with the petty cash fund.
4. No personal checks shall be cashed from the petty cash fund.
5. No loans or advances are to be made from the petty cash fund.
6. The amount of a petty cash fund is limited to \$XX.XX (amount to be established by the board of directors).
7. Under no circumstances shall the petty cash fund be used to circumvent the established cash disbursement process.

Description

0960

The following sequence of activities takes place in the administration and control of the petty cash fund.

The petty cash custodian should:

1. Disburse cash from fund for authorized purposes.
2. Prepare a petty cash voucher for each disbursement of funds.

The following information should be recorded on this form (see Section 0970 for an example).

- a. Date - Current date.
- b. Amount - The actual amount of cash disbursed from the fund.
- c. Payee - The name of the individual or firm who is to receive the money.

- d. Purpose of Disbursement - An explanation of the expenditure.
 - e. Account to be Charged - The appropriate account per the Chart of Accounts.
 - f. Signature of Person Receiving Cash - Have the individual receiving the cash sign the voucher.
 - g. Approval - Immediate supervisor signs the voucher.
3. Attach supporting documents for the purchases (e.g., receipts, cash register tapes, etc.) to the petty cash voucher.
 4. File petty cash voucher and supporting documents until the petty cash account is less than \$XX.XX (amount to be established by the board of directors).
 5. Request replenishment of the petty cash fund when the petty cash account is less than \$XX.XX by preparing a Petty Cash Reimbursement Report.

The following information is recorded on the Petty Cash Reimbursement Report or Voucher (see Section 0980 for an example).

- a. Petty Cash Custodian - Name.
- b. Date - Current date.
- c. Location - Work location of custodian.

- d. Summary of Expenditures - List the cash vouchers that have been prepared since the last reimbursement; and total this list.
 - e. Reconciliation - Reconcile the fund with the amount to be reimbursed as shown on the form.
 - f. Distribution - Summarize the accounting data as indicated on each cash voucher and record this summary in the distribution block.
 - g. Prepared By - Sign the report when complete.
 - h. Approved By - Get signature of immediate supervisor.
6. Attach all petty cash slips (vouchers) and supporting data to the petty cash reimbursement report.
 7. Process check. The voucher serves as a check request for processing purposes.

EXAMPLE OF A PETTY CASH FUND

0980

REIMBURSEMENT FORM OR VOUCHER

Voucher No.: _____ Amounts: _____ Accounts: _____

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Total Receipts: \$ _____

Plus

Balance of Cash In Fund: \$ _____

(1) Total \$ _____

Amount Requested \$ _____

Prepared By _____ Date _____
Work Location _____

Approved By _____ Date _____

(1) Should Equal Total Authorized
For Fund

CASH RECEIPTS

1000

Management Objectives

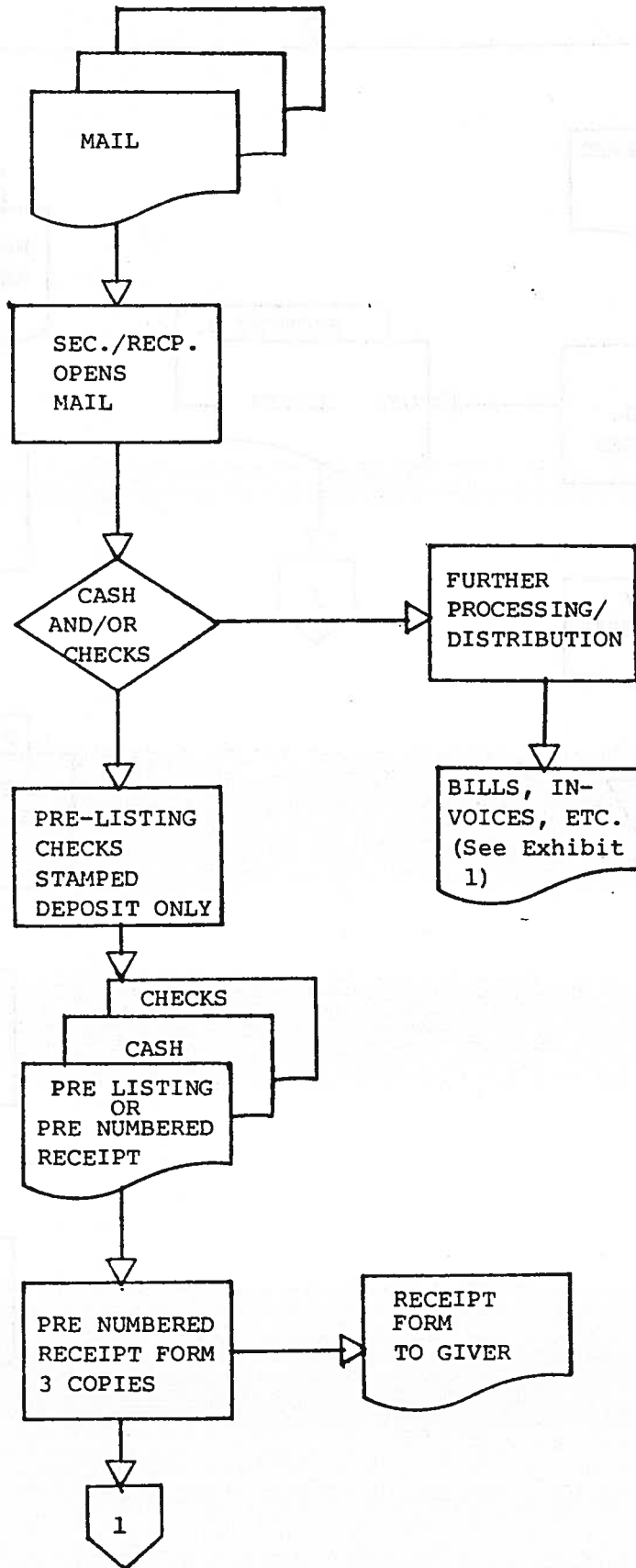
1010

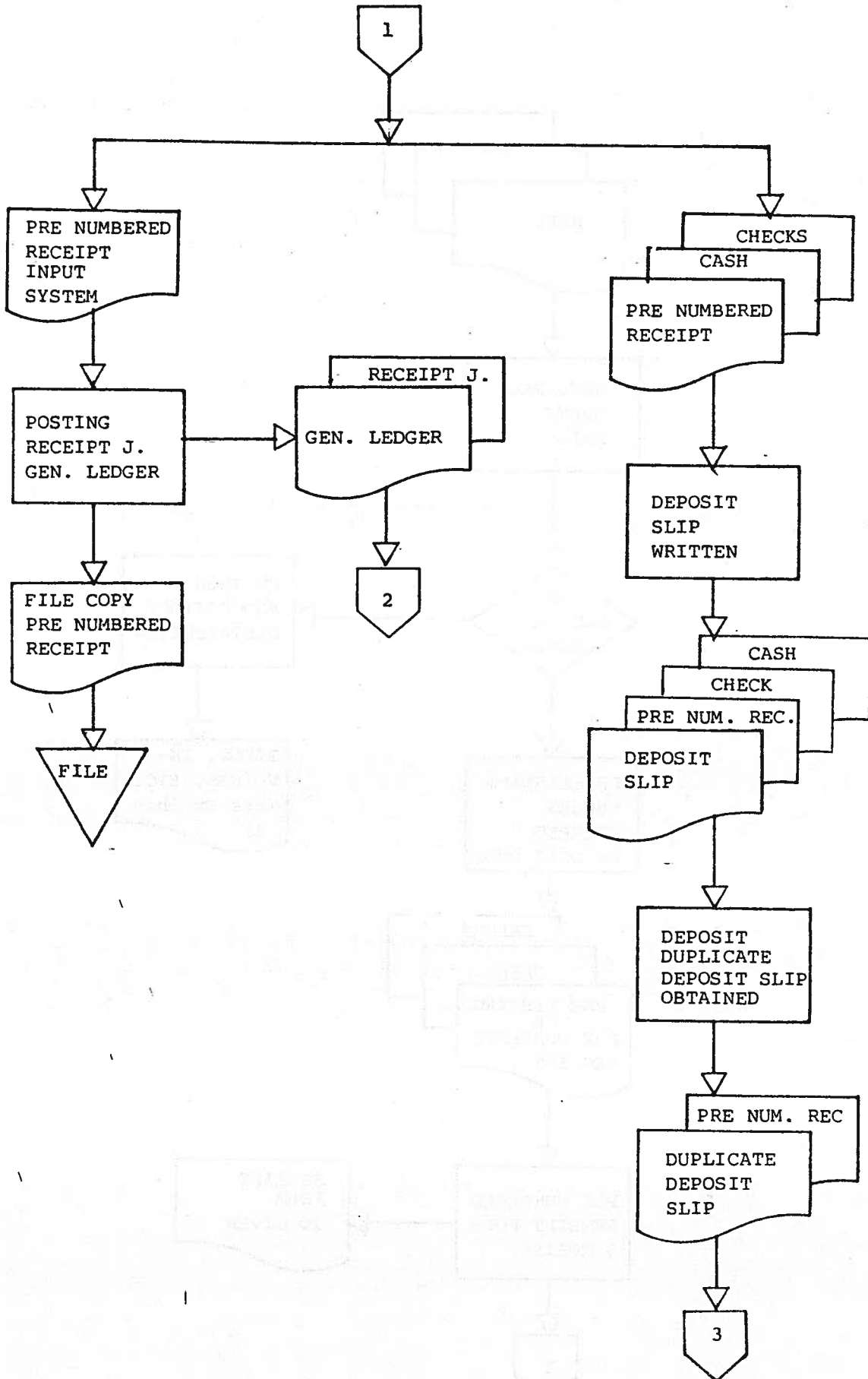
Cash controls are established to insure that no unauthorized transactions are entered into by officers or employees. In addition, cash controls provide the information necessary for the proper management of cash balances and cash transactions. Cash receipt control objectives include the following:

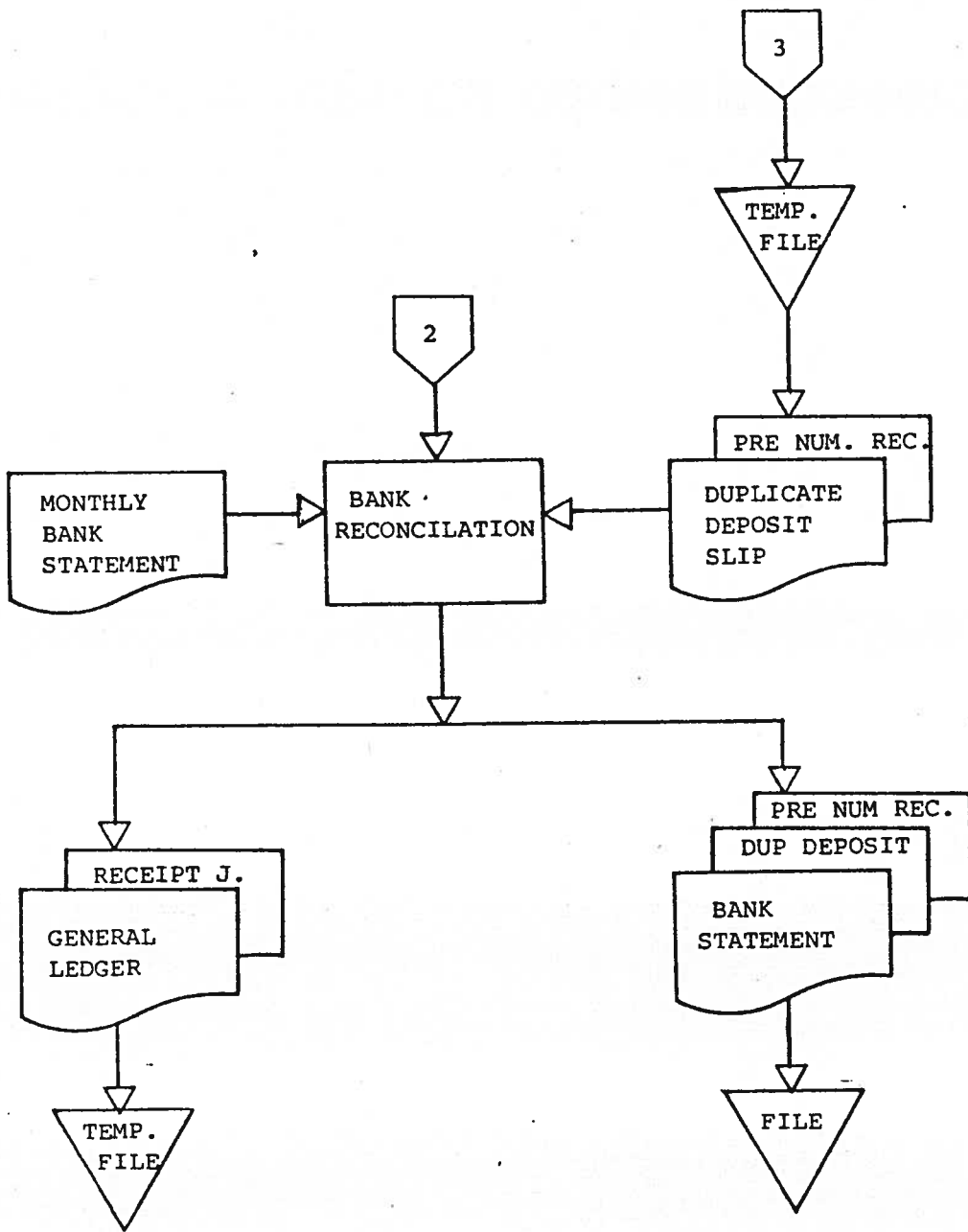
1. Cash which should have been received is actually received.
2. Cash is adequately safeguarded and deposited promptly and intact.
3. Cash receipt transactions are correctly recorded in the accounting records.
4. Time that elapses between the transfer of funds from the federal, state, and county governments, and their disbursements is minimized.
5. Cash balances are maintained at a level that is not in excess of immediate requirements.

1. Cash-receiving activities are centralized in as few hands as possible and persons receiving cash have no access to accounting records.
2. Persons first receiving checks or cash should prepare documents for accounting control, restrictively endorse all checks as soon as possible after receipt, and request that all checks be made or endorsed payable to the organization.
3. Cash controls include the use of pre-numbered cash receipt forms and a Cash Receipts Journal (Register).
4. Bank accounts are reconciled monthly.
5. The system of control is under continuing supervision by management to determine that it is functioning as prescribed and is modified for changes in conditions.

CASH RECEIPTS







PAYROLL SYSTEM

1100

Management Objectives

1110

Payroll controls are established in order to manage the personnel function in the most efficient and effective manner that does not conflict with the achievement of program objectives. Payroll control objectives include the following:

1. Full utilization of personnel resources is achieved.
2. Employees' salaries and benefits are accurately computed.
3. Payroll transactions are accurately recorded in the accounting records.

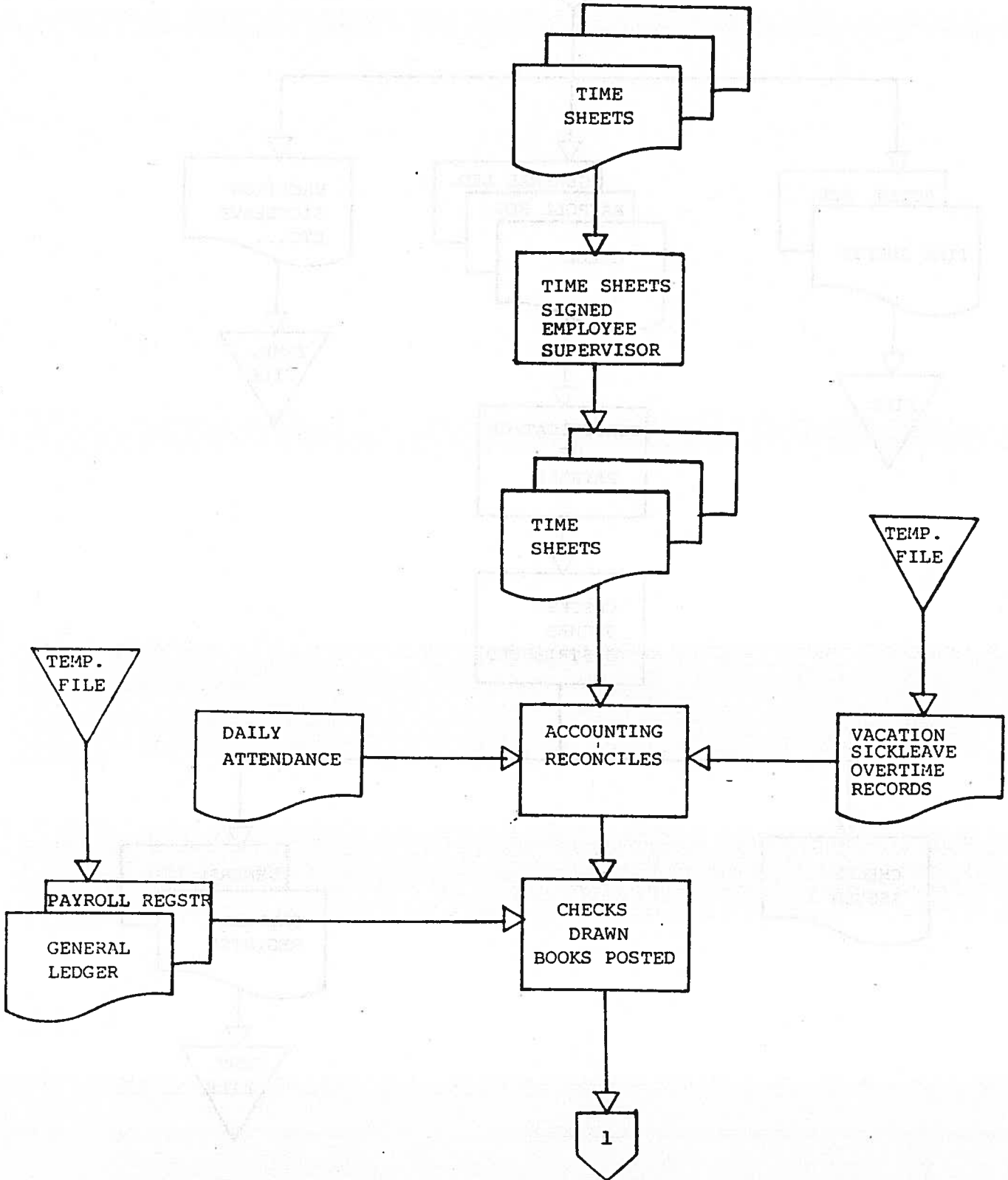
Preferred Practices

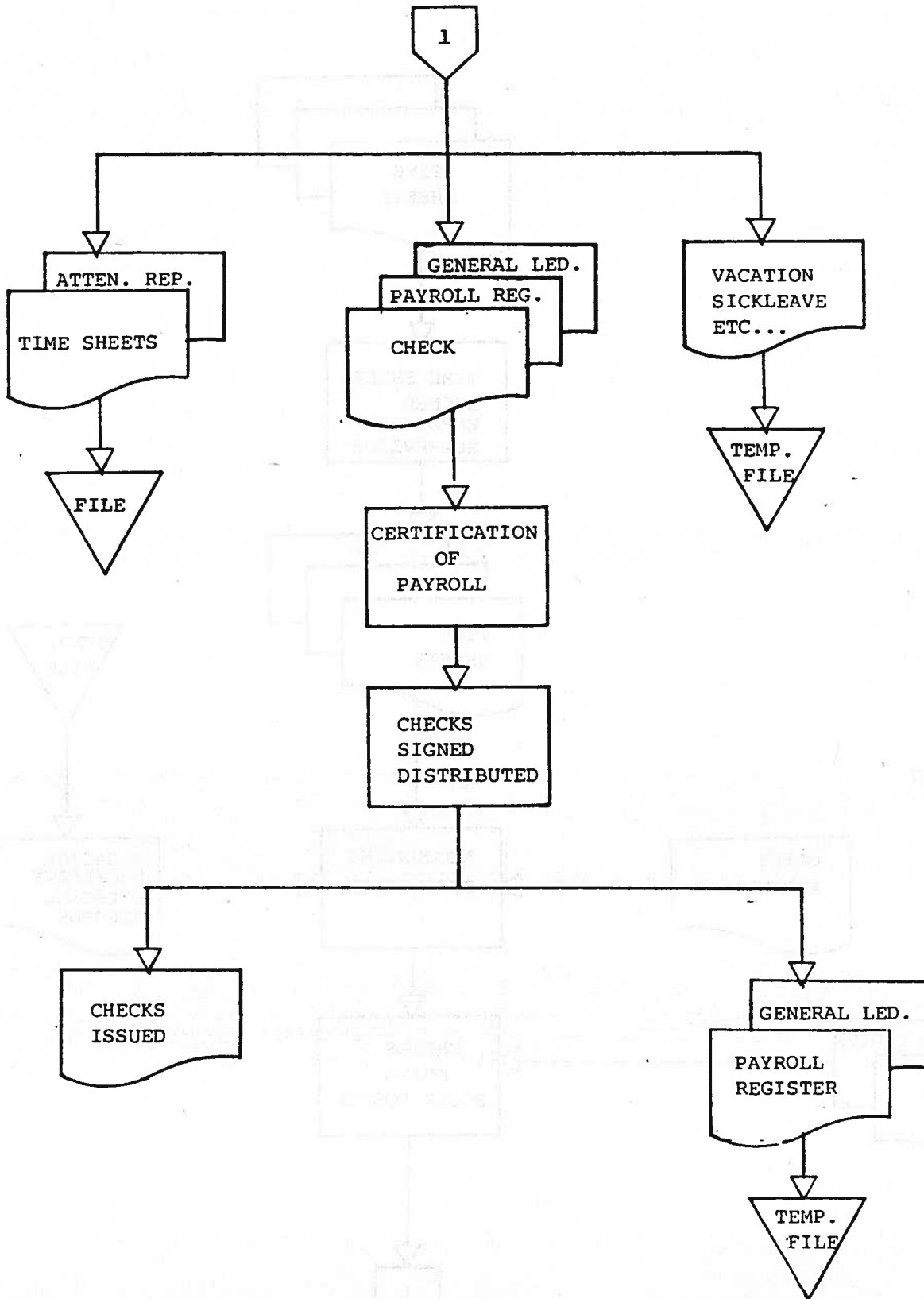
1120

1. Written authorizations are on file for all employees, covering rates of pay, withholdings, and deductions.
2. Written personnel policies cover compensation, salary advance limitations, job descriptions, hiring procedures, promotions, dismissals, and prohibitions against loans to officers and employees. Policies should be in accordance with board resolutions of the organization.

3. Allocation of payroll charges to cost centers is based on documentation prepared by employees other than those responsible for the payroll.
4. Timekeeping procedures include the use of time clocks, time sheets, or daily attendance sheets. Supervisory review and written approval are used to control paid time and to document the distribution of hours spent on the particular program(s).
5. Payroll checks are prepared and distributed by different persons.
6. Key payroll and personnel duties such as timekeeping, salary authorization; and vacation, sick leave, and overtime record-keeping are adequately separated among different persons.
7. Procedures insure that employees are paid in accordance with approved wage and salary rates.
8. The selection of employees is monitored to maintain a high level of competent employees.

PAYROLL SYSTEM





PROPERTY MANAGEMENT

1200

Management Objectives

1210

Property and equipment controls are established to assist management by having property and equipment available and in good operating order when needed in the process of achieving program objectives. Property control objectives include the following:

1. Establish and maintain effective accountability for all property for which the program is responsible.
2. Safeguard property against loss or improper use.
3. Correctly record property and equipment transactions in the accounting records.

Preferred Practices

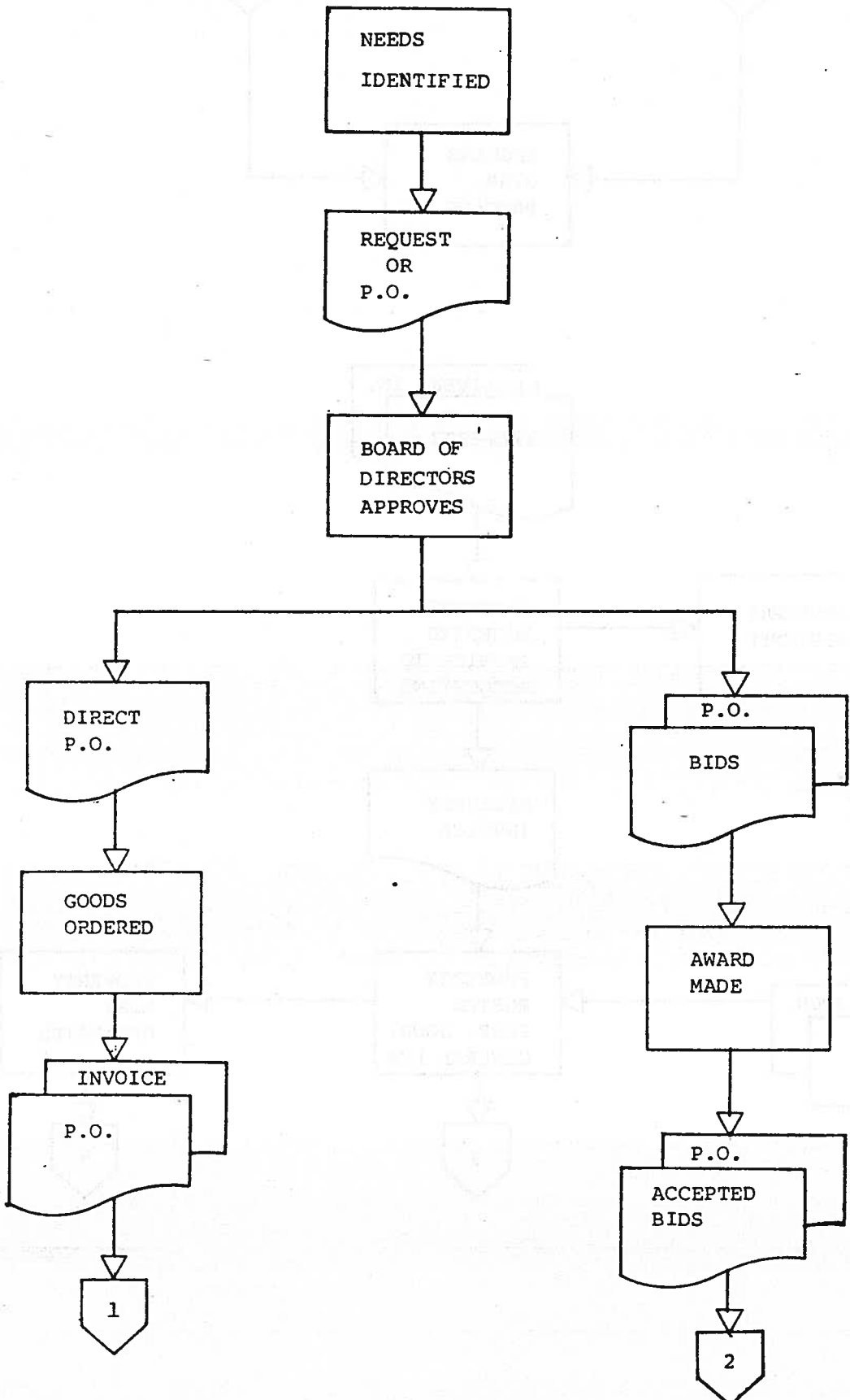
1220

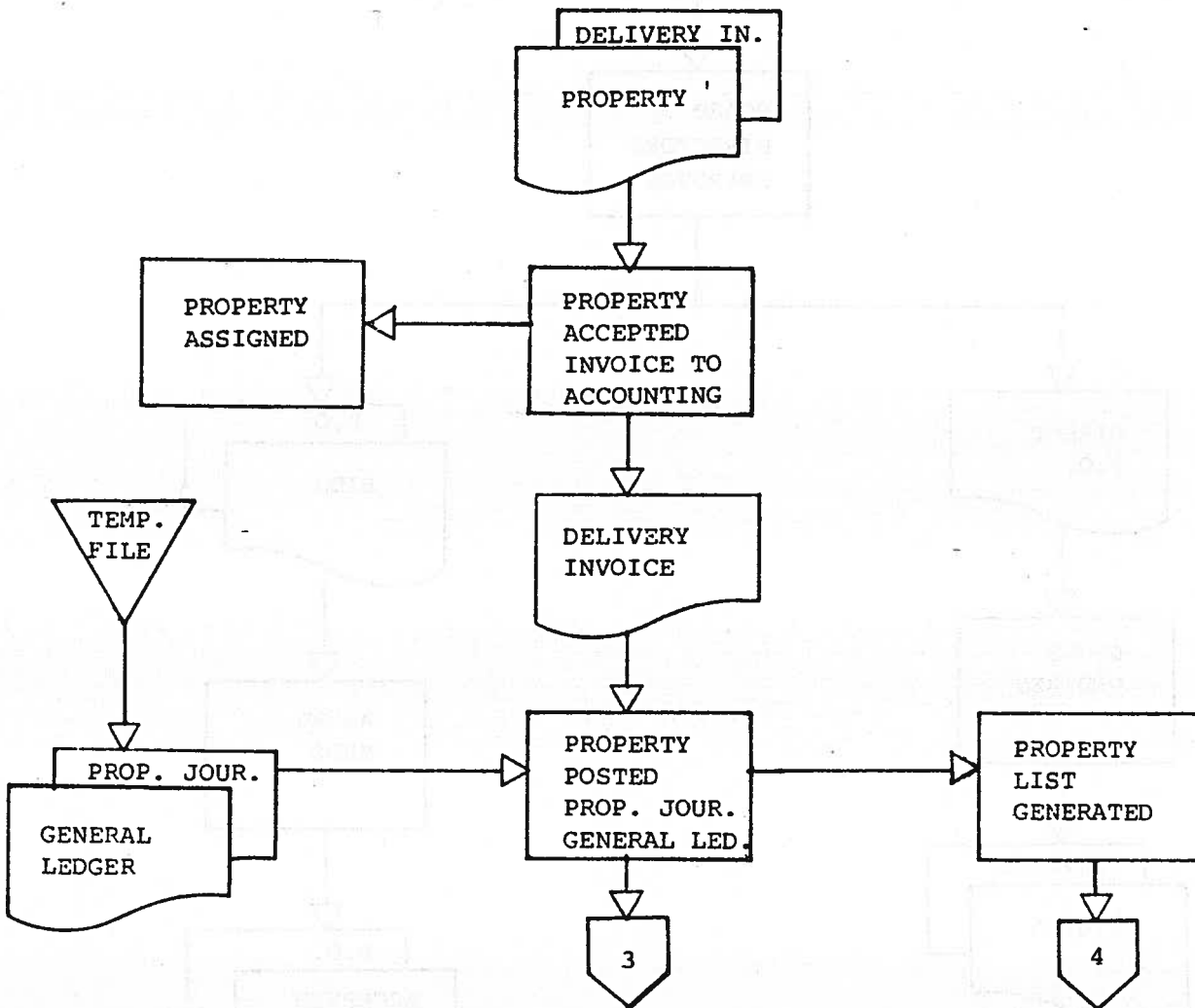
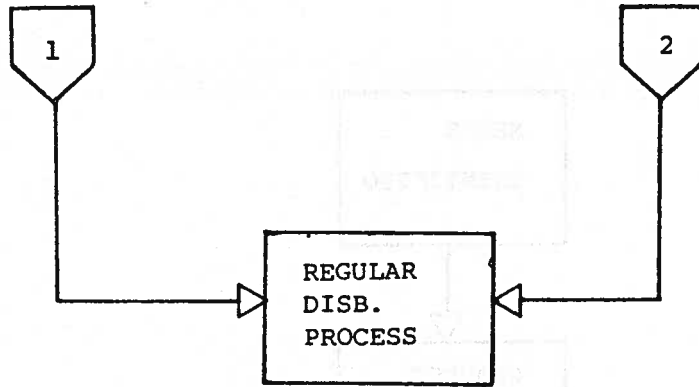
1. The control system includes the authorization and approval of equipment expenditures.
2. Written accounting procedures have been prepared and are followed for recording assets and depreciation schedules.
3. Detailed records of individual assets are kept and

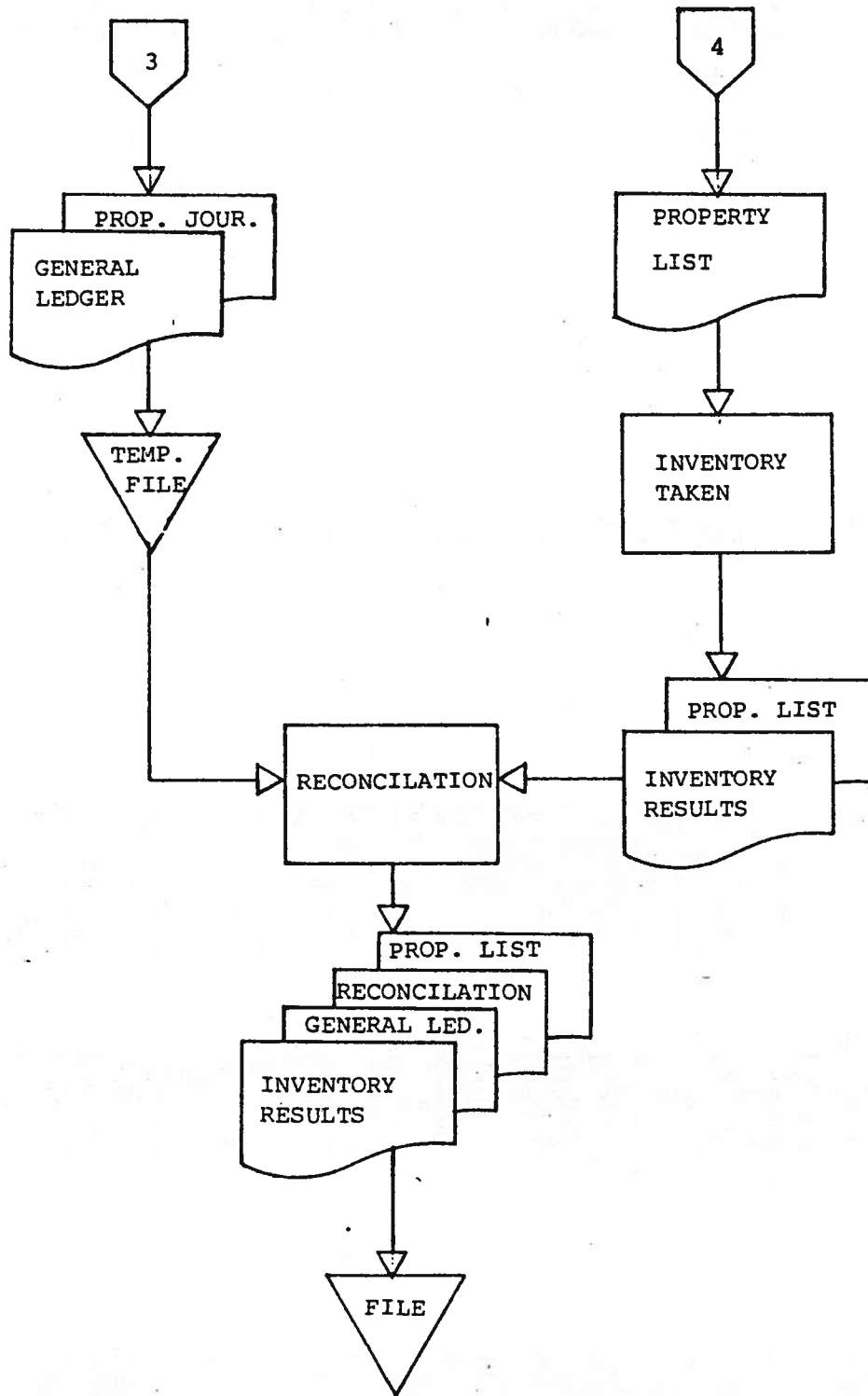
periodically balanced with the general ledger accounts through an annual physical inventory.

4. An effective procedure has been established for authorizing and accounting for equipment disposal.
5. Property and equipment are stored in a secure place.
6. All depreciable assets are identified with a property tag.

PROPERTY MANAGEMENT SYSTEM







Definition

A cost is allocable or assignable to a particular cost objective in accordance with the relative benefits received or other equitable relationship.

A cost is allocable if it:

1. is incurred specifically for a project;
2. benefits the grant/contract and other cost objectives and can be distributed in reasonable proportions to the benefits received; and
3. is necessary to the overall operation of the institution, although a direct relationship to any particular cost objective cannot be shown.

Cost Objective

A cost objective is a pool, center, or account established for the purposes of accumulating costs. Cost objectives may include but are not limited to:

1. Organizational units, functions, objectives or items of expense.

2. Intermediate cost objective:

- a. General and administrative expenses
- b. Operation and maintenance expenses

3. Ultimate cost objectives:

- a. Grants
- b. Contracts
- c. Projects
- d. Other activities/cost objects
 - (i) Independent Research and Development (IR&D)
 - (ii) Fund raising
 - (iii) Public relations

Consistency of Allocation

1320

When a cost allocation methodology is adopted by an organization it must be consistent; that is, the methodology must assure that costs are charged in a uniform manner to all other work of the organization. The cost allocation methodology must also be documented.

Examples of consistent and inconsistent methodologies are shown in Exhibits 7 through 12.

Direct Cost

1330

Direct costs are those that can be identified specifically with a particular cost objective. These costs include:

1. Salaries, including associated fringe benefits, of those personnel whose effort can be directly identified to a particular program or cost objective.
2. Cost of materials and other supplies acquired, consumed, or expended specifically for the purpose of the program or cost objective.
3. Travel costs, equipment costs, contractual costs, and any other cost which can be directly identified to a cost objective.

The decision to treat a certain cost as an indirect cost or a direct cost will depend upon the treatment of that cost within the organization's accounting system. What may be treated as a direct cost at one organization, may be treated as an indirect cost at another organization and vice versa.

Indirect Cost

1340

It is the State's policy to bear its fair share of indirect costs except where prohibited by law. An indirect cost is a cost

incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to cost objectives specifically benefited. These costs involve:

1. Salaries, wages and fringe benefits of administrative personnel whose effort benefits more than one cost objective.
2. Operational costs and maintenance costs which benefit more than one cost objective.

Standard Bases of Allocation

1350

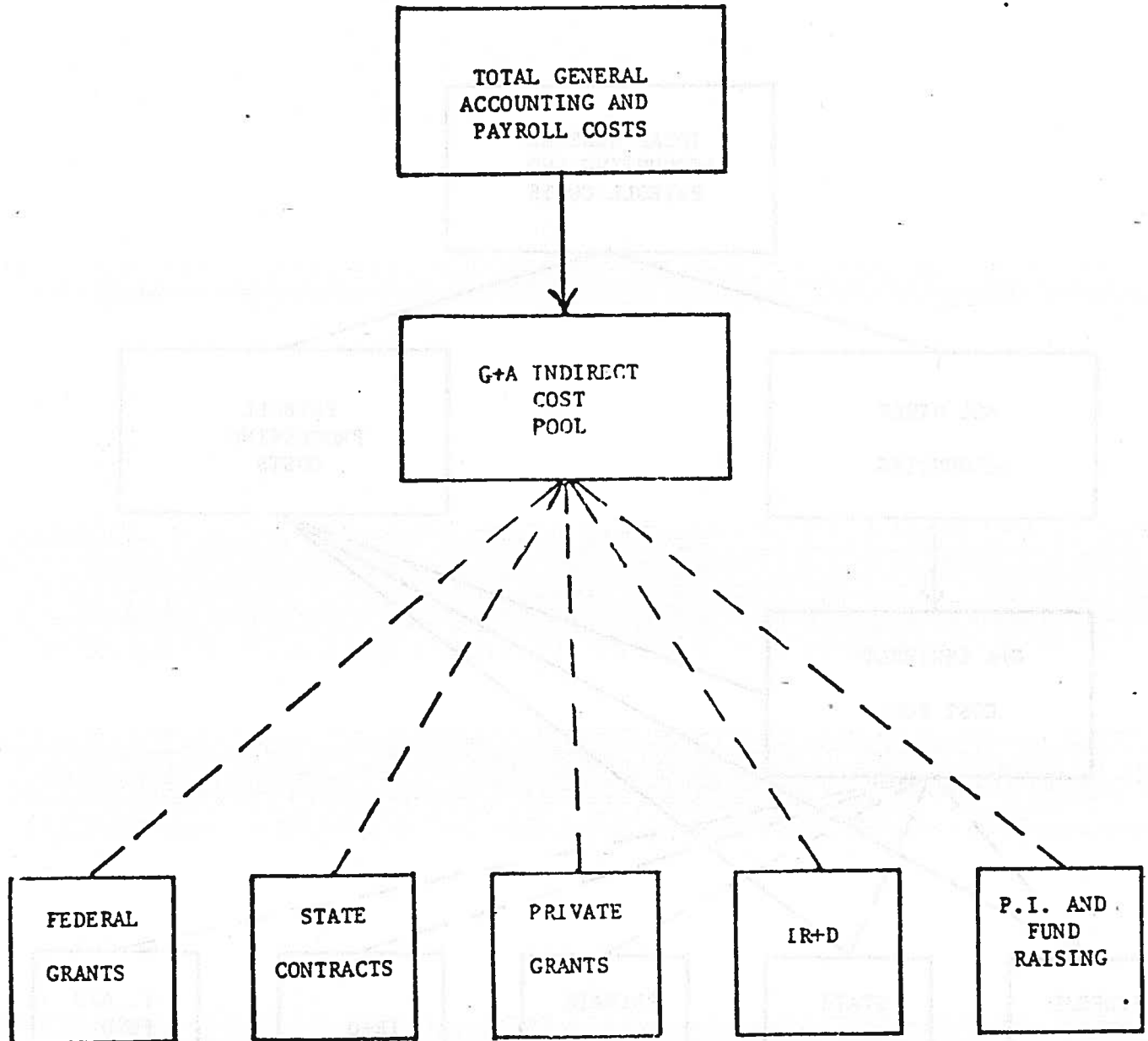
The following are suggested bases which may be used in lieu of a cost rate for distributing joint costs. The suggested bases are not mandatory for use if they are not suitable for the particular services involved. Any method of distribution can be used which will produce an equitable distribution of cost. In selecting one method over another, consideration should be given to the additional effort required to achieve a greater degree of accuracy.

Type of Service

Suggested Bases for Allocation

Accounting	- Numbers of transactions processed.
Auditing	- Direct audit hours.
Budgeting	- Direct hours of identifiable services of employees of central budget.

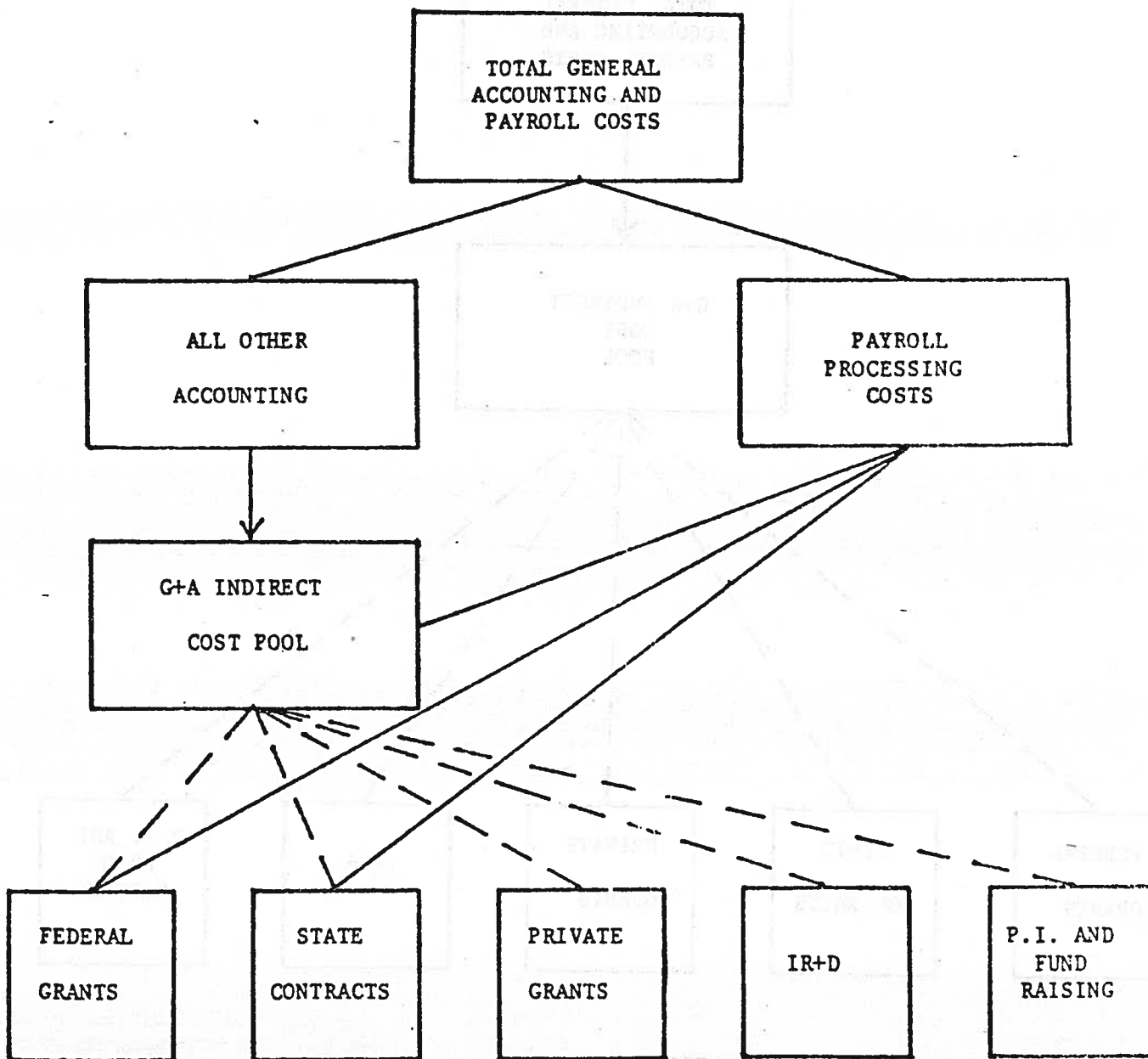
CONSISTENT



———— DIRECT IDENTIFICATION

- - - - - INDIRECT ALLOCATION

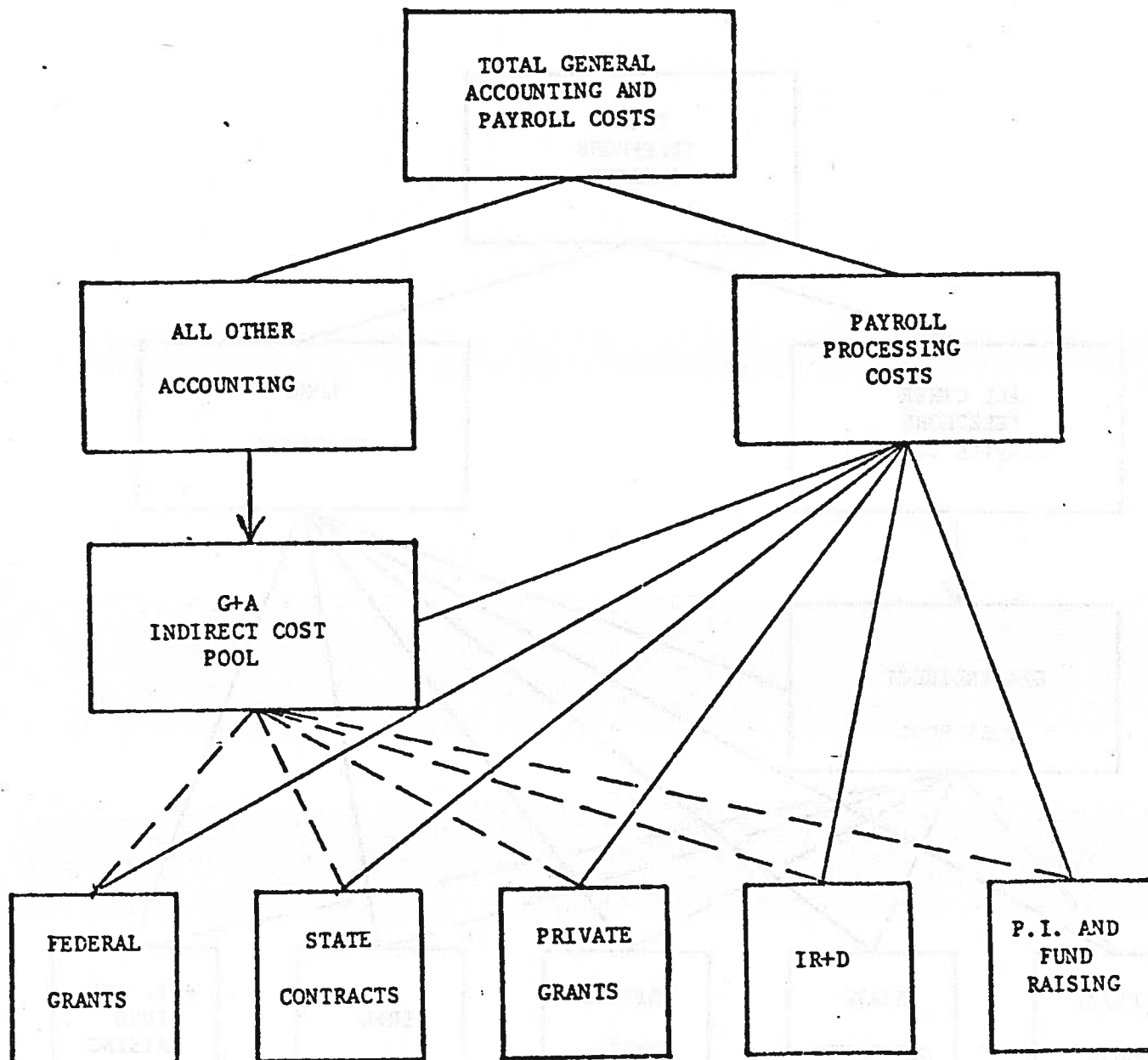
INCONSISTENT



———— DIRECT IDENTIFICATION

- - - - - INDIRECT ALLOCATION

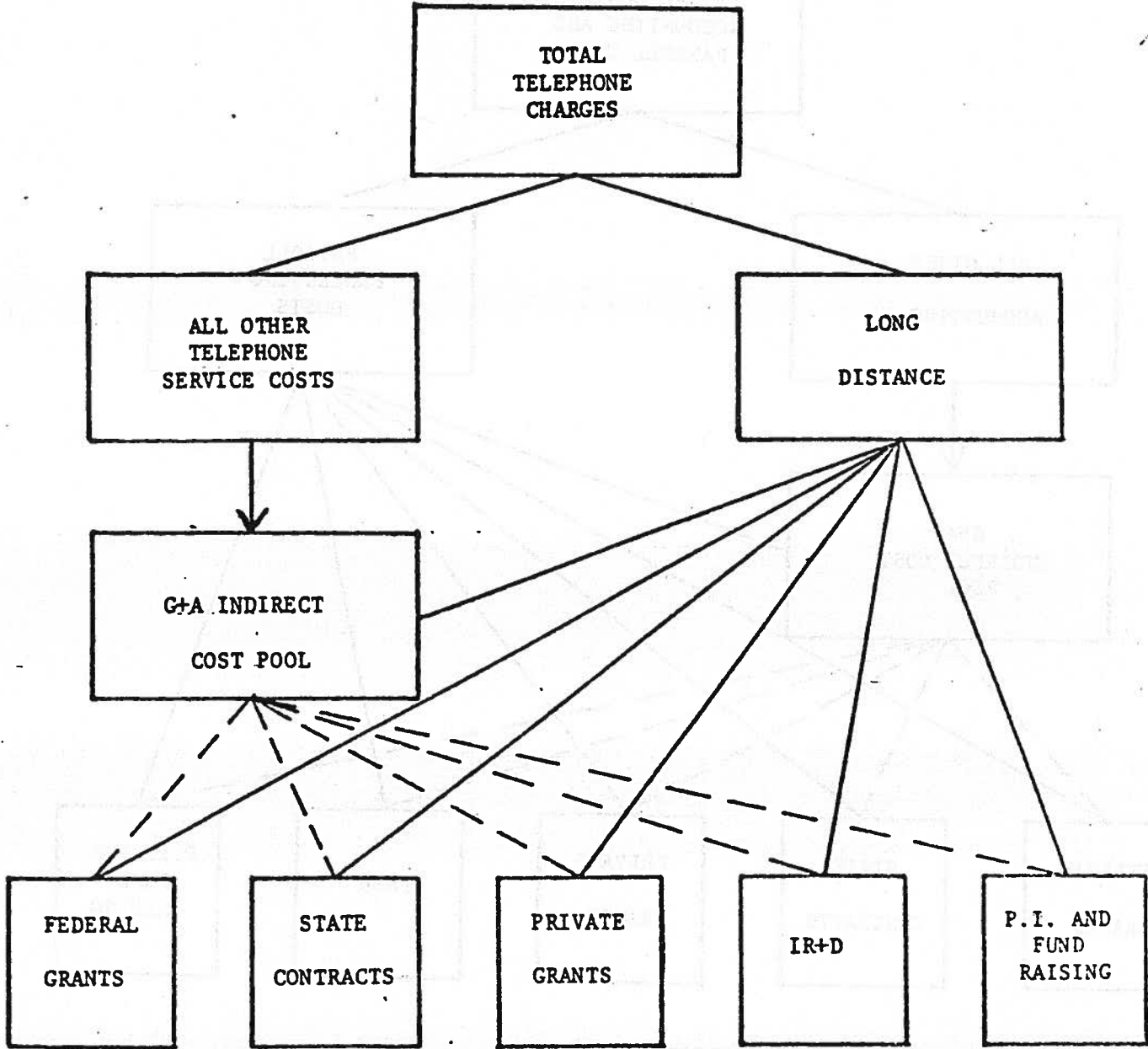
CONSISTENT



———— DIRECT IDENTIFICATION

- - - - - INDIRECT ALLOCATION

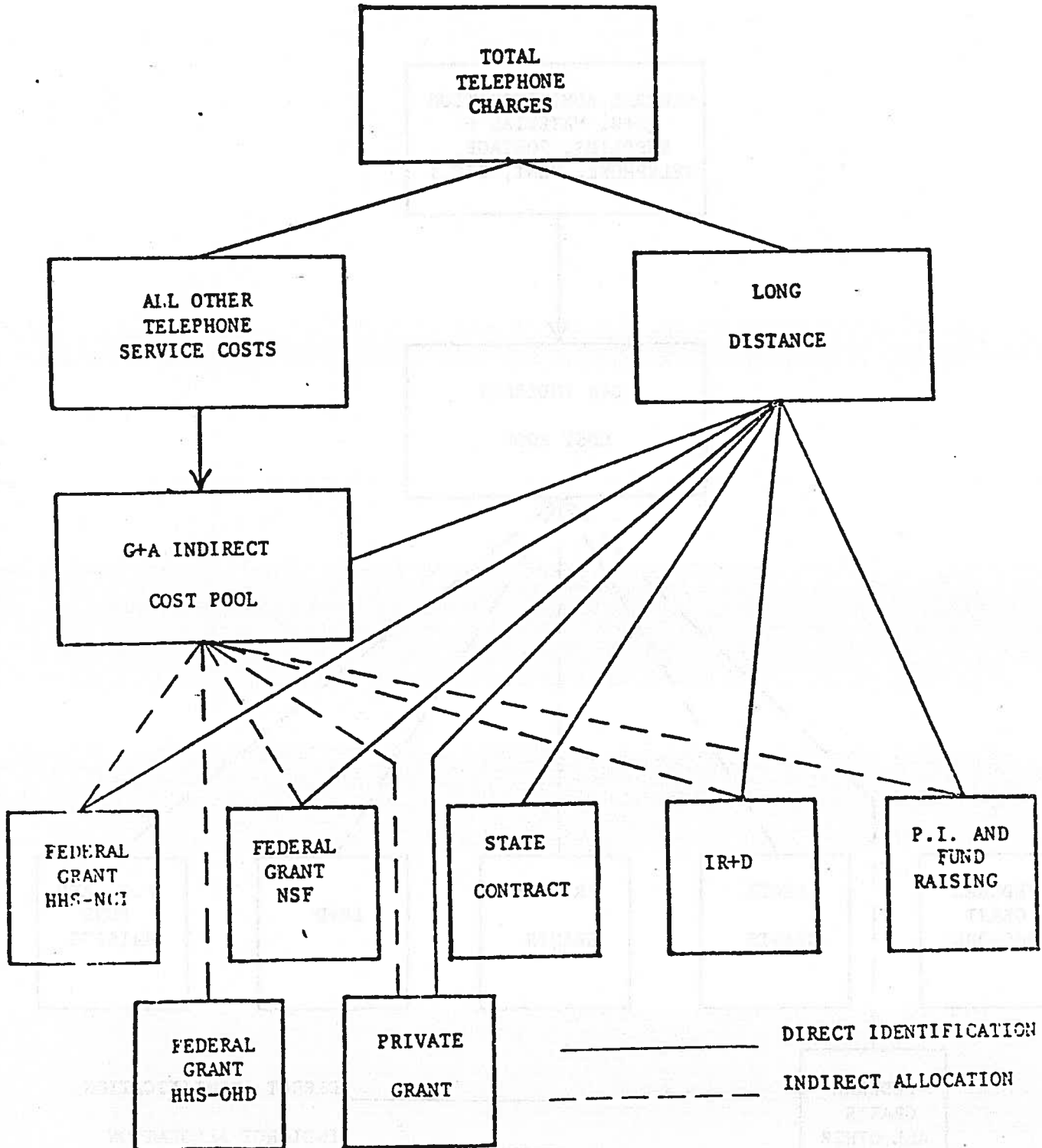
CONSISTENT



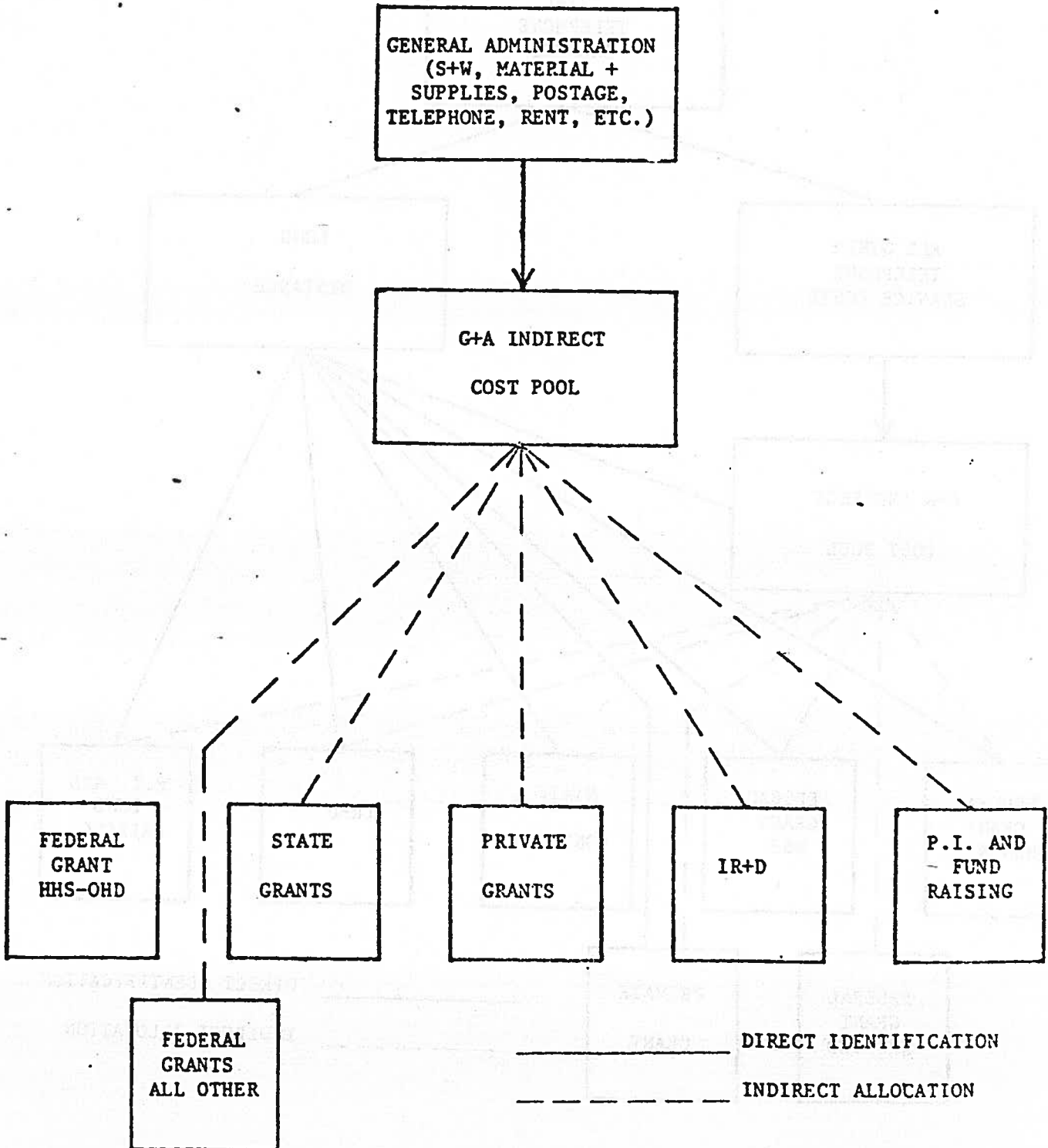
———— DIRECT IDENTIFICATION

- - - - - INDIRECT ALLOCATION

INCONSISTENT



INCONSISTENT



Building lease	- Sq. ft. of space occupied.
Building lease management	- Number of leases.
Data processing	- System usage.
Disbursing service	- Number of checks or warrants issued.
Employee retirement system administration	- Number of employees contributing.
Insurance management service premiums	- Dollar value of insurance.
Legal services	- Direct hours.
Mail and messenger service	- Number of documents handled or employees served.
Motor pool costs, including automotive management	- Miles driven and/or days used.
Office machines and equipment maintenance repairs	- Direct hours.
Office space use and related costs (heat, light, janitor services, etc.)	- Sq. ft. of space occupied.
Organization and management services	- Direct hours.
Payroll services	- Number of employees.
Personnel administration	- Number of employees.
Printing and reproduction	- Direct hours, job basis, pages printed, etc.
Procurement service	- Number of transactions processed.
Local telephone	- Number of telephone instruments.
Health services	- Number of employees.
Fidelity bonding program	- Employees subject to bond or penalty amounts.

Indirect Cost Rate

1360

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 which 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.

$$\frac{\text{Indirect Cost Pool}}{\text{Direct Cost Base}} = \text{Indirect Rate \%}$$

Simplified Method Using an Indirect Cost Rate

1370

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.

Step 1. Develop the Rate

Total Direct Salary and Wages

\$2,000,000

Total Indirect Cost
Pool

\$400,000

Indirect Cost Pool

\$400,000

Direct S & W Base = 2,000,000 = 20% Indirect Rate

Step 2. Identify Participating Base Components

The organization has 6 direct cost objectives which are listed below, along with the direct S & W associated with each direct cost objective.

<u>Cost Objective</u>	<u>Direct S & W</u>
1. State Grant	\$ 300,000
2. County Grant	350,000
3. NIAAA Grant	500,000
4. Ford Foundation Grant	400,000
5. University Subcontract	200,000
6. Independent R & D	<u>250,000</u>
Total	<u><u>\$2,000,000</u></u>

Sections 1500 through 2200 contain additional cost principles which, if followed, will lessen the likelihood of having costs disallowed as a result of audit.

- o Allowability of Costs Section 1500
- o Compensation for Personal Services Section 1600
- o Equipment and other Capital Expenditures Section 1700
- o Depreciation and Use Allowance Section 1800
- o Profits and Losses on Disposition of Depreciable Property or Other Capital Assets Section 1900
- o Rental Costs Section 2000
- o Donated Services Received Section 2100
- o Fund Raising and Investment Management Section 2200

ALLOWABILITY OF COSTS

1500

Basic Considerations

1510

Several factors need to be considered in determining the allowability of individual cost items not specifically covered by contract, regulation or statutory law. These factors include:

- o Reasonableness
- o Allocability
- o Application of Generally Accepted Accounting Principles and practices appropriate to the particular circumstances.

Reasonableness

1520

A cost can be considered reasonable in nature and amount if it does not exceed the cost which would be incurred by an ordinarily prudent person in the conduct of a competitive business. What is reasonable depends on:

1. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or performance of the contract.
2. The restraints or requirements imposed by such factors as generally accepted sound business practices, arms-length bargaining, federal and state laws and regulations, and grant/contract terms or specifications.

3. The action that a prudent business person would take in the circumstances, considering his/her responsibilities to the public at large, the government, his/her employees, his/her clients, shareholders or members, and the fulfillment of the purposes for which the organization was organized.

Source Documentation

1530

The source documentation provides input to all entries in the various records and books of original entry maintained by the organization. It should be safeguarded to assure availability and accountability for legally mandated time periods.

Reported expenditures and revenues must be supported in accounting records by funding source. Supporting documentation includes but is not limited to:

1. Paid invoices
2. Canceled checks
3. Bank statements
4. Time sheets
5. Payroll registers
6. Lease agreements
7. Contracts
8. Purchase orders

9. Deposit slips

10. Bylaws

11. Board minutes

Allocability

1540

A cost can be considered allocable if it is assignable or chargeable to a particular cost objective (such as a grant/contract, project, product, process, or major activity) in accordance with the relative benefits received or another equitable relationship. A cost can be considered allocable to a grant/contract if:

1. It is incurred specifically for the grant/contract.
2. It benefits both the grant/contract and other work and can be distributed to them in reasonable proportion to the benefits received.
3. It is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.

Direct/Indirect Costs

1550

Direct and indirect costs are not clearly identified in guidelines. Each organization within its accounting system will

specify how it will treat and exhibit such costs. Having made such a determination, it must apply its categories consistently.

As a guide, a direct cost is one which can be specifically tied to a single cost objective. An indirect cost is one which cannot be so identified but is of common benefit to several cost objectives. Indirect costs should be allocated fairly within the organization's grant/contract program.

COMPENSATION FOR PERSONAL SERVICES

1600

Definition

1610

Compensation for personal services includes all compensation paid currently or accrued by the organization for services of employees rendered during the period of the grant/contract. It includes, but is not limited to, salaries, wages, director's and executive committee members' fees, incentive awards, fringe benefits, pension plan costs, allowances for off-site pay, incentive pay, location allowances, hardship pay, and cost-of-living differentials.

Allowability

1620

Except as otherwise specifically provided by grant or contract, the costs of such compensation are allowable to the extent that:

1. Total compensation to individual employees is reasonable for the services rendered and conforms to the established policy of the organization, consistently applied to both government and non-government activities; and
2. Charges to grants/contracts, whether treated as direct or indirect costs, are determined and adequately documented.

3. Charges to grants/contracts for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to activities must be supported by personnel activity reports such as those listed below.

4. Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to grants/contracts. In addition, in order to support the allocation of indirect costs, such reports must be maintained for other employees whose work involves two or more functions or activities and is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function). Records maintained by nonprofit organizations to satisfy these requirements must meet the following standards:

a. The records must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to grants/contracts.

- b. The records must account for the total activity which is required in fulfillment of their obligations to the organization.
 - c. The records must be signed by the individual employee, or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee, attesting that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.
 - d. The records must be prepared at least monthly and must coincide with one or more pay periods.
5. Charges for the salaries and wages of nonprofessional employees, in addition to the supporting documentation described in subparagraphs (1) and (2) above, must also be supported by records indicating the total number of hours worked each day, maintained in conformity with the Department of Labor regulations implementing the Fair Labor Standards Act (29 CFR, Part 516). For this purpose, the term "nonprofessional employee" shall have the same meaning as "nonexempt employee" under the Fair Labor Standards Act.
6. Salaries and wages of employees used in meeting cost sharing or matching requirements on grant/contracts must be

EQUIPMENT AND OTHER CAPITAL EXPENDITURES 1700

Definitions 1710

1. EQUIPMENT means an article of nonexpendable, tangible, personal property having a useful life of two or more years and an acquisition cost of \$500 or more per unit for drug programs and a useful life of three or more years and an acquisition cost of \$300 or more per unit for alcohol programs. An organization may use its own definition provided that it at least includes all nonexpendable tangible personal property as defined above.
2. ACQUISITION COST means the net invoice unit price of an item of equipment, including the cost of any modification, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges, such as taxes, duty, protective in-transit insurance, freight, and installation shall be included in or excluded from acquisition cost in accordance with the organization's regular written accounting practices.
3. SPECIAL PURPOSE EQUIPMENT means equipment which is usable only for research, medical, scientific, or technical activities. Examples of special purpose equipment include microscopes, x-ray machines, surgical

instruments, and spectrometers.

4. GENERAL PURPOSE EQUIPMENT means equipment which is usable for other than research, medical, scientific, or technical activities, whether or not special modifications are needed to make them suitable for a particular purpose. Examples of general purpose equipment include office equipment and furnishings, air conditioning equipment, reproduction and printing equipment, motor vehicles, and automatic data processing equipment.

Allowability

1720

1. Capital expenditures for general purpose equipment are unallowable as a direct cost except with the prior approval of the granting/contracting agency.
2. Capital expenditures for land or buildings are unallowable as a direct cost except with the prior approval of the granting/contracting agency.
3. Capital expenditures for improvements to land, buildings, or equipment which materially increase their value of useful life are unallowable as a direct cost except with the prior approval of the granting or contracting agency.

DEPRECIATION AND USE ALLOWANCES

1800

Depreciation

1810

1. Depreciation provides compensation for the use of buildings, capital improvement, and equipment.
2. Adequate depreciation records must be maintained--physical inventories should be taken at least once every two years.
3. Computation of depreciation is based on acquisition cost and excludes:
 - a. Costs borne by government (donated or otherwise)
 - b. Idle equipment or facilities
 - c. Obsolete equipment or facilities
 - d. Cost of land
 - e. Any portion of cost contributed by or for the organization in satisfaction of a statutory matching requirement.

Use Allowance

1820

1. Used in lieu of depreciation.
2. For buildings and improvements - not to exceed 2% per year on acquisition cost.

3. For equipment - not to exceed 6-2/3% per year on acquisition cost.

Depreciation or Use Allowance May be Taken
on Assets Donated by Third Parties

1830

Depreciation or use allowance is to be computed on the fair market value of the asset at the time of donation.

Building Shell vs. Building Components

1840

1. If use allowance is used, the entire building must be treated as a single asset.
2. If depreciation is used, the building may be segregated from each building component (plumbing system, heating and air conditioning, elevators, escalators, electrical system). Each building component may then be depreciated at its estimated useful life.
3. Generally, a combination of depreciation and use allowance may not be used on the same class of assets.
4. Depreciation or use allowance on donated assets is computed at the assets fair market value at the time of their donation.

PROFITS AND LOSSES ON DISPOSITION OF DEPRECIABLE PROPERTY
OR OTHER CAPITAL ASSETS

1900

1. Gains and losses on the sale, retirement, or other disposition of depreciable property must be included in the year in which they occur as credits or charges to the cost objective(s). The amount of the gain or loss to be included as a credit or charge to the appropriate cost objective(s) is the difference between the amount realized on the property and the undepreciated basis of the property.

2. Gains and losses on the disposition of depreciable property may not be recognized as a separate credit or charge under the following conditions:
 - a. The gain or loss is processed through a depreciation reserve account and is reflected in the allowable depreciation.

 - b. The property is given in exchange as part of the purchase price of a similar item and the gain or loss is taken into account in determining the depreciation cost basis of the new item.

 - c. A loss results from the failure to maintain permissible insurance.

d. Compensation for the use of the property was provided through use allowances in lieu of depreciation.

3. Gains and losses arising from mass or extraordinary sales, retirements, or other dispositions will be considered on a case-by-case basis.

4. Gains or losses of any nature arising from the sale or exchange of property other than the property covered in the above paragraph 1 will be excluded in computing award costs (i.e., land).

RENTAL COSTS

2000

Generally, rental costs are allowable to the extent they are reasonable.

Rental Costs Under Sale and Leaseback

2010

Such costs are allowable up to the amount that would be allowed had the organization continued to own the property (e.g., depreciation or use allowance, maintenance, taxes, insurance, etc.).

Rental Costs--Less-Than-Arms-Length Transaction

2020

1. Less-than-arms-length describes a transaction in which one party to the lease agreement is able to control or influence the actions of the other.
2. Less-than-arms-length transactions include but are not limited to leases between:
 - a. Divisions of an organization.
 - b. Organizations under common control through common directors, officers or members.
 - c. An organization and a director, trustee, officer, etc.
3. Rental costs for such transactions are allowable up to the

amount that would be allowed had title to the property been vested in the organization.

Rental Costs Under Leases Creating a Material Equity in
the Property

2030

1. Such costs are allowable up to the amount that would have been allowed had the organization purchased the property on the date the lease agreement was executed.
2. Material equity exists if the lease is noncancelable or is cancelable only upon the occurrence of some remote contingency and has one or more of the following characteristics:
 - a. Lease with a bargain purchase option.
 - b. Title to property passes to the organization during or subsequent to the lease period.
 - c. Term of the lease (initial term + bargain renewal options) is equal to 75% or more of the economic life of the leased property (i.e., the period the property is expected to be economically usable by one or more users).
3. Determination can be made by the grantee's CPA using Financial & Accounting Standard (FAS) #13.

1. Donated services must be recognized for indirect cost rate computation purposes when the following circumstances exist:

- a. The cost activity is not pursued primarily for the benefit of the grant/contract.
- b. The aggregate value of the services is material.
- c. The services are supported by a significant amount of the indirect costs incurred by the organization.

2. The value of donated services is not allowable as a reimbursable direct or indirect cost. However:



- a. The value of donated services performed in a direct program activity must be treated accordingly and allocated a proportionate share of indirect costs. Depreciation or use allowance computed on assets donated by third parties is allowable and should be computed on the fair market value at the time of donation.
- b. When donated services directly benefit a project supported by a grant/contract, the indirect costs allocated to the services will be considered as a part

of the total costs of the project. Such indirect cost may be reimbursed under the grant/contract or used to meet cost-sharing or matching requirements.

- c. Where donated services are treated as indirect costs, reimbursement will not be made.

1. Costs of fund raising drives incurred solely to raise capital or obtain contributions are unallowable.

2. Costs of investment counsel and staff and similar costs incurred solely to enhance income from investments are unallowable.

3. If the functions in A and B:

- a. include salaries of personnel,
- b. occupy space, and
- c. benefit from the indirect costs,

they must be treated as direct costs and accordingly be allocated a proportionate share of indirect costs.

CONTRACTING

2300

Contracting for services is a major need of counties and, to a lesser extent, of organizations which need short-term help to meet specific goals. In present ADP programs, there are two major types of contracts, Fee-For-Service and Cost Reimbursement.

Fee-For-Service Contracts

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Contractors who provide services on a fee-for-service basis are reimbursed in accordance with the rate that is negotiated between the state, county, and contractor at the beginning of each fiscal year. This rate is fixed for the entire contract period and will not vary regardless of the contractor's actual cost. The contractor's monthly billing invoices are made in arrears, reflecting the services that have been provided for the month. The annual cost report year serves as a basis for evaluating a contractor's prior year rates. Based on the cost report, adjustments in the rates may be made for the current year to more clearly reflect the actual cost incurred by the contractor.

Cost Reimbursement Contracts

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Contractors who provide services on a cost reimbursement basis are reimbursed for actual net costs incurred in performing contracted services. The contractor's monthly billings are made in arrears, based on a provisional rate negotiated between the

county and contractor. This negotiated rate should be an approximation of the contractor's annual costs. The annual cost report serves as a basis for computing the fiscal year-end settlement between the contractor and the county and the county and the State. The year-end settlement is determined by subtracting previous monthly claims, including any other reportable revenue such as client fees, from the actual cost as reported on the cost reports. The cost report package is a basic standardized record and is subject to audit.



Purpose of Contractual Services

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At the organizational level, the purpose of contractual services is to provide additional personnel needed to complete a specific task of a duly approved work program, budget, and contract.

Duties

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To be effective and binding, the contract must spell out the duties of each party to the contract and the amounts to be paid for services. The following lists ways to outline the contractor's required performance:

1. If there is an existing job description available which applies to the necessary work to be done, it should be attached to the contract. If this is done, note in a space on the contract that performance is according to the

attached job description.

2. If this is a new kind of job, or one not previously described, a list of duties or major tasks should be put in the contract.
3. When an organization is making an agreement for a contract, more details may be added by using attachments.
4. Always establish a supervisory relationship which is time orientated and specific. For example:
 - a. Contractor will report to the Director daily.
 - b. Contractor will report progress on a weekly basis.
 - c. Contractor will work under the daily supervision of the Director.
 - d. Contractor's progress will be monitored on a regular basis.
 - e. Final inspection of the completed project will be made by the Director.
5. A contractor is generally required to provide a performance proposal when he/she is a professional contractor, or where a written needs assessment is available for proposals (RFP), or when the organization is looking for the accomplishment of certain results but has not determined the method to be used to get the job done.

Consideration for Services

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Organizational services provided to contractor and amounts to be paid for the services to be rendered should be listed in the contract. The method of payment should be made in accordance with the regular organizational disbursement requirements.

Payment should be made upon processing of the submitted authorized documents. Finally, payment should only be made upon satisfactory completion of the contracted agreement.

Contract Amendments

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Amendments should be initiated and processed through the same steps as the original contract using an amendment form and attaching the form to the contract.

EMPLOYEE VS. INDEPENDENT CONTRACTOR

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Before you can know how to treat payments your organization makes for personal services rendered to the organization, the business relationship between the organization and the person performing services must be established. This relationship may be that of:

- o An independent contractor
- o A common law employee
- o A statutory employee

Independent Contractor

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People such as lawyers, contractors, subcontractors, public stenographers, etc., who follow an independent trade, business, or profession in which they offer their services to the general public are generally not employees. However, whether such people are employees or independent contractors depends on the facts in each case. The general rule is that an individual is an independent contractor if the employer has the right to control or direct only the results of the work and not the means and methods of accomplishing the result.

Common Law Employee

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Under common law rules, every individual who performs services that are subject to the will and control of an employer, as to

both what shall be done and how it shall be done, is an employee. It does not matter that the employer allows the employee considerable discretion and freedom of action, so long as the employer has the legal right to control both the method and the result of the services.

Two of the usual characteristics of an employer-employee relationship are that the employer has the right to discharge the employee and the employer supplies the employee with tools and a place to work.

If you have an employer-employee relationship it makes no difference how it is described. Thus, it does not matter if the employee is called an employee or a partner, co-adventurer, agent, or independent contractor. It does not matter how the payments are measured, how they are made, or what they are called. Nor does it matter whether the individual is employed full or part-time.

No distinction is made between classes of employees. Superintendents, managers, and other supervisory personnel are all employees. Generally, an officer of a corporation is an employee, but a director is not. However, an officer who performs no services or only minor services and neither receives nor is entitled to receive any pay is not considered to be an employee.

In doubtful cases, the facts will determine whether or not there is an actual employer-employee relationship. If the organization wants the Internal Revenue Service to determine whether a worker is an employee, it may file a form SS-8 with the IRS district director.

Statutory Employee

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This class of employee deals with outside sales persons and is not considered a contractor of ADP services.

Payroll Related Taxes -

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Employee vs. Independent Contractor

	<u>Employee</u>	<u>Independent Contractor</u> *
Federal Income Tax	Withheld ¹	Paid Quarterly ²
State Income Tax	Withheld ¹	Paid Quarterly ²
FICA - Social Security Required	Mandatory 501 [c] [3] ³	Paid Quarterly ²
State Disability Insurance ⁴	Withheld ¹	No coverage
State Unemployment Insurance ⁵	Paid by Employer	No coverage
Federal Unemployment Tax ⁵	Exempt	No coverage
Worker's Compensation ⁶	Paid by Employer	No coverage

1. These taxes are a portion of the individual employee's income tax, withheld and paid to federal and state authorities by the employer.
2. These taxes are paid quarterly by the independent contractor.

3. Both employee and employer pay a percentage of gross earnings.
4. SDI provides payments to an employee who is unable to work for an extended period due to illness or injury incurred off the job.
5. SUI provides payment to an employee who is laid off and unable to find work.
6. Worker's Compensation pays medical expenses, temporary or permanent disability payments, and death benefits for an employee who is injured on the job.

3

The accounting system is relied upon to produce relevant, accurate data for decisions. It can only do so to the extent that all records and essential information flow into the system. Job descriptions with a detailed listing of responsibilities and reporting lines should be developed to facilitate the effective operation of the accounting system and the organization in general.

The Board of Directors

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The ultimate responsibility for the activity of any non-profit organization is vested in the organization's board of directors as detailed in the organization's Articles of Incorporation and Bylaws. The board of directors is the focus of most external accountability by governmental agencies and funders. They are the ones held responsible for any misappropriation of funds. The board should review and approve the budget, monitor the programs and financial activities, and evaluate program services. Since they cannot stay in touch with day-to-day operations, it is their obligation to appoint an executive director to manage the daily affairs of the organization.

Executive Director

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The executive director oversees the programmatic, financial, and

managerial activities of the organization. The executive director hires financial staff, oversees the budget process, monitors the organization's activities, and sees to it that the board receives financial data. The executive director sees to it that program directors provide basic data for cost accounting and for program budget monitoring. The executive director works closely with the board treasurer and, where appropriate, the finance committee.

The Treasurer and Finance Committee

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The treasurer and finance committee monitor the financial activities of the organization and act as a resource for the board and staff. The treasurer reviews the system for compliance with internal control procedures, makes sure tax information returns are submitted on time, and checks financial statements for accuracy. The treasurer works closely with the bookkeeper and/or accountant.

The Bookkeeper and/or Accountant

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The bookkeeper and/or accountant records daily transactions, prepares journals and ledgers, prepares trial balance and financial statements (with comparison of budget to actual), and files payroll tax returns. The bookkeeper or secretary should prepare checks and vouchers for authorization and stamp all incoming checks "For Deposit Only."

A Certified Public Accountant

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A certified public accountant may work with the bookkeeper and treasurer to attest to the fairness of annual financial statements and prepare the annual information return.

Other Roles

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The preceding sections are not all-inclusive listings. An organization's personnel responsibilities may vary depending on the size of the organization and financial management information needs. The importance, however, of clear roles and responsibilities cannot be overstated no matter how large or small the organization.

AUDITS

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The following is a general description of the purpose and process of an audit. It is intended to provide the reader with a basic understanding of ADP audits.

Purpose

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Our system of government today rests on an elaborate structure of interlocking relationships among all levels of government for managing public programs. Those officials and employees who manage the programs must render a full account of their activities to the public. While not always specified by law, this accountability is inherent in the governing processes of this nation.

Audits are part of this accountability. One of the major benefits of an audit is that it lends credibility and provides confidence that financial data being used by management and presented to the board of directors and possible funding sources is materially correct. In addition, a review of internal controls can provide recommendations for improving the management of the organization or increasing efficiency. Also, audits serve as a guardian and deterrent against waste, loss, or illegal practices.

Process

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The ADP Audit Section conducts financial and compliance audits related to annual expenditures of state and federal funds subvended to the 58 counties for alcohol and drug programs. All audits are conducted in accordance with federal and state laws and regulations governing alcohol and drug programs. The audit field work is conducted in accordance with the American Institute of Certified Public Accountants' field audit standards and "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" as promulgated by the Comptroller General of the United States.

Financial Aspects

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The financial aspect of the audit determines whether the financial statements of an audited entity present fairly the financial position and the results of financial operations, in accordance with generally accepted accounting principles.

* The financial aspect of the audit is the examination of the cost reports or claims submitted by the counties and/or contractors which disclose the source of revenues and how funds were expended.

A sampling is made of the source or supporting documentation of the items reported on the cost reports or claimed on the claims

to give assurance that these items did in fact occur.

Compliance Aspects

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The compliance aspect of the audit is to ascertain that the funds received and expended by the county and/or contractor under audit were received and expended in accordance with the governing laws and regulations.

For example, a cost report might disclose \$3,000 in equipment and supply expenses. Examination of the source documentation, such as vendor invoices and cancelled checks, might disclose that the expenditures did take place and were properly recorded in the accounting records. However, the compliance part of the audit might disclose that the county bought three pieces of equipment which cost \$1,000 without prior approval (as required by regulations) from ADP. Therefore, the cost, although properly disclosed and accounted for, is unallowable as a program expense and should be recovered by ADP.

General Audit Steps

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The general steps of an audit consist of the following:

1. Initial contact
2. Entrance conference
3. Field audit

4. Audit Issue Package
5. Exit conference
6. Final report

1. INITIAL CONTACT

- a. Two weeks prior to the planned audit date, the auditor-in-charge (AIC) will contact the program administrator and/or the contract administrator by phone to set the entrance conference times, date, and place.
- b. The AIC will send a letter confirming the entrance conference time, date, and place to the contractor. Additionally, the letter will list the type of documents and records required for audit.
- c. The county drug and alcohol administrators will be informed of the planned audit of their respective contract contractors and will be invited to attend the entrance conference.

2. ENTRANCE CONFERENCE

At the entrance conference, the AIC will:

- a. Discuss the scope of the audit.

- b. Ask for areas which the county might want examined.
- c. Secure the names of key contact people.
- d. Secure working space for the audit staff.
- e. Ask for office rules.
- f. Request a tour of the facilities.

3. FIELD AUDIT

This is the time the auditors are at the audit site. The auditors develop audit work papers based on their examination and analysis of the kinds of accounting, internal control, and financial reporting systems discussed in this guide and used by the organizations being audited. This includes the analysis and evaluation of internal control, the reconciliation of revenues, expenditures, and units-of-service and the testing and verification of financial records.

4. AUDIT ISSUE PACKAGE

After the audit work papers are completed, they are reviewed by the AIC and audit supervisor. The Audit Issue Package (AIP) is prepared by the auditor. The AIP contains the following information:

- a. Cover letter to the auditee explaining the AIP and confirming the scheduling of an entrance conference.

- b. Topical index.
- c. Point sheets (contain specific audit findings).
- d. Pertinent issue working papers.
- e. Justification for proposed audit findings.
- f. Correspondence (as applicable).

The AIP is then mailed certified to the auditee for review, with a request for their submission of a written response to the proposed audit findings prior to or at the exit conference.

5. EXIT CONFERENCE

At the exit conference, the auditee is given an opportunity to discuss audit findings and submit all additional documentation to support their position. Their response is considered while determining final disallowed costs and/or management recommendations, and is included in the Final Audit Report. This step completes the audit field work.

6. FINAL REPORT

The audit report is the final step in the audit process. The audit report summarizes the management and financial findings developed during the audit field work. It also recommends a final cost settlement.

The Department of General Services, Office of Administrative Hearings (OAH), provides an administrative hearing process for the Department of Alcohol and Drug Programs (ADP). This process is used for appeals of only financial disallowances of alcohol program and drug program audits.

An appeal may be filed with ADP if a county/contractor disagrees with any financial findings. The appeal process consists of two parts, a prehearing conference and then a formal hearing. The prehearing conference is scheduled for the purpose of resolving disagreements by exploring possibilities of settlement.

Individuals representing the county/contractor at the prehearing conference must have the authority to agree to a binding decision. If the parties agree to settle all of the audit appeal issues, OAH will prepare and transmit a stipulation for the parties to sign.

If the appeal cannot be resolved at the prehearing conference, OAH will immediately confer with the parties to set a formal hearing date and location. At the formal hearing, an Administrative Law Judge will review all legal issues through oral and written testimony and will issue a proposed decision to the Director of ADP for consideration.

The requirements for requesting a prehearing conference are as follows:

1. The Audit Appeals Coordinator prepares and submits a written statement specifying any objections to the financial findings. This is the Notice of Defense (statement of disputed issues).
2. The Notice of Defense must include the signature and mailing address of an individual with the authority to represent the program.
3. County contractor's Notice of Defense must be submitted to the county for approval. The county must submit the Notice of Defense to ADP on behalf of the contractor.
4. The Notice of Defense from the County must be received by ADP within sixty (60) calendar days from receipt of the Audit Report.
5. ADP's direct contractors must submit their Notice of Defense directly to ADP within sixty (60) calendar days from receipt of the Audit Report.

6. The Notice of Defense must be submitted to:

Audit Appeals Coordinator
Department of Alcohol and Drug Programs
1700 K Street
Sacramento, CA 95814

ADP will be responsible for contacting you regarding further arrangements after receipt of the Notice of Defense.

From past audits performed by ADP, auditors have identified a group of common areas which have resulted in audit disallowances. The following is a list of generally identified problems and a corresponding list of methods to avoid these problems. This list is only meant as a general guide. More specific discussion related to these issues is contained within the contents of this guide.

1. Problem - No Time Distribution Records

Prevention:

The salaries of employees chargeable to more than one grant program must be supported by appropriate time distribution records such as time sheets.

2. Problem - No Source Documentation

Prevention:

- o Accounting records must be supported by source documents such as cancelled checks, paid bills, payrolls, contract and grant award documents, etc.

- o The contractor must submit upon request all financial, performance, and other records required by the terms of the grant/contract.

3. Problem - No Separation of Funding Sources

Prevention:

- o All costs chargeable to more than one program must be documented.
- o Records which identify adequately the source and application of funds for each grant/contract and supported activities must be maintained.

4. Problem - Cost Claimed in Excess of Actual Costs

Prevention:

- o The cost of the services will be the actual cost as determined in accordance with standard accounting practices or a negotiated net amount or rate approved by the Director of the Department of Alcohol and Drug Programs.
- o All claims for reimbursement must be based on actual documented costs incurred in carrying out the work required by the contract.

5. Problem - No Approval of the Cost in the Budget

Prevention:

- o If the costs are specified in the budget, approval of the budget constitutes approval of the cost category.
- o If the costs are not specified in the budget, or there is no approved budget, the recipient must obtain specific prior approval in writing from the awarding party prior to making the expenditure.

6. Problem - Did Not Abide by the Contract

Prevention:

- o The contractor must adhere to all provisions of the contract and to all applicable standards provided.
- o In case of a discrepancy between the provisions of a specific contract and the applicable standards provided, the provisions of the contract must govern unless the contract is in violation of federal or state laws or regulations.

7. Problem - Cost Incurred After or Before the Contract Period

Prevention:

- o All costs must be incurred within the approved starting and ending dates specified within the approved contract agreement.

8. Problem - Cost Allocation

Prevention:

- o "Cost allocation plan" means the documentation identifying, accumulating, and distributing allowable costs under grants and contracts together with the allocation methods used, so that each cost center is charged its fair share of the costs incurred.
- o It is improper to allocate costs based on funds available. Costs must be allocated on the basis of services rendered, benefits received, or goods provided to the grant/contract.
- o Indirect costs must be allocable specifically to the contract or be a part of an indirect cost rate or allocation plan and not be a general expense required to carry out the overall responsibilities of the contractor.

- o Indirect costs should be distributed to each applicable project on the basis of direct salaries and wages, total direct costs, or another basis which results in an equitable distribution. However, the allocation of costs (directly or indirectly) on the basis of revenue or on the basis of funds available is not allowable. *

9. Problem - Cash Disbursement Problems (Internal Control)

Prevention:

- o Have all invoices stamped paid, and the payment date and check number recorded on the invoice. Require all voided check signature blocks to be mutilated to remove signatures.
- o Have two signatures on all checks.
- o Have a person who is not involved in drawing checks or maintaining accounting records (both payroll and nonpayroll) distribute or mail checks.
- o Require blank checks to be controlled by inventory.
- o Develop time limit procedures to handle unclaimed or undelivered checks.
- o Develop a written policy to prohibit the signing of blank checks.

10. Problem - Petty Cash Fund Problem (Internal Control)

Prevention:

- o Have the executive director approve all requests for reimbursement of the petty cash fund.
- o Separate the duties of the petty cash custodian so that the custodian does not approve the release of funds to himself/herself.
- o Use an impressed numbered voucher system for petty cash funds.
- o Write procedures for petty cash.

11. Problem - No Written Policies and Procedures for all Accounting Functions

Prevention:

- o Write policies and procedures for all accounting functions.

12. Problem - Cash Flow Problem

Prevention:

- o Ensure that expenses do not exceed revenues.

The purpose of an audit engagement is to determine whether financial statements are fairly presented in accordance with generally accepted accounting principles (GAAP). Furthermore, the first reporting standard of generally accepted auditing standards (GAAS) requires that the audit report explicitly state whether the financial statements are prepared in accordance with GAAP.

GAAP may be defined as the rules and practices necessary at a particular time which represent accepted accounting principles and practices. Accounting principles encompass unwritten rules and written rules. The written rules are commonly referred to as promulgated GAAP.

GAAP is constantly changing. Although it would be convenient to have a single authoritative source of GAAP, it now exists in a wide variety of publications in the form of standards, conventions, assumptions, principles, rules, and so forth, all of which are referred to as generally accepted accounting principles.

The most authoritative sources of GAAP are listed below.

- o Financial Accounting Standards Board (FASB):
Statements, Interpretations, Technical Bulletins.

- o American Institute of Certified Public Accountants (AICPA): Accounting Principles Board (APB) Opinions, Accounting Research Bulletins (ARB), Accounting Terminology Bulletins, Accounting Interpretations, Industry Accounting Guides, Industry Audit Guides, Statements of Position.
- o Pronouncements of the Securities and Exchange Commission (SEC): usually in the form of Accounting Series Release and the S-X Regulations.
- o Various publications of professional organizations.
- o Various up-to-date textbooks, reference books, accounting articles, and committee reports are likely to contain authoritative expressions of GAAP.

INTRODUCTION

2900

PURPOSE OF THE AUDIT GUIDE

2901

This amendment to the Department of Alcohol and Drug Programs, Audit Assistance Guide, is designed to assist certified public accountants, public accountants, and government auditors in performing audits of alcohol and drug programs. It offers general insight into the nature and scope of such audits and identifies minimal audit and reporting requirements. It is not intended to be a manual of procedures.

Questions regarding the guide or audit reporting issues, program information on the alcohol or drug divisions, together with any suggested changes or clarifications, should be directed to the Department Audit Manager.

IMPACT OF THE SINGLE AUDIT ACT OF 1984

2905

The Single Audit Act of 1984 requires each state and local government which receives federal financial assistance in an amount equal to or in excess of \$100,000 to have an annual audit.

An audit conducted in accordance with this Act shall be in lieu of any financial and/or compliance audit which a state or local government is required to conduct under any other federal law or regulation. This requirement applies to state and local governments.

State or local governments that receive between \$25,000 and \$100,000 a year shall have an audit made in accordance with the Single Audit Act or in accordance with federal laws and regulations governing the program in which they

participate. State or local governments that receive less than \$25,000 a year shall be exempt from compliance from the Single Audit Act and other federal audit requirements.

Federal and state requirements apply and control alcohol and drug funds, depending on their origin. Federal requirements apply to federal funds, state requirements to state funds. The federal government requires that state funding rules be applied in the absence of federal funding rules.

RESPONSIBILITIES

2910

State Controller's Office (SCO)

- o Coordinate the implementation of single audit requirements with local governments.
- o Distribute guidelines for compliance audit requirements prepared by Department of Finance (DOF) to appropriate units of local government.
- o Inform units of local government to submit copies of single audit reports and corrective action plans directly to the SCO.
- o Distribute copies of each audit report and corrective action plan to state departments responsible for administering each federal program.
- o Follow-up on general audit findings.
- o Review and monitor audit reports issued by independent auditors.
- o Determine if the audit reports conform to audit standards and to audit guide issued by DOF.

Department of Alcohol and Drug Programs (ADP)

- o Indicate Federal Domestic Assistance catalog number on all contracts, interagency agreements and other appropriate documents.
- o Disburse federal funds through contracts and/or agreements to include the following provisions:
 - 1) A requirement for an audit in accordance with the single audit act.
 - 2) A stipulation that the cost of the audits will be charged to federal assistance programs in accordance with the Single Audit Act/OMB Circular A-128.
 - 3) A stipulation that local governments contracting for a single audit shall include a clause in the contract with the audit firm to permit access by the state to the working papers of the independent auditor.
- o Coordinate changes in federal compliance requirements with the Department of Finance.
- o Share information regarding specific program compliance requirements with subrecipients.
- o Monitor local government's use of federal funds to ensure compliance with federal laws and regulations.
- o Assure that subrecipients who receive federal financial assistance of \$25,000 or more, comply with the following:
 - 1) Local subrecipients have met the audit requirements of OMB Circular A-128.

- 2) Subrecipients covered by Circular A-110 have met the audit requirement.
 - 3) Subrecipients spent federal assistance funds in accordance with applicable laws and regulations.
 - 4) Subrecipients permit independent auditors access to the records and financial statements.
- o Follow-up on audit findings of subrecipients to ensure appropriate corrective action within six months after receipt of audit report.
 - o Conduct or arrange for additional auditing when required.

Local Government Responsibilities

- o Identify and account for all federal funds received and expended.
- o Submit annual audit plan for federal funds to ADP.
- o Arrange and procure audit by following the procurement standards prescribed by the "Uniform Administrative Requirements for Grants-In-Aid to State and Local Governments; Procurement Standards," issued by the Federal Office of Management and Budget.
- o Ensure that small audit firms and audit firms owned and controlled by socially and economically disadvantaged individuals have maximum practicable opportunity to participate in single audit contract.
- o Notify State Controller's Office and the Department of ADP of illegal acts or irregularities disclosed by single audit with proposed and actual actions, if any.

AUDIT ADMINISTRATION

3000

AUDIT OBJECTIVES

3022

The general objectives of each audit are to determine:

- o The fairness of reports on financial results submitted to the Department;
- o The program's compliance with applicable laws, regulations, administrative policies and grant contract requirements;
- o The effectiveness of internal accounting and administrative controls and proper accounting for revenues, expenditures, assets, and liabilities;
- o State and federal financial reports and claims for advances or reimbursement contain accurate and reliable financial data and are presented in accordance with applicable agreements;
- o The final settlement for the fiscal year audited.

GENERAL AUDIT STANDARDS

3025

Each audit shall consist of a financial and compliance examination of all funds and account groups of the reporting entity.

Audits of alcohol and drug programs shall follow generally accepted auditing standards for financial and compliance audits, "Standards for Audit of Government Organizations, Programs, Activities, and Functions," Comptroller General, February 21, 1981. Additionally, Circular A-128, "Audit of State and Local Governments," Office of Management and Budget (OMB), apply to programs which receive federal funds.

COMPLIANCE

3027

A review is to be made of compliance with applicable laws and regulations. The major features of alcohol and drug programs and suggested audit procedures may be found in the compliance requirements section of this Guide.

INTERNAL CONTROL

3028

As part of the normal audit, each auditor shall report on internal accounting controls. The auditor should identify the program's internal accounting controls, those controls evaluated, significant classes of transactions, related assets excluded from their study, and any material weaknesses identified.

WORKING PAPERS

3029

An assumption in audit planning is that utilization of others' work will be made to save time and avoid duplication. General guidelines on working papers are:

- o Completeness and Accuracy

Working papers shall have enough accurate detail to support findings, judgments, and conclusions. They should demonstrate the nature and scope of examination work.

- o Clarity

Working papers should not require oral amplification. A reviewer should be able to determine purpose, source, nature, scope of work done, and conclusions drawn.

o Legibility and Neatness

Working papers should be readable to save review time. Legibility and neatness will also enhance working papers as evidence.

o Relevance

Accumulated information should be tied to audit objectives by establishing a clear statement of purpose.

WORK PAPER RETENTION

3030

The auditor shall retain audit workpapers for a minimum of three years from the date of issuance of the audit report. The Department may require that the auditor retain working papers for a longer time by notifying the auditor in writing.

MAINTENANCE OF ADEQUATE ACCOUNTING RECORDS

3031

Each program is held responsible for maintaining adequate accounting records to assist in the preparation and analysis of financial information necessary to develop an audit report.

NOTICE OF IMPENDING DEPARTMENT AUDIT

3032

Programs to be audited by the Department will receive advance notice. The notice will include, but not be limited to the following:

- o Time period for which financial statements will be reviewed.

- o Contracts to be audited (if applicable).
- o Records to be made available.

FEDERAL SINGLE AUDIT REQUIREMENTS

3040

Beginning with audits of fiscal year 1985-86, required federal fund audits of local government units under the Single Audit Act of 1984 should utilize OMB Circular A-128.

SUBRECIPIENTS

3044

"Subrecipient" means any person, government department, agency, or establishment that receives federal funds through the initial recipient. This does not include an individual who is a program beneficiary.

Recipients who "pass through" \$25,000 or more of federal funds to a subrecipient assume responsibility:

- o To determine if the subrecipient has met the audit responsibilities.
- o To determine that expenditures were in compliance with law and regulation.
- o To ensure corrective action within six months of receiving the audit, in event of noncompliance.
- o To require subrecipients to make records and financial statements available to independent auditors.

Assistance received from a federal agency in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations is defined as "federal financial assistance." This includes awards received directly from federal agencies or indirectly through other units of state and local governments. It does not include direct federal cash assistance to individuals.

A compliance review is required for any "major federal assistance program." A major federal assistance program is identified by the comparison of an individual program's federal expenditures to the total federal funds received and expended for all programs receiving federal financial assistance. The attachment to the Office of Management and Budget (OMB) Circular No. A-128, Audits of State and Local Governments, explains the criteria to be used by auditors in identifying a major federal assistance program. To identify a major federal assistance program when a county has total federal assistance expenditures between \$100,000 and \$100,000,000, the OMB Circular No. A-128 prescribes using the larger of \$300,000 or three percent.

An illustration would be as follows:

A county has received and expended \$98,000,000 of total federal financial assistance for its various local programs. Included in those federal expenditures were Alcohol and Drug Abuse and Mental Health Services (ADAMHS) funds. The county's records identify expenditures of \$1,100,000 in the drug program; \$1,100,000 in the alcohol program; and \$500,000 in the mental health program for a combined total of \$2,700,000.

To identify a major federal assistance program, OMB Circular No. A-128 prescribes using the larger of \$300,000 or three percent (3%) of total federal expenditures when a local government has total federal financial assistance expenditures between \$100,000 and \$100,000,000. Three percent (3%) of \$98,000,000 is \$2,940,000. The larger of \$300,000 and \$2,940,000 is \$2,940,000. Accordingly, the \$2,700,000 of ADAMHS funds would not be a major federal assistance program since it does not exceed \$2,940,000.

* Major federal assistance programs have additional audit requirements. The auditor must determine that:

- o Reported expenditures were for allowable services;
- o Individuals receiving benefits or services were eligible;
- o Matching requirements, level of effort, and earmarking limitations were met;
- o Books, records, and financial statements support claims for federal advances and reimbursements;
- o Amounts claimed or used for matching were in accordance with OMB Circular A-87 and OMB Circular 102, Attachment F.

For federally funded programs which are not "Major" programs, the auditor will test transactions selected in connection with the examination of financial statements and evaluations of internal controls for compliance with federal laws and regulations that apply to such transactions.

SAMPLING CONSIDERATIONS

3052

Selection and testing of a representative number of transactions for a compliance review shall be based on the auditor's professional judgment and consideration of:

- o The amount of program expenditures and individual awards;
- o The newness of the program or recent programmatic changes;
- o Prior experience with the program as revealed in audits, inspections, program reviews;
- o Program diffusion through subrecipients;
- o The extent of contracts for goods or services;
- o The level of program review or oversight;
- o The adequacy of controls to ensure compliance;

- o Expectations on meeting laws and regulations;
- o Potential impact of adverse findings.

FINDINGS, RECOMMENDATIONS, AND CORRECTIVE ACTION PLANS

3054

Federal assistance programs for Alcohol, Drug Abuse, and Mental Health Services (ADAMHS) block grants have a single federal catalog number (13.992).

Audit findings relating to ADAMHS programs should clearly identify the catalog number for:

- o Corrective action taken or planned;
- o Identifying the fiscal year of funding.

FEDERAL PROGRAM AUDIT REQUIREMENTS

3056

All recipients must include in any annual audit a "Schedule of Federal Financial Assistance," which presents financial information on all federal funding received.

Financial statements should be audited in sufficient detail to establish whether instances of noncompliance would materially impact such statements.

Normal audit tests may uncover acts of fraud, abuse, or illegal acts. These include such matters as conflicts of interest, falsifications of records or reports, and misappropriation of funds or other assets. The auditor should give prompt notice to the recipient's management officials above the level of involvement.

For audit report preparation purposes, all acts of fraud abuse, or illegal acts or indications of such acts including the related questioned costs should normally be covered in a separate written report. In all instances relating to federal funds or State General Funds administered by ADP, a copy of the audit report and any separate report should be submitted to ADP by the auditor.

Reports should be sent to:

Audit Manager
Department of Alcohol and Drug Programs
111 Capitol Mall
Sacramento, CA 95814

AUDIT BY INDEPENDENT AUDITOR

The Single Audit Act of 1984, P.L. 98-502, establishes that certain Alcohol and Drug Programs, depending on the amount of federal funding received, have an annual audit performed by an "independent auditor." Audit costs are defrayed by the proportion of federal funds received. An "Independent Auditor" is:

\$25,000 or more

3070

- o A state or local government auditor who meets independent standards generally accepted in government, or;
- o A Public Accountant who meets such standards.

The independent auditor engaged by a program shall be either a state licensed C.P.A. or Public Accountant.

Prior to contracting with an independent auditor, the employing agency may request an engagement letter which includes, but is not limited to:

- o Name, address of agency to be audited
- o Time period audit will span
- o Scope and purpose of the audit
- o Reports, documents, to be furnished by the agency
- o Provision for an exit interview
- o Estimated costs of the audit

DEPARTMENT AUDIT REVIEW PROCESS

3080

The State Controller's Office has the responsibility to coordinate the implementation of Single Audit requirements with local governments (Single Audit Act of 1984, P.L. 98-502). Copies of federal single audits of counties will be submitted to the State Controller's Office which will distribute copies to the Department. Copies of required subrecipient federal audits and State General Fund audits will be submitted to the Department by the counties. The Department will review completed audits to assure that state and federal requirements, particularly the "Single Audit Act of 1984," P.L. 98-502, have been met.

On completion of its review of federal audits, the Department will notify the State Controller of its findings; for State General Fund audits, the Department will notify the auditor and the program of its findings. A copy of all audit reports shall be sent to:

Audit Manager
Department of Alcohol and Drug Programs
111 Capitol Mall
Sacramento, CA 95814

CONTRACT PROVISIONS--INDEPENDENT AUDITOR 3085

AUDIT WORKPAPERS AND REPORTS--ACCESS 3086

The Department, State Controller and federal auditors shall be granted access to all retained audit workpapers and reports.

CONTRACT ELEMENTS--STATE AND FEDERAL FUNDS 3087

In developing a contract between the program and the auditor for audit of Federal Funds, Circular A-128, OMB, Appendix B, should be followed. Some suggested contract elements for federal fund and/or State General Fund audits are:

- o Period for which cost reports and financial records are to be reviewed.
- o Purpose of the audit.
- o A requirement that the auditor will meet state and federal requirements for the conduct and distribution of the completed audit.

FINANCIAL REPORTING STANDARDS

3100

REPORT COMPONENTS

3110

The audit reporting standards for audits of Federal funds and State General funds are identified in the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" as promulgated by the Comptroller General of the United States. More information and details on the required audit reporting standards can be found in the federal government pamphlet entitled "Standards of Governmental Organizations, Programs Activities, and Functions" or the State Controller's guide, "Standards and Procedures for Audits of Federal Block Grant Funds Allocated by State Departments to Local Agencies". Auditors may refer to either document.

STATE COMPLIANCE REQUIREMENTS

3200

ALCOHOL PROGRAMS

3210

ALCOHOL PROGRAM ADMINISTRATOR

3211

Background

Any county may apply for State/Federal funds to alleviate problems resulting from the inappropriate use of alcohol beverages. These funds are subject to Federal and State law and oversight. Primary program and fiscal responsibility is vested in the county alcohol program which is accountable to the Board of Supervisors (BOS) and the State. The BOS must designate a health-related county agency or department to administer the alcohol program whose head shall designate an alcohol program administrator.

Each county shall have an Alcohol Program Administrator. The administrator must be full time in counties with population in excess of 200,000, unless the Department waives this requirement.

Administrators may be part time when the county population is less than 200,000 persons, or when the full time requirement is waived by the Department.

A part time County Alcohol Program Administrator may also direct other county health related programs.

Criteria

California Health and Safety Code, Sections 11795 through 11800.

Suggested Audit Procedures

Ascertain the following:

1. If county population exceeds 200,000, the administrator shall be full time, unless the Department waives this requirement.
2. If the administrator is less than full time, salary charged to the alcohol program should be prorated to reflect the degree of participation.

IDENTIFICATION AND ACCOUNTABILITY OF FUNDS

3212

Background

Funds allocated to the county shall be used exclusively for county alcohol services, as identified in the county plan, and shall be separately identified and accounted for.

"Alcohol Service" means any service designed to encourage recovery from problem drinking and to alleviate or preclude alcohol problems in the individual, their family, and the community.

Criteria

Health and Safety Code, Sections 11765(m), 11797, and the approved County Alcohol Plan.

Suggested Audit Procedures

Ascertain the following:

1. A clear audit trail to show the source and application of any combination of State, Federal, other public, and private funds.
2. Reconcile the county alcohol cost report to provider contract and charges.
3. Determine that no payment was made for unauthorized services.

Background

Counties with a population of 200,000 or less are allowed to shift state funds between alcohol and drug programs. Such a shift is for a single fiscal year.

Both county plan narratives (alcohol/drug) must describe the need for the shift of funds and the new use of the funds. Both budgets must indicate the source and new use of the funds.

The county board of supervisors must pass an approving resolution or minute order.

Final review and concurrence is by the Department.

Criteria

Health and Safety Code, Sections 11814(b) and 11983.5(b).

Suggested Audit Procedures

Ascertain the following:

1. Both county plans (alcohol/drug) describe the need for shift and the new use.
2. The county budgets (alcohol/drug) demonstrates which program is losing funds or gaining funds.
3. Both county advisory boards (alcohol/drug) endorse the shift of funds.
4. The county board of supervisors issues an approving resolution or minute order.
5. The Department approves the shift.

ALCOHOL RELATED SERVICES

3214

Background

When alcohol services specified in the approved county alcohol plan are provided through other general health or social programs, that portion of services dealing with alcohol problems is eligible for reimbursement. Such interagency services shall be formalized by agreement or contract.

Criteria

Health and Safety Code, Section 11812(a).

Suggested Audit Procedures

Review the agreement (contract) to determine that costs were for alcohol services, at agreed rates, and that no duplicate billings for client services occurred.

OTHER REVENUE, CLIENT FEES, EXCESS FEES, AND CONTRIBUTIONS

3215

Background

It is the intent of the Legislature that all state funded alcohol programs be partially self supporting by raising revenues; through fees for service, private contributions, grants, or other governmental funds.

Programs which provide residential or nonresidential direct services to individuals and their families to establish and maintain recovery must assess fees, develop assessment and collection criteria, and assure that services are not denied based solely on an individual's inability to pay.

Other services (Indirect) are community activities relating to education and prevention and identification and referral to appropriate services. These programs must raise revenues. Fee systems are not mandatory and this requirement is usually met through other fund raising activities.

Collected revenues shall support additional alcohol services to those conventionally budgeted. Amounts collected shall be incorporated in the annual report of expenditures. Collected fees exceeding projections will be "excess fees" and must be expended in the year collected or the following year, subject to regular county planning procedures.

Criteria

Health and Safety Code, Section 11841. California Administrative Code, Title 9, Section 9434. Alcohol Services Reporting System Manual (ASRS), Chapter V, Page 5.1-5.3; Chapter IX, Page 9.3.

Suggested Audit Procedures

Ascertain that programs are:

1. Generating additional revenues.
2. Assessing fees for Direct Services.
3. Following approved procedures for assessing and collecting fees and protecting individual rights to service.
4. Able to trace collected fees to the individual client records.
5. Expending fees within the year collected or have carried them forward.
6. Expending excess fees carried forward into the following year.
7. Providing additional services when additional revenues are reported.
8. Expending restricted contributions as stipulated by the donor.

Background

A fee for service contract is for the purchase, at a fixed dollar (negotiated) rate, of a specific number of units of service. The negotiated rate should approximate the actual cost of the services provided and be reconcilable, both in numbers and types of service provided, to the contract and the Department's Alcohol Services Reporting System Manual (ASRS).

Criteria

Health and Safety Code, Section 11818(a)(b). California Administrative Code, Sections 9000 and 9426. ASRS, Chapters IV, VIII, and IX.

Suggested Audit Procedures

Ascertain that the following:

1. Reimbursement rate is the negotiated rate shown in the contract for the types of units-of-service provided.
2. Units-of-service claimed reconcile to the records.
3. On a test basis, the units-of-service claimed reconcile to the individual client's file and services were actually provided, recorded, counted, and reported accurately.
4. Actual cost of a unit-of-service is equal to the contract negotiated rate. Report any substantial differences for possible renegotiation.

Background

Equipment is nonexpendable personal property, with a useful life of, at least, three years and a value in excess of \$300. Purchase and reimbursement is limited to county programs with prior Department approval.

If prior Department approval was not secured, county equipment costs can only be depreciated.

Counties may loan equipment to private providers. In certain circumstances, private programs may purchase equipment and vest title with the county.

Criteria

Health and Safety Code Sections 11755(c), and 11818(a). California Administrative Code, Title 9, Sections 9440 and 9426(a)(9). Alcohol Services Reporting System Manual (ASRS), Chapter VIII, Budgets.

Suggested Audit Procedures

Ascertain that the following:

1. Prior Department approval for county program equipment purchases over \$300 was obtained.
2. Depreciation was not claimed for expensed equipment.
3. If prior Department approval was not obtained, only depreciation was claimed.
4. Equipment is properly identified.
5. Accounting records reflect equipment in inventory, and these records are reconciled to a physical inventory.

COUNTY REMODELING COST REIMBURSEMENT

3218

Background

Remodeling is the functional adaptation of space within an existing structure without increasing the fair market value. County operated programs may remodel with prior Department approval.



Criteria

Health and Safety Code, Section 11818. California Administrative Code, Title 9, Section 9442. Alcohol Services Reporting System Manual (ASRS), Chapter VIII, Page 8.1.

Suggested Audit Procedures

Determine that prior Department approval was secured before incurring remodeling costs.

COUNTY MATCH REQUIREMENTS

3219

Background

Counties with state funded alcohol programs, with a population of more than 100,000, must provide county matching funds. County matching funds are required in a ratio of 90 percent (90%) state funds to 10 percent (10%) county funds.

There is no match requirement for federal funds.

If a county has a state hospital with which it has a cooperative alcohol program, and the county population is less than 100,000, it must provide a county match of 10 percent (10%) to 90 percent (90%) state funds.

If the county population is more than 100,000, it must provide the state hospital cooperative alcohol program a county match of 15 percent (15%) to 85 percent (85%) state funds.

A county may use AB 2036 funds (Statham funds) to meet the matching requirement.

Criteria

Health and Safety Code, Sections 11840 and 11840.1.

Suggested Audit Procedures

Determine if the county provided the appropriate amount of match of state funds in county and state hospital programs.

DRUG PROGRAMS

3220

DRUG PROGRAM ADMINISTRATOR

3221

Background

The Legislature declares that drug abuse should be viewed and treated as a health problem, as well as a law enforcement problem.

Community drug abuse programs coordinated by the counties serve a broad spectrum of needs. The Drug Program Administrator exercises general supervision on drug program services in a county. The County Board of Supervisors designates the Administrator; the administrative level, responsibility and authority. The position may be full time, part time, or part of other assigned duties.

Criteria

California Health and Safety Code, Sections 11962 and 11963.

Suggested Audit Procedures

Ascertain that the following:

1. The county Board of Supervisors has designated a Drug Program Administrator.

2. The Administrator is full time, part time, or with other assigned duties.
3. If the Administrator is less than full time, salary charged to the drug program is prorated to reflect the degree of participation.

IDENTIFICATION AND ACCOUNTABILITY OF FUNDS

3222

Background

Funds allocated to the county for drug services, as identified in the County Drug Plan, must be separately identified and accounted for.

"Drug abuse services" means any service directed toward early intervention in, or alleviation or prevention of, drug abuse, including, but not limited to, diagnosis, evaluation, treatment, information, referral, consultation, and community services.

Criteria

Health and Safety Code, Sections 11961(e), 11983.2 and the approved County Drug Plan.

Suggested Audit Procedures

Ascertain the following:

1. That all drug funds are separately identified and accounted for.
2. That these funds were used exclusively for services identified in the County Drug Plan.

Background

Counties with a population of 200,000 or less are allowed, subject to specific provisions of law, to shift state funds between alcohol and drug programs. Shifts are for a single fiscal year, and must be reflected in both the county preliminary alcohol and drug plans and budgets. Federal funds cannot be transferred between alcohol and drug programs, only State General Funds may be used for transfer purposes. *

Criteria

Health and Safety Code, Sections 11814(b) and 11983.5(b). Drug Program Fiscal Systems Manual (DPFS), revised April, 1986.

Suggested Audit Procedures

Ascertain that the following:

1. Both county plans (alcohol/drug) describe the need for shifting funds and the new use.
2. Both county budgets (alcohol/drug) demonstrate which program is losing funds or gaining funds.
3. Both county advisory boards (alcohol/drug) endorse the shift of funds.
4. The county Board of Supervisors issues an approving resolution or minute order.
5. The Department approves the shift.

DRUG RELATED SERVICES

3224

When drug abuse services are provided by other general health or social programs, the county can only expend drug funds for that portion of service dealing with drug abuse problems, and covered under the County Plan. Purchased services should be under contract.

Criteria

Health and Safety Code, Sections 11963(g), 11971, and 11983.2

Suggested Audit Procedures

Ascertain that the following:

1. Agreement (contract) costs were acceptable.
2. Services were for drug abuse problems.
3. No duplicate billing for client services is occurring.

OTHER REVENUE (CLIENT FEES)

3225

Programs providing drug abuse services shall assess client fees, set assessment and collection criteria, and assure that policies do not deny service because of an individual's inability to pay. Fees may be paid by the person receiving services or on their behalf by the federal government, California Medical Assistance Program, or other public or private sources.

Fees collected shall be deducted from the costs of providing services. These collections support additional services. Fees exceeding projections shall be expended in the year collected, or rolled forward to the next year subject to the regular county planning procedures.

Criteria

Health and Safety Code, Sections 11987.9 and 11991.5. Drug Program Fiscal System Manual (DPFS) March 1985, pp. 22, 23.

Suggested Audit Procedures

Ascertain that the following:

1. Programs are generating additional revenues (fees).
2. Approved procedures are being followed for assessing and collecting fees. Individual rights to service are being protected.
3. Collected fees are traceable to the individual client.
4. Fee Collections in excess of projected collections were expended in the year collected or rolled forward.

MATCH REQUIREMENTS

3226

Background

The net cost of drug services in a county shall be financed by 90 percent state funds and 10 percent county funds; except, for local hospital inpatient costs, other public/private funding sources, counties with less than 100,000 population, and counties with state hospital programs. There is no match requirement for Federal Block Grant Funds. *

Criteria

Health and Safety Code, Section 11987.4(a)(b):

Suggested Audit Procedures

Ascertain that the following:

1. If county population is greater than 100,000;
 - a. A 10 percent county fund match to 90 percent of state funds exists.
 - b. In a state hospital providing a drug program to a county, the county must provide a 15 percent match of county funds to 85 percent state funds.
2. In counties under 100,000 with a state hospital drug program, the county match is 10 percent.

FEE FOR SERVICE CONTRACT (NEGOTIATED RATE)

3227

Background

A fee for service contract is for the purchase, at a fixed dollar (negotiated) rate, of a specified number of units of service. The negotiated rate should approximate the actual cost of the services provided and be reconcilable, both in numbers and types of service provided, to the contract and the Department's Drug Program Fiscal System Manual (DPFS).

Criteria

Health and Safety Code, Section 11987.5. Drug Program Fiscal System Manual (DPFS), revised April 1986.

Suggested Audit Procedures

Ascertain that the following:

1. Services provided and the reimbursement rate claimed match those described in the contract.
2. Units-of-service claimed reconcile to the records.
3. On a test basis, the units-of-service claimed reconcile to the individual client's file and services were actually provided, recorded, counted, and reported accurately.
4. The actual cost of a unit-of-service is equal to the contract negotiated rate. Report any substantial differences for possible renegotiation.

COUNTY EQUIPMENT PURCHASES

3228

Background

Equipment is nonexpendable personal property with a useful life of at least three years and a value in excess of \$500. Purchase and reimbursement is limited to county programs, with prior Department notification on ADP Form 5100F, submitted with the county plan and budget. Private providers may only be reimbursed through depreciation.

Counties may lend equipment to privately operated providers but must maintain ownership and title. Private providers may purchase equipment on behalf of the county ensuring that ownership and title is vested with the county.

Generally, programs shall not exceed one percent of state, federal, and county match funds for equipment in any fiscal year. Equipment purchase in excess of

one percent (1%) requires prior Department approval. The exception is an existing program whose state allocation and county match increased \$10,000 plus twenty three percent (23%) over the prior year. In such a circumstance the reimbursable equipment expenditure may equal:

1. ten percent of the increase; plus
2. one percent of the prior year state allocation and county match.

New services may expend for equipment 10 percent of the state, federal, and county match for provider services in the county drug plan.

Without inclusion in the approved budget, county equipment costs can only be depreciated.

Criteria

Health and Safety Code, Section 11991.2. Drug Program Fiscal Systems Manual (DPFS), March 1985, Pages 23, 24, 25, 26 29, and 30.

Suggested Audit Procedures

Ascertain that the following:

1. Prior Department approval for county program equipment purchases in excess of one percent (1%) of budget was obtained.
2. Depreciation was not claimed for expensed equipment.
3. Equipment is properly identified.
4. Accounting records reflect equipment in inventory and these records are reconciled to a physical inventory.

Background

Remodeling is the functional adaptation of space within an existing structure without increasing the fair market value. Only county operated programs, subject to Department approval, may utilize state funds for remodeling existing structures. Federal funds may not be used for remodeling.

Criteria

Health and Safety Code, Section 11991.2. Drug Program Fiscal Systems Manual (DPFS) March 1985, pages 24-25. Standards and Procedures for Audits of Federal Block Grant Funds Allocated by State Departments to Local Agencies, State Controller's Office, July 1986, pp. 14, 15.

Suggested Audit Procedures

Ascertain the following:

1. Determine that prior Department approval was secured before incurring remodeling costs.

DRUG/MEDI-CAL

3230

AUDITS OF DRUG/MEDI-CAL PROVIDERS

3231

Federal Medicaid funds, called in California--Medi-Cal monies--are under the control of the State Department of Health Services. Individual eligibility for services from this program are based on the income level of the patient. Medi-Cal establishes eligibility requirements.



Under an inter-agency agreement the Department of Health Services releases a portion of Medi-Cal funds, which are matched with state drug funds, to provide methadone maintenance and out-patient drug free services to eligible individuals.

The Department of Health Services approves on an initial and continuing basis, county and private nonprofit clinics funded under Drug/Medi-Cal, through its licensing and certification division. This includes staff and the physical facility.

The Department of Alcohol and Drug Programs has licensing, eligibility criteria for patients, and monitoring responsibility for all methadone programs; inpatient or outpatient, regardless of funding source.

Services to Drug/Medi-Cal eligible patients, under a contract between a provider and a county that is not a "fee-for-service contract" reimbursed through DHS, are subject to audit by Department staff.

The independent auditor must assure that:

1. Drug/Medi-Cal covered services are billed at the lowest reimbursement rate.
2. Units of service are properly reported to the county.
3. Through random sample verification, patient eligibility, share of cost, and third party liability collection of all persons receiving Drug/Medi-Cal services, complies with federal and state requirements.
4. Any necessity tests of accounting records are performed as needed by the auditor.

The following sections discuss the background, compliance audit objectives, criteria, and suggested audit procedures to accomplish the aforementioned assurances.

REIMBURSEMENT RATES FOR DRUG/MEDI-CAL FUNDED SERVICES

3232

Background

Provider reimbursement for Drug/Medi-Cal funded services is based on the lowest of the following costs:

- a. The usual and customary charge for a service
- b. The provider's allowable cost of rendering the services.
- c. The most recent Drug/Medi-Cal applicable rate caps.

Costs are allowable if they are the actual, necessary, and proper expenses of rendering Drug/Medi-Cal services. While utilization review and other administrative costs are allowed, recreation costs are not "necessary expenses" for reimbursement purposes.

To assure that utilization review and administrative costs are entered in the Department's computation of a statewide weighted Drug/Medi-Cal reimbursement rate, exhibit such costs on the Department "Drug Budget Treatment Services--Other Than 24-Hour Care" form.

Criteria

California Health and Safety Code, Sections 11987.5, 11991.2, and 11991.3.
California Administrative Code, Title 22, Section 51516(c). Department's Drug
Program Fiscal System Manual, pages 25 and 33. Department's Division of Drug
Programs' Policy Letters:

- #85-06 January 31, 1985
- #85-37 July 18, 1985
- -- July 31, 1985
- #86-04 January 21, 1986

Suggested Audit Procedures

Ascertain ascertain the following:

1. Lowest rate has been applied for reimbursement purposes.
2. If allowable costs are in excess of Drug/Medi-Cal rate caps, a Department waiver has been secured. Beginning July 1, 1986, the DHS discontinued granting waivers.
3. All Drug/Medi-Cal administrative costs have been claimed on the correct budget form.
4. Recreation costs are excluded.

WAIVER FOR SERVICE COSTS IN EXCESS OF DRUG/MEDI-CAL RATE CAPS 3233

Background

To assure fair reimbursement to providers, Drug/Medi-Cal funded service costs are reviewed annually and maximum allowances for each service function are negotiated. Two examples for FY 1985-86: Outpatient methadone maintenance visit is \$14.93. An outpatient drug free visit is \$56.88

In unusual circumstances, a service provider's actual costs may exceed Drug/Medi-Cal rate caps. Prior to July 1, 1986, a waiver of set maximum allowances may be granted by the Department if:

1. The county can demonstrate that an imposition of the limitation will result in an inability to provide needed drug program services.
2. The request for waiver is approved by the county Board of Supervisors and is incorporated in the county drug plan.

Criteria

Drug Program Fiscal System Manual, January 1986, Revision, Pages 21-22,
Department Division of Drug Programs; Policy Letters:

#84-23	June 29, 1984
#85-06	January 31, 1985
#85-45	October 9, 1985

Suggested Audit Procedures

Determine that any Drug/Medi-Cal unit cost claimed which exceeds negotiated rate caps is to be included in the county Drug Plan and has Department approval.

PROVISION OF NONDRUG RELATED SERVICES TO MEDI-CAL ELIGIBLE PATIENTS 3234

Background

County and private drug programs may employ or contract with physicians, psychiatrists, psychologists, and other treatment professionals to provide nondrug treatment services to eligible Medi-Cal patients, at the program site or within the parent organizational structure.

Funds administered by the Department cannot pay for administrative costs of the physical plant, receptionist, accounting, record keeping, other staff costs, or indirect costs used to provide nondrug related services.

There can be no comingling or duplicative expenses relative to providing drug and nondrug related services. Patient progress, services provided, billing, and

other administrative expenses must be separated to maintain confidentiality and accountability.

To prevent double billing for services, neither the program nor the treating professional may separately bill the patient, fee-for-service Medi-Cal, or other sources for nondrug-related services delivered at the program site or within the parent organization.

Criteria

Welfare and Institutions Code, Division 5, Part 1, Chapter 2, Section 5328; and, Division 9, Part 3, Chapter 7, Section 14100.2 (on confidentiality).

California Administrative Code, Title 22, Division 3, Subdivision 1, Chapter 3, Section 51501.(e). Also, sections 51000 and 51477 (on confidentiality). Code of Federal Regulations, Title 42, Part 2 (on confidentiality). Health Care Financing Administration, Medicare Provider Reimbursement Manual, HIM 15-1, Chapter 21, Section 2108.10. Department's Drug Program Fiscal Systems Manual, page 43, Item 5, August 1985. Revision (on confidentiality).

Suggested Audit Procedures

Ascertain that the following:

1. Only drug related treatment services provided by treatment professionals at the program are paid with Drug/Medi-Cal funds.
2. Drug related services to patients and associated administrative costs is maintained, exclusive of documentation for any other patient services provided.

BILLING THIRD PARTY PAYORS PRIOR TO UTILIZING
DRUG/MEDI-CAL RESOURCES

3235

Background

When a patient has eligibility for private insurance or Medicare, these resources shall be billed prior to utilizing the Drug/Medical Fund. The provider should carefully document all payment recovery efforts.

Criteria

California Welfare and Institutions Code, Division 9, Part 1, Chapter 1.5, Sections 10020, 10022, 10024, and 10025. California Administrative Code, Title 22, Division 3, Subdivision 1, Chapter 3, Sections 50763, 50679(a), 50771(a), and 51480(b)(c), Department Division of Drug Programs' Policy Letter #85-44 (dated September 18, 1985).

Suggested Audit Procedure

Ascertain that each provider:

1. Maintain a system which identifies patients with private health care and Medicare coverage.
2. Bills private resources before billing Drug/Medi-Cal.
3. Recovers all or part of charges from other health coverage before billing Drug/Medi-Cal.
4. Has specific, sequentially written instructions for staff regarding utilizing recovery resources.

Background

The financial resources of applicants for Drug/Medi-Cal treatment services, including estates and responsible relatives, should be assessed by providers in a fair and equitable manner prior to the delivery of services. If ability to pay changes after admission to treatment, a reassessment should be done within ten calendar days.

Only those with current Medi-Cal eligibility can have treatment costs paid from Drug/Medi-Cal funds.

Criteria

California Health and Safety Code, Part III, Chapter 4, Section 11991.5(b), (c), and (d). California Welfare and Institutions Code, Division 5, Part 1, Chapter 2, Section 5713. California Administrative Code, Title 22, Division 3, Subdivision 1, Chapter 2, Section 50185(a). Also, Chapter 3, Section 50201 and 50203. Department's Drug/Medi-Cal Utilization Control Plan, Revised June 15, 1985, page 7 (subsection on utilization review).

Suggested Audit Procedure

Ascertain that the following:

1. Patient files contain documents showing the patient's present financial resources, obligations, and how this information was considered in establishing fees.
2. Workpapers were initially completed and updated in compliance with policies and procedures established by the county Drug Program Administrator.
3. The original or a copy of the patient Medi-Cal identification card or proof of eligibility sticker is retained by the provider on those patients who received Drug/Medi-Cal billed services in the last fiscal year.

Programs providing drug abuse services are required under the Health and Safety code to assess client fees and to use such funds to provide additional services. Fees should be within the patient's ability to pay. Their imposition must not cause service to be denied. The service provider collects fees under county approved procedures.

Individuals served through the Drug/Medi-Cal program are drawn from three groups: 1) Aid to Families with Dependent Children (AFDC), 2) children under 18 years of age, 3) the Disabled and Blind are Medi-care eligible. In order to issue a monthly Medi-Cal identification card, the county reviews the patient's resources to identify funds which may be applied to their care costs.

In a few cases patients are able to share in the cost of services. The beneficiary's share of cost is a dedicated sum.

When the patient share of cost is met, additional services are provided at no additional cost to the patient.

Criteria

California Health and Safety Code, Division 10.5, Part 3, Chapter 4, Sections 11991.5(b), (c), and (d). California Administrative, Title 22, Division 3, Subdivision 1, Chapter 2, Sections 50185(a), 50651, 50652, 50653, and 50745. Department's Drug Program Fiscal System Manual, page 43, Item 6, August 1985 revision.

Suggested Audit Procedure

Ascertain that the following:

1. No patient fees are to exceed maximum rate caps.
2. Fees for additional services are assessed only when there is an excess of funds which exceed share of cost.

*
3. Fees collected will only be used to provide "additional drug services."

REPORTING OF DRUG/MEDI-CAL UNITS OF SERVICE

3238

Background

Providers with Drug Program Medi-Cal patients submits a monthly claim to the county for reimbursement. Annually the county compiles all provider claims onto a year end cost report which it submits to the Department.

Providers' monthly claims to the county should reconcile to units of service posted to the patients chart or record as well as the annual cost report.

Billing is on a visit basis. A variety of services may be delivered in one visit.

A group therapy session with four clients would be counted and billed as one visit for each client.

Collateral Services for a family therapy session (with significant person(s) in the life of a patient who may or may not be present at the session) is counted as a single visit.

Telephone contacts are not reportable as units of service.

Criteria

California Administrative Code, Title 22, Division 3, Subdivision 1, Chapter 3, Section 51502(a)(11). Department's Drug Program Fiscal System Manual, page 14 (revised May 1985) and 15. Department's Drug/Medi-Cal Utilization Control Plan, Revised June 15, 1984, page 11.

FEDERAL COMPLIANCE REQUIREMENTS

3300

GENERAL REQUIREMENTS

3331

POLITICAL ACTIVITIES

3332

Background

Partisan political activity of any kind is forbidden to any person or organization involved in the administration of a federally assisted program.

Criteria

Hatch Act, 5 U.S.C. 1501-1508, P.L. 95-454, Section 4728, Standards and Procedures for Audits of Federal Block Grant Funds, issued October 1985, by the State Controller, Section IV(A). Compliance Supplement for Single Audits of State and Local government (revised April 1985).

Suggested Audit Procedures

Ascertain that the following:

1. The auditor should be alert throughout the audit and required to report any possible violations or prohibitions on partisan political activity.
2. Review Board minutes and job assignment records to determine if persons on a federal fund payroll were involved in partisan political activity.

Background

No person shall be excluded from participation in or subjected to discrimination in any program or activity federally funded on the grounds of race, color, national origin, age, or handicap.

Criteria

42 U.S.C. 6101 et.seq., 42 U.S.C. 200d., 29 U.S.C. 794. "Standards and Procedures for Audit of Federal Block Grant Funds" issued October 1985, by the State Controller, Section IV (A-3). Compliance Supplement for Single Audit of State and Local Governments (revised April 1985).

Suggested Audit Procedures

The auditor shall determine that:

1. Agencies with more than 100 employees have filed with the Equal Employment Opportunity Commission (EEOC), a form EE04.
2. Agencies with 15 to 100 employees are maintaining EEOC records.
3. The nature and status of complaints, if any, are filed with the EEOC.
4. Unresolved problems are formalized with the agency designated civil rights representative or the county alcohol or drug administrator.

Background

A portion of federal funds allocated in a fiscal year must be set aside, if so directed, for specific services or populations. Among these mandated services are:

1. Women's Alcohol Program Services

The Department set aside five percent of the allocated federal funds.

Counties wishing to participate submitted proposals. Selected counties are funded for a fiscal year. Total project life may be 18 months. Counties may operate programs or utilize a subcontractor.

2. Prevention and Early Identification

All counties must set aside 20 percent of allocated federal funds for prevention and early intervention activities.

Criteria

(Prevention/Early Intervention)

Health and Safety Code, Section 11795(b). Omnibus Budget Reconciliation Act of 1981 (P. L. 97-35), Part B, Section 1916(8).

(Women's Services)

Alcohol Abuse, Drug Abuse, and Mental Health Amendments of 1984 (P. L. 98-509), Section 103.

Suggested Audit Procedures

1. (Women's Services). If the county applies and is selected for participation, an award letter, and the proposal itself will cover funding and other requirements. The county alcohol program budget will reflect funding as well. Determine that expenditures conform to project award requirements.

2. (Prevention/Early Intervention). Determine that at least 20 percent of federal funds made available to the county are used for these purposes.

SPECIFIC APPLICATIONS OF FEDERAL FUNDS--DRUGS

3335

Background

Federal funds allocated in any fiscal year to a county are subject to earmarking for specific services. These are:

1. Not less than 5 percent to initiate and provide new drug services for women.
2. Not less than 20 percent for drug prevention and intervention programs.

Criteria

Health and Safety Code, Section 11984 Omnibus Budget Reconciliation Act of 1981 (PL 97-35) Part B, Section 1916(8) and (14).

Alcohol Abuse, Drug Abuse, and Mental Health Amendments of 1984 (P.L. 98-509) Section 103.

Suggested Audit Procedures

Ascertain that the following:

1. Funds for women's services and prevention/intervention are separately identified and accounted.
2. Funds were used exclusively for specified services as described in the County Drug Plan.

DETERMINING THE ALLOWABILITY OF COSTS

3400

GENERAL

3410

The California Health and Safety Code authorizes the Department to reimburse county alcohol and drug programs for expenditures incurred in carrying out contractual provisions, utilizing federal and state funds.

Examples of allowable expenditures are: salaries, wages, and fringe benefits; approved facilities and services provided under contract; supplies, maintenance, service costs and utilities.

These expenditures must result from fulfilling contractual obligations and be supported by source documentation.

Total costs are comprised of allowable direct costs, plus allocable indirect costs less any applicable credits.

REASONABLE COST

3411

Allowable costs are those necessary and proper costs that pass the test of reasonableness to develop and maintain a service providers' alcohol program or drug program in carrying out contractual provisions.

Reasonable cost is that amount which a prudent person would incur under similar circumstances of time and place. To determine it, consideration is given to whether:

1. The cost is ordinary and necessary to the performance of the contract.
2. The cost is fair and not extreme.

3. The cost is program related.
4. The cost is within sound business practice.

SOURCE DOCUMENTATION

3412

The source documentation provides input to all entries in the various records and books of original entry maintained by the organization. It should be safe-guarded to assure availability and accountability for legally mandated time periods.

Reported expenditures and revenues must be supported in accounting records by funding source. Supporting documentation includes but is not limited to:

1. Paid invoices
2. Canceled checks
3. Bank statements
4. Time sheets
5. Payroll registers
6. Lease agreements
7. Contracts
8. Purchase orders
9. Deposit slips
10. By-laws
11. Board minutes

ALLOCABILITY

3413

An allocable cost is one which is assignable or chargeable to a specific cost objective (grant/contract, project, service or major activity).

A cost is allocable if:

1. It is specifically incurred.
2. It is of direct benefit.
3. It is necessary to overall operation of the organization. Specific relationship to a particular cost objective is not necessary. *

When a cost allocation process is adopted, it should be applied in a consistent and uniform manner. It should include:

1. Nature, extent, and relevance to the program.
2. Items of expense included.
3. Method of cost distribution.

DIRECT/INDIRECT COSTS

3414

Direct and indirect costs are not clearly identified in guidelines. Each organization within its accounting system will specify how it will treat and exhibit such costs. Having made such a determination, it must apply its categories consistently.

As a guide, a direct cost is one which can be specifically tied to a single cost objective. An indirect cost is one which cannot be so identified but is of common benefit to several cost objectives. Indirect costs should be allocated fairly within the organization's grant/contract program. *

RECREATION COSTS FOR ALCOHOL AND DRUG PROGRAMS
(EXCLUDING MEDI-CAL FUNDED SERVICES)

3510

Background

Allowable recreation costs are those incurred for the direct therapeutic benefit of program participants. The reasonable cost concept applies to the transportation of clients, admission to recreational events and the rental or purchase of athletic or physical exercise equipment. Recreation costs for staff or volunteers is allowed if serving a supervisory need. Recreation costs for participants funded under Medi-Cal services is not allowed.

Criteria

California Health and Safety Code, Section 11811 and 11991.2. California Administrative Code, Title 9, Section 9424. California--Drug Program Fiscal System Manual Table I, page 33.

Suggested Audit Procedures

Ascertain that the following:

1. Recreation costs have a direct therapeutic benefit; are not entertainment.
2. All costs are reasonable.
3. Staff or volunteer costs are for supervision.
4. No recreation costs are charged to Medi-Cal services.

Background

Compensation (wages/salaries) includes all remuneration paid currently or accrued for services rendered during the time period of the grant agreement.

Criteria

California Health and Safety Code, Section 11818(a) (Alcohol) and Section 11991.2 (Drug). Federal Register, Part X, OMB, Cost Principles for State and Local Government, Volume 46, No. 18.

Suggested Audit Procedures

Ascertain that the following:

1. Compensation expenditures are representative of the labor market for similar services.
2. Payroll time and attendance records support individual employee compensation claims.
3. Where compensation is drawn from several sources, time records are in sufficient detail to apportion costs.

FRINGE BENEFITS

3512

Background

Fringe benefits are those ancillary additions to basic compensation that may include, but are not limited to, medical, dental and life insurance. The employer may totally fund or share costs with the employee.

Criteria

California Health and Safety Code Section 11818(a)(Alcohol) and Section 11991.2 (Drug). Federal Register, Part X, OMB, Cost Principles for State and Local Government, Volume 46, No. 18.

Suggested Audit Procedures

Ascertain that the following:

1. Fringe benefit charges are representative for the service, area, and organization size.
2. Billings of fringe benefits and payroll records are in agreement.
3. Within multi-funded organizations fringe benefits should be apportioned.

FUND RAISING COSTS

3513

Background

Alcohol and Drug Programs are encouraged to utilize fund raising activities for costs not reimbursable from state or federal funds. Examples are entertainment, certain items of equipment, etc. Costs incurred in such activities are not program costs and are not allowable for reimbursement.

Criteria

California Health and Safety Code, Section 11991.2. Drug Program Fiscal System Manual, Chapter II, Table I.

Suggested Audit Procedures

No fund raising costs have been claimed or reimbursed from county program funds.

CAPITAL EXPENDITURES

3514

Background

State or federal funds may not be used for the purchase or construction of
-buildings.

taxes, repairs, maintenance, and other proprietary costs that would be allowed if the program owned the property.

Idle capacity or idle facilities in excess of current program needs are not allowable.

Criteria

California Health and Safety Code, Section 11991.2. OMB Circular A-122, "Cost Principles For Nonprofit Organizations," Attachment B, paragraphs 16 and 42.

Suggested Audit Procedures

Ascertain that the following:

1. Rented facilities are being utilized to provide program related services.
2. All of the facility is being utilized for current program needs.
3. Expenditures of a lease agreement do not provide for an ownership interest.
4. Expenditures do not reflect a sale-leaseback arrangement.
5. Expenditures of a lease are not with a related organization.

EQUIPMENT RENTAL COSTS

3516

Background

Rental costs of land, building, equipment, and other personal property are allowable if the rates are reasonable compared to ownership and the degree of utilization. Rental costs must be comparable to charges levied in the area.

Costs under leases which result in an ownership interest, sales, and leaseback agreement or a lease with a related organization, are allowable only in the amount of property costs. These costs include depreciation, repairs,

maintenance, and other ownership costs that would be allowed if the program owned the equipment.

Criteria

California Health and Safety Code, Section 11991.2. OMB Circular A-122. Attachment B, paragraph 42.

Suggested Audit Procedures

Ascertain that the following:

1. Equipment rental costs are entirely for program related activities.
2. Expenditures of a lease agreement does not provide an ownership interest.
3. Expenditures do not reflect a sale leaseback arrangement.
4. Expenditures of a lease is not with a related organization.

TRAVEL COSTS

3517

Background

Employees who are required to travel intra-state for official business incidental to a grant program, may claim expenses for transportation, lodging, subsistence, and related travel expense items. Out-of-state travel requires prior county and/or state approval.

Criteria

California Health and Safety Code, Sections 11818(a) (Alcohol) and 11991.2 (Drug).

Suggested Audit Procedures

Ascertain that the following:

1. Housing, meal, and transportation costs are within limits prescribed by the state or county.
2. Expenses are reasonable and necessary to program operation.
3. The treatment of expenses is consistent with practices in nonfederally sponsored activities. (As an example, travel costs treated as an indirect charge should be distributed among programs receiving a common benefit.)
4. Out-of-state travel has had prior county and/or state approval.

COUNTY SERVICE SUPPORT OF ALCOHOL AND DRUG PROGRAMS 3518

Background

Overhead

County alcohol and drug programs receive support and services from other county departments or units such as purchasing, accounting, data processing, county counsel, etc. A portion of these costs may be allocated to alcohol or drug programs through the countywide cost allocation plan. These allocated costs must benefit the respective program and represent actual program costs.

Criteria

California Health and Safety Code, Section 11818. California Administrative Code, Section 9424. Drug Program Fiscal System Manual, Chapter II, Table I.

Suggested Audit Procedures

Ascertain that the following:

1. County service support costs have been established by an approved countywide cost allocation plan.
2. Allocated costs are program related and are not a duplication of direct charges.

Gains and losses on the sale, retirement, or other disposition of depreciable property shall be included in the fiscal year in which they occurred as a credit or charge to program costs.

Under the following conditions, gains and losses will not be recognized:

1. Property is purchased with private funds and no depreciation claimed against the state program.
2. The gain or loss is processed through an accumulated depreciation account and is reflected in allowable depreciation for the year.
3. Property is traded in on a similar item and gain or loss is applied to the new item's depreciable basis.

Criteria

Health Care Financing Administration (HCFA), Medicare Provider Reimbursement Manual, (HIM 15-1) Section 132

Suggested Audit Procedures

1. Determine the funding source used to acquire the property.
2. Determine the method used to adjust applicable depreciation.
3. Determine gains and losses have been correctly computed.

SERVICE COSTS--RELATED ORGANIZATIONS

3520

Background

Organizations related by common ownership or control may provide subordinate units services, facilities, and supplies at cost. Such costs shall not exceed those for comparable services, facilities, or supplies purchased in the open market.

Criteria

Health Care Financing Administration (HCFA), Medicare Provider Reimbursement Manual (HIM 15-1), Chapter 10.

Suggested Audit Procedures

Ascertain that the following:

1. That closely related organizational ties exist between the parent and subordinate units.
2. Costs of services, facilities, and supplies are passed through without a mark up or profit to the parent organization.
3. Costs of services, facilities, and supplies do not exceed open market costs.

STATHAM FUNDS--COUNTY ALCOHOL PROGRAMS

3521

Background

A portion of the fine paid by a person convicted driving under the influence is deposited in a special account under the control of the county treasury. These fines, commonly called Statham funds, are to fund additional services.

The state regards Statham funds as county funds. They may be used to provide additional alcohol services or meet county match requirements. Up to five

percent of the Statham funds can be retained by the county to offset administrative costs of collection and disbursement.

Criteria

California Penal Code, Section 1463.16. California Administrative Code, Title 9, Section 9428. Alcohol Services Reporting System Manual (ASRS) Chapter VIII, page 8.1.

Audit Procedures

Ascertain that the following:

1. The portion of convicted drinking driver fines assessed are traceable to a special county alcohol account in the county treasury.
2. Withdrawals from this account were for alcohol purposes only (in accordance with the approved county alcohol plan/budget).
3. The county retained five percent or less of collected drinking driver fines for administrative costs.

GLOSSARY OF TERMS

ACCOUNTING CONTROLS - Controls which have a direct bearing upon the reliability of the financial statements. Accounting controls include all measures concerned with safeguarding assets, authorization of transactions, and the reliability of accounting records.

ACCRUAL ACCOUNTING - The basis of accounting under which revenues are recorded when earned and expenditures are recorded when incurred.

ACQUISITION OF PROPERTY - Purchase and construction or fabrication of property, but not rental of property or alterations and renovations of real property.

ACQUISITION COST OF AN ITEM OF PURCHASE - The net invoice price of equipment including the cost modifications, attachments, accessories, or auxiliary apparatus necessary to make the equipment usable for which it was acquired. Other changes such as the cost of installation, taxes, duty, or protective in-transit insurance must be included in the unit acquisition cost. If the item is acquired by trading in another item and paying an additional amount, "acquisition cost" means the amount received for trade-in plus the additional outlay.

ACTUAL COST=CONTRACT - A contract by which the contractor will be reimbursed for no more than documented costs incurred for services within the limits of the contract. An actual cost contract usually results in the "Buying of Program" rather than units of service.

ADMINISTRATIVE CONTROLS - Those management controls which have no direct bearing on the financial statements.

ADP - California State Department of Alcohol and Drug Programs.

AICPA - American Institute of Certified Public Accountants.

ALLOCABLE - A cost that is assignable or chargeable to a particular cost objective in accordance with the relative benefits received or other equitable relationships. Examples are long distance phone calls, salaries, and other costs directly identifiable to a cost objective.

ALLOWABLE COST - Those costs that are both necessary and proper that pass the test of reasonableness to develop and maintain a contractor's common and accepted alcohol and drug abuse services and activities. Further, the cost must not be in violation of state and federal laws and regulations.

AMOUNT RECEIVED FOR TRADE-IN FOR REPLACEMENT EQUIPMENT - The amount that would have been paid for replacement equipment without a trade-in minus the amount paid with the trade-in. The term refers to the actual difference, not necessarily the trade-in value shown on an invoice.

APPORTION (apportionment) - To distribute in shares according to a plan.

APPROVED BUDGET - A budget (including any revised budget) which has been approved by the awarding party.

ASSETS - Resources, such as cash, available to the organization for the benefit of future activities.

AUDIT TRAIL (Also known as Accounting Trail) - The traceability of items on the financial statements through the books and records to the source documentation.

BALANCE SHEET - Statement of assets, liabilities and equity of an organization at a given date.

BOOKS OF ORIGINAL ENTRY - Those registers and journals into which all financial transactions are first entered or recorded.

BUDGET - Means the organization's financial plan for carrying out the project or program.

BUDGET CATEGORY - Major sections of the budget (e.g., personal services, operating expenses, equipment, consultant contacts, etc.).

BUDGETING - The process of, and plan for, allocating resources such as manpower, facilities, equipment, materials and service expenses during a given period against the estimated income for that period.

CAPITAL IMPROVEMENT - A modification of real property that increases the life or fair market value, as defined in the State Administrative Manual, Section 865.3 dated July, 1976.

CASH ACCOUNTING - The basis of accounting under which revenues are recorded when received and expenditures are recorded when paid.

CASH DISBURSEMENT JOURNAL - A book of original entry which records all transactions pertaining to payment made by the organization to other parties, whether for expenditures, advances, or loans.

CASH RECEIPTS JOURNAL - A book of original entry which records all transactions pertaining to the receipt of cash by the organization, whether cash or check.

CHART OF ACCOUNTS - A listing of the accounts in the ledger. It serves as a table of contents and coding system for bookkeeping and financial statements.

CLAIM FOR REIMBURSEMENT - Claims submitted to the State or the counties for reimbursement of actual expenditures made or units of service provided.

COMPENSATION FOR PERSONAL SERVICES - Compensation paid currently or accrued by the organization for services of employees rendered during the period of the award. It includes, but is not limited to salaries, wages, director's and executive committee member's fees, incentive awards, fringe benefits, pension plan costs, allowances for off-site pay, incentive pay, location allowances, hardship pay, and cost-of-living differentials.

CONSISTENCY - Methodology assuring that costs charged to government-supported projects are charged in a uniform manner to all work of the organization. It precludes an overcharge to the government as a result of the government's participation in an indirect cost pool. An example of a "consistency" methodology follows: "All indirect costs are allocated to the proper cost objective in the same manner whether it is a government contract or a private contract."

CONSULTANT - An individual or firm contracted to provide professional services to a project with the status of an

independent contractor.

CONTRACTOR/SUBCONTRACTOR - An individual, organization, or institution employed under written agreement by ADP or a subgrantee to provide services or goods incident to execution of a planning or action project supported by ADP.

COST CENTER (Also known as cost objective) - A pool, center, or account established for the purpose of accumulating costs.

COST GUIDELINES - A per-unit cost, established by the Department as a standard measure for budget and cost analysis. Such costs are based on experience and surveys and include a consideration for inflation (Alcohol Programs only).

COST OBJECTIVE - See Cost Center.

COUNTY ALCOHOLISM PROGRAM BUDGET (CAPB) - A financial plan, approved by the Board of Supervisors, which reflects the proposed means of financing a county alcohol program for a fiscal year. The budget is included as a part of the County Alcohol Plan.

COUNTY ALCOHOL PLAN (CAP) - A description of planned activities and objectives for a county alcohol program for a fiscal year. Includes description of the planning process, unmet needs, evaluation methodology, services and budget. The County Alcohol Plan is reviewed by the County Advisory Board on Alcohol Problems

and approved by the County Board of Supervisors.

COUNTY FUNDS - Consists of county-based tax dollars, county-collected fines and fees, and federal revenue sharing.

COUNTY OVERHEAD COSTS - Indirect and support costs involved in running a program. Such costs result from a portion of a parent department's costs (health-related agency) plus a portion of county support costs, such as rent, personnel, and accounting.

DEPARTMENT - The State Department of Alcohol and Drug Programs (ADP), established pursuant to Section 11750, Division 10.5 of the Health and Safety Code.

DEPRECIATION - A process of wearing out. A depreciation expense for an accounting period is the portion of capital invested in depreciable assets which is exhausted during that period as a result of the assets' wearing out.

DIRECT COSTS - Those costs that can be identified specifically with a particular cost objective. Examples are salaries, travel costs, equipment, and other costs directly identified to a cost objective.

DIRECTOR - This refers to the Director of the State Department of Alcohol and Drug Programs appointed by the Governor pursuant to Section 11751, Division 10.5 of the Health and Safety Code.

DOCUMENTATION - The support of each reported expenditure and receipt by records which clearly identify the expenditure or receipt as a contract item.

DONATION - Any gift or contribution received by a program or service independent of costs or fees for services provided by such programs or services.

* ENCUMBRANCES - Estimated obligations supported by purchase orders, contracts, or salary commitments which are chargeable to an appropriation and for which part of the appropriation is reserved. Typical "Encumbrances" is government terminology for "estimated liabilities."

EQUIPMENT - An article of personal property, procured or fabricated, complete in itself, of a durable nature, and having an expected service life of more than three years and a cost in excess of \$300 for alcohol programs or having an expected service life of more than three years and a cost in excess of \$500 for drug programs.

EQUIPMENT TRADE-IN - See Amounts Received for Trade-In for Replacement Equipment.

EXPENDITURE - The actual payment of funds for goods delivered, services rendered, and expenses incurred.

EXPENSE - An expired cost. A cost that has been consumed in providing operations and services of the organization.

FACILITIES - Plant or any portion thereof (inclusive of land integral to the operation); equipment individually or collectively; or any other tangible capital asset, wherever located, and whether owned or leased by the institution.

FEES - Money paid by persons receiving services, or money paid on behalf of such persons by the federal government, or other public or private sources.

FEE SYSTEM - Criteria used to set a fee schedule. Contractors may use a variety of methods to set and collect fees, provided such methods do not result in the withholding of services because of the client's inability to pay.

FINANCIAL STATEMENTS - A periodic presentation of financial information of an organization.

FISCAL YEAR - A period of 12 consecutive months. The State Fiscal Year begins July 1 and ends June 30.

FUND - An independent fiscal and accounting entity for carrying out specific activities in government and non-profit organizations.



FUND ACCOUNTING - The breakdown of financial information according to the organization's various funds; that is establishing a separate set of books for each fund, although the separation is usually accomplished through the Chart of Accounts rather than through a physical separation of the bookkeeping.

FUND BALANCE (Also known as Net Worth) - The financial expression of what the organization is worth. The difference between the book value of the assets and the liabilities.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES - Rules and procedures established by authoritative bodies or conventions that have evolved through custom and common usage. The National Council on Governmental Accounting's Statement 1, "Governmental Accounting and Financial Reporting Principles" is generally acknowledged as the authoritative publication in the area of accounting for state and local government units.

GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS - Those audit standards set forth in the publication "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions," issued by the Comptroller General of the United States.

GENERAL JOURNAL - Used to record unusual and nonrepetitive transactions and to record adjusting and closing entries at the end of the accounting period.

GENERAL LEDGER - The final book of consolidation of all the preceding books of accounts and the source of all fiscal reporting.

IDLE FACILITIES - Completely unused facilities that are in excess of the institution's current needs. Costs of idle facilities or idle capacity are costs such as maintenance, repair, housing, rent, and other related costs; e.g., property taxes, insurance, and depreciation.

IDLE CAPACITY - The unused capacity of partially used facilities. It is the difference between that which a facility could achieve under 100 percent operating time on a one-shift basis less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays, and the extent to which the facility was actually used to meet demands during the accounting period. (A multiple-shift basis may be used if it can be shown that this amount of usage could normally be expected for the type of facility involved.)

INCOME - Revenue of the organization; money earned or received.

INCOME STATEMENT - A financial statement that shows the results of operations over a certain period of time by comparing revenue to expenditures.

INDIRECT COSTS - Costs incurred for common or joint objectives which are not readily subject to treatment as a direct cost.

Some examples are salaries and wages of administrative personnel whose efforts benefit more than one cost objective; associated fringe benefits of above personnel; and operations and maintenance costs such as rent, utilities, janitorial services, and general repair and maintenance.

INITIAL CAPITAL IMPROVEMENTS - The first or beginning improvement such as the erection of a structure on land or the internal or external modification of existing real property that increases the life and/or the fair market value of the real estate.

INTANGIBLE PERSONAL PROPERTY - Property having no physical existence, such as patents, copyrights, goodwill, trademarks, franchises, and other like property.

* INTERNAL CONTROL - A series of procedures designed to promote and enhance sound, efficient management practices, both general and financial. Internal control comprises the plan of the organization and all of the coordinate methods and measures adopted within a business to ^① safeguard the assets from loss or misappropriation, ^② check the reliability of its accounting data, ^③ promote operational efficiency, and ^④ encourage adherence to prescribed managerial policies.

INVOICE - A form sent by a supplier, billing a firm for materials

purchased; serves as a source document for the expenditure entry.

JOURNALS - Records or books of original entry. The pages or books where bookkeeping transactions are first recorded and categorized.

LEDGER - The book of accounts of the organization which shows monthly and cumulative summaries for each account.

LIABILITIES - Economic obligations of the organization.

LINE ITEM - A specific item of expenditure included within a budget category (for instance, under personal services category, "counselor" is a line item).

MODIFIED ACCRUAL ACCOUNTING - The method of accounting under which expenditures are recorded at the time liabilities are incurred and revenues are recorded when cash is received.

OBLIGATIONS - Amounts of orders placed, contracts awarded, services received, and similar transactions during a given period which will require payment during the same or future period.

PERSONAL PROPERTY - Property of any kind except real property. It may be tangible or intangible.

PROFIT - The return received on a business undertaking after all operating expenses have been met as allowed in normal accounting procedures. Profit accrues to entrepreneurs as compensation for the assumption of risk in business.

PROJECT INCOME - Earnings acquired by a project as a result of input of resources (time, materials, money, etc.) from grant funds and/or matching contributions.

PURCHASE ORDER (PO) - A prenumbered form sent to suppliers requesting the shipment of goods.

REAL PROPERTY - Land, including improvements, structures, and appurtenances thereto, but excluding movable machinery and equipment.

REASONABLE COST - Costs which are necessary, proper, fair, and not extreme. The costs that are generally recognized as both ordinary and necessary for the operation of the organization in the performance of a grant or contract. The cost incurred is based on generally accepted sound business practices. The action which a prudent businessperson would take under similar circumstances. Examples are general facility operating expenses, salaries, and costs necessary for contract compliance.

RECEIPT - (1) A revenue; (2) A written acknowledgement that a sum of money has been received.

REIMBURSE - To pay back money spent for actual expenses. Also, to change a fee for services rendered.

REPLACEMENT EQUIPMENT - Property acquired to take the place of other equipment. To qualify as replacement equipment, it must serve the same functions as the equipment replaced and must be of the same nature or character, although not necessarily the same model, grade, or quality.

REPORT OF EXPENDITURES - A summary of an organization's fiscal year financial and statistical transactions which serves as the basis for the final reimbursement settlement.

RESTRICTED ASSETS - Monies or other resources, the use of which is restricted by legal or contractual requirements. In government accounting, special treatments are applied to restricted assets. These are sometimes also called restricted "funds" but such terminology is not preferred.

REVENUES - Any money received or accrued from any source other than the state or federal formula grant allocation.

SAVINGS - The difference between the approved county budget and the actual expenditure of state and federal funds reflected in the year-end report of expenditures for that fiscal year.

SHALL, MAY, AND SHOULD - "Shall" means mandatory. "May" means permissive. "Should" means recommended.

SOURCE DOCUMENT - A form that serves as a basis for an accounting entry; an original record such as a time sheet, an invoice, or a receipt.

SPECIAL-PURPOSE EQUIPMENT - Equipment which is usable only for research, medical, scientific, or technical activities. Examples of special-purpose equipment include microscopes, X-ray machines, surgical instruments, and spectrometers.

SUPPLIES - The cost of supplies, materials, and equipment charged directly to the contract, but not the cost of capitalized, nonexpendable equipment.

SURPLUS - The difference between revenues and operating expenses in a nonprofit corporation. Similar to profits.

TANGIBLE PERSONAL PROPERTY - Property having physical existence.

UMDAP - Acronym for the Department of Health's Uniform Method for Determining Ability to Pay; a uniform application of criteria to determine whether and how much to bill clients for services.

UNIT OF GENERAL LOCAL GOVERNMENT - Any city, county, township, town, borough, parish, village, or other general-purpose,

political subdivision of a state.

UNRESTRICTED ASSETS - Monies or other resources, the use of which is not restricted by legal or contractual requirements.

WORKING TRIAL BALANCE - A list of organizational accounts that balance the assets and the liabilities. The working trial balance groups related accounts on schedules that support a summary form of the Trial Balance and generally list closing and post-closing adjustments resulting in the final account balances.

SAMPLE ACCOUNTING PROCEDURES AND POLICY MANUAL

The following appendix is an example of a Policies and Procedures Manual which could be used by a small nonprofit organization. This example represents the minimum information that an organization should have. However, it is an example only. Each organization should develop a manual which fits its individual needs.

FINANCIAL MANAGEMENT: POLICIES AND PROCEDURES

- I. Subject - The following policies and procedures describe the basic components of the financial, management, accounting, and reporting systems adopted by the Board of Directors of Contractor XXX.
 - A. Purpose - The purpose of the policies and procedures adopted by Contractor XXX is four-fold:
 1. To provide clear responsibility for financial management and reporting.
 2. To provide regular and systematic financial reporting to the Board of Directors, governmental agencies, and private agencies.

3. To develop public accountability for all funds received. This includes not only funds received from various levels of government (federal, state, and local), but funds from private organizations, charities, and individual contributions.

4. To develop an accounting system that will provide reasonable internal and external control over the revenues, cash payments, expenses, assets, and liabilities of the organization. The ultimate goal is to prevent fraud and waste.

II. General Policies - It shall be the policy of Contractor XXX that:

A. All fiscal transactions conform to federal, state, and local laws governing the operation of nonprofit corporations with respect to all grants, contracts, and contributions.

B. All required financial, tax, and other reports be filed when required.

C. All fiscal expenditures be under the control of a

Budget and Finance Committee. This committee will be formed from among the membership of the Board of Directors and headed by the Treasurer. The number of members will be determined by the Board of Directors. This Committee will be responsible for the budget and all expenditures. The committee will be responsible to the Board of Directors. The Executive Director and Bookkeeper will be responsible to the committee. The committee will determine what responsibilities to delegate to the Executive Director and the Bookkeeper.

D. All expenditures, except for petty cash, shall be made by check, require two signatures, and be approved by the Board of Directors.

1. The two signatures may be any combination of designated Board members and the Executive Director.

2. Signature by a Board member will constitute the Board of Directors approval.

E. The Board of Directors will ensure that all duties and responsibilities of the staff will be divided among several employees in such a manner that no

one person will have sole authority over any of the records, especially the fiscal records.

- F. An independent Certified Public Accountant will be hired by the Board of Directors on an annual basis to audit all books, records, and reports.

III. Specific Policies

- A. Fiscal Control - The Board of Directors will ensure that an internal accounting control system is developed to ensure effective fiscal management and the safeguarding of assets from misappropriation. This will be accomplished by:

1. Implementing the Voucher System of accounting. This system requires that every liability be recorded as soon as it is incurred, and that checks be issued only in payment of approved liabilities. (See last page for example of a typical voucher.)
2. Ensuring that there is appropriate segregation of financial responsibilities. Fiscal responsibilities will be divided among several employees in such a manner that the work of each person serves to check that of

the others. No one person shall be responsible for a transaction from beginning to end.

3. Implementing a system of authorization and record procedures which provides reasonable accounting control over assets, liabilities, revenues, and expenses.
4. Ensuring that the duties and functions of each employee will be spelled out so that sound practices will be developed.
5. Ensuring that the personnel hired possess abilities commensurate with their responsibilities.

IV.. Accounting Control

A. Policy - Misappropriation usually occurs when an employee has authority to both incur expenses and to issue checks. The solution is to divide disbursement duties among several employees. One method of establishing control over disbursements is the use of the voucher.

B. Use of the Voucher System

1. The Voucher - A written authorization called a voucher is prepared for each expenditure. The top half of the voucher consists of the name and address of the creditor, the date and number of the voucher, and all pertinent details of the invoice and other supporting documentation. One half of the bottom half of the voucher is devoted to account distribution, while the other half of the bottom half is used for summaries of the voucher, details of payment, and spaces for the signatures of approval.

2. The Voucher Register - After approval by the designated person, each voucher is recorded in a journal called a Voucher Register. This replaces the traditional Purchases Journal. The vouchers are entered in numerical sequence and are recorded as a credit to Vouchers Payable and a debit to the account to be charged for the expenditure. The Voucher Register serves a dual purpose: it is primarily a book of original entry, but it also serves as the equivalent of a subsidiary ledger of liability accounts.

3. Unpaid Voucher File - A characteristic of the Voucher System is that a voucher is prepared for each expenditure. However, the voucher does not have to be paid immediately. Vouchers are filed in an unpaid voucher file. When the voucher is to be paid, it is removed from the unpaid voucher file and a check is issued to payment.
4. Check Register - Every check issued is recorded in numerical order in a Check Register by debiting Vouchers Payable and crediting cash. A Check Register is a simplified version of the Cash Disbursement Journal. It provides a chronological record of all checks issued.
5. Paid Voucher File - The Voucher Register does not classify invoices by creditors--that is, it does not show the total purchases from a given business. Therefore, a card file will be set up to show the total business done with each creditor. A card will be maintained for each creditor showing dates and numbers of vouchers payable.

C. Other Accounting Records - Other accounting

records to be maintained are:

1. Chart of Accounts - A Chart of Accounts will be set up with appropriate account titles and account numbers. The Chart will be divided into five accounts: Assets, Liabilities, Funds, Income (Revenue), and Expense Accounts.
2. General Ledger - The General Ledger is the permanent record in which the balance of each active account is recorded and maintained. The General Ledger will be divided into the five following sections: Assets, Liabilities, Funds, Income, and Expense Accounts.
3. General Journal - The General Journal will be used for all entries that do not involve cash receipts or cash disbursements. Normally, these are entries to achieve adjustments between general ledger accounts, to establish accruals, and to close the books at the end of an accounting period.
 - a. Posting - At the end of each month, the recorded information in the General

Journal, Voucher Register, and Check Register will be transferred (posted) to the proper general ledger accounts. The debits and credits in these accounts are then totaled and lined.

b. Closing the Books - At the end of the fiscal year, the books are closed by removing the balances of revenue and expense accounts from the General Ledger. This is done annually so that the excess or deficiency of revenues over expenses for the year can be determined. The annual closing is accomplished by journalizing and posting closing entries to the General Journal.

4. Trial Balance - At the end of each month, a Trial Balance is set up to check the accuracy of the posting and provide the equality of debits and credits in the General Ledger.

5. Financial Statements - The Financial Statements consist of the Income Statement and Balance Sheet.

a. Income Statement - The Income Statement

reveals the financial progress of a business over a period of time. This statement is very important in the private sector because it shows whether the business is operating at a profit or a loss. The statement can also be used by nonprofit organizations and public agencies to show if the organizations' expenses are being kept within budget (usually determined by revenue from grant sources). Expenses are subtracted from revenue to determine net income. The income statement should be prepared every month so as to provide the board with current information as to the financial health of the organization.

- b. Balance Sheet - The balance sheet reveals the financial condition of a business on a specific date. The balance sheet is important for both profit and nonprofit organizations because it shows the net worth or fund balance of an organization when liabilities are subtracted from assets.

6. Responsibilities and Duties

a. General - The ultimate source of responsibility for the accounting records lies with the Board of Directors operating through the Budget and Finance Committee. This committee, headed by the Treasurer, must give its approval for all expenditures. However, this approval power for all ordinary expenses may be delegated to the board member(s) who sign all checks.

The Executive Director is responsible for supervising the overall accounting system. The Bookkeeper is responsible for preparing and maintaining the accounting records.

b. Specific - The Bookkeeper is responsible for preparing the vouchers and recording them in the Voucher Register. The Executive Director is responsible for reviewing the vouchers and determining whether the expense is reasonable and proper. If the Executive Director approves the voucher, the Bookkeeper prepares the checks and records the

payment in the Check Register. Two signatures are required for each check. The board member who signs the check also should sign the voucher thus giving Board approval for the payment to be made. The Bookkeeper is responsible for preparing the accounting records, posting, and closing the records.

V. Fiscal Reporting Controls

A. Policy - A systematic and programmatic fiscal reporting system will be developed which will enable the Board of Directors, membership, funding agencies, and other interested parties to monitor the program and expenditures.

B. Procedure - The following fiscal reports will provide the Board of Directors with data to monitor the program:

1. Statement of Revenue, Expenses, and Change in Fund Balance - This statement will be prepared monthly and presented to the Board of Directors. This statement shows the monthly income and expenses, total operating budget, total expenses to date, and the fund

balance. The statement shows income earned from which expenses are subtracted, to indicate the excess or deficit of income over expenses. The excess or deficit constitutes the change in fund balance.

2. Income Statement - This statement will be prepared monthly and presented to the Board of Directors. This statement shows the income less expenses for the month.
 3. Balance Sheet - A monthly balance sheet will be prepared and presented to the Board of Directors. This statement will show the dollar amount of assets, liabilities, and fund balance.
 4. Monthly copies of all journal entries and bank reconciliation statements will be given to the Treasurer for verification.
 5. There will be an annual audit of the financial records by a Certified Public Accountant.
- C. Policy - The Board of Directors will ensure that all required financial reports, tax returns, and

reports to funding sources are filed when due.

D. Procedure

1. The Board of Directors will contract with a Certified Public Accountant to prepare all required tax reports. The Board will be responsible for making certain that the tax reports are prepared on time. The following reports are required:

a. Federal and state tax returns must be filed within four months following the end of the fiscal year. The fiscal year for Contractor XXX ends on _____ of each year.

b. Federal and state payroll taxes, unemployment taxes, and income taxes withheld must be filed and paid on a quarterly basis. If the income tax withheld exceeds \$200 in one month, the taxes must be deposited on a monthly basis. The same procedure applies for social security taxes.

2. Other financial reports as may be required

from time to time by either the board of directors or by granting agencies will be prepared either by the bookkeeper or by a Certified Public Accountant, depending on the specific requirements of the report.

VI. Budget Control

- A. Policy - The board of directors will be responsible for ensuring that a budget is drawn up the beginning of each fiscal year.
- B. Procedure - The Board of Directors will ensure accountability through the following controls:
1. The Budget and Finance Committee may be required to meet at least sixty (60) days prior to the end of the fiscal year (or as required by granting sources) to analyze past expenditures and develop a program budget for each source of funds.
 2. In lieu of (1) above, the Budget and Finance Committee may make the Executive Director responsible for the development of a proposed budget for each fund for the following year. The Executive Director will make a

presentation to the Committee who will make any necessary revisions.

The Committee will report to the full Board for approval of the Budget. The final decision to expend all funds rests with the full Board.

VII. Bank Accounts and Check Control

A. Policy: Bank Accounts

1. A checking account will be opened in a local bank where all revenue will be deposited intact and in a timely manner and from which all expenses will be paid.
2. Monthly bank statements will be requested with a cut-off of the last day of each month. This will allow the bank statements to correspond with the monthly accounting records of Contractor XXX. This will facilitate the reconciliation of the books to the bank statements.

B. Procedures

1. The Board of Directors will ensure that a checking account is opened in a local bank.
2. The Board may open additional bank accounts as necessary due to grant requirements.
3. Each account will require a monthly statement from the bank.

C. Policy: Check Control

All expenditures, except for petty cash, must be made by check from the checking account(s) established by the board.

D. Procedures

1. All checks written shall have two authorized signatures. The two signatures may be any combination of Board members designated and the Executive Director.
2. All individuals authorized to sign checks will be bonded. Contractor XXX will pay the bond premium.
3. Checks written to reimburse the Executive

Director or any other employee for such things as travel expenses must be approved and signed by two Board members.

4. No Board member or any employee may sign any check payable to themselves for reimbursement of expenses.
5. All checks forwarded to authorized persons for signature must be accompanied by sufficient documentation to support the expenditure.

VIII. Cash Disbursements

A. Policy

1. Internal control over cash disbursements will be developed by setting up the voucher system of cash disbursements.
2. Cash disbursement duties will be divided among several employees. The segregation of duties is to be followed to the extent that there are qualified personnel available.

3. The ultimate authority and responsibility for all cash disbursement rests with the Board of Directors.

B. Procedures

1. All cash disbursements will be made by check.
2. Each check must be signed by two authorized individuals. The two signatories may be any combination of board members designated and the Executive Director. No employee, other than the Executive Director, will be a signatory to any check.
3. Checks will be prenumbered and controlled by inventory.
4. Blank checks will be locked up and under the control of an individual who is not otherwise in the cash disbursement process and who does not record any cash transactions.
5. All cash disbursements must be approved

by a member of the Board of Directors prior to signing the checks. This will be accomplished by the Board member who is a signatory on the checks, signing the voucher prior to signing the check.

6. A monthly bank reconciliation will be prepared for each checking account. This shall be done by an individual who does not handle cash or record cash transactions.

IX. Cash Receipts

- A. Policy - Internal control over cash receipts is to be developed by dividing duties among several employees. No one person will be allowed to receive cash, deposit it, and record it in the accounting records.

- B. Procedures

1. The Secretary will open all incoming mail, prepare a prelisting of all cash items (cash and checks received), and restrictively endorse all checks for deposit only. A deposit slip in duplicate will be prepared

and sent to the Executive Director along with the prelisting and funds received.

2. The Executive Director will compare the list and the deposit slip, and then give the funds received and the deposit slip to another individual, who is not otherwise involved in cash transaction, to deposit the funds in the bank. The bank will be requested to give a duplicate deposit slip which will be sent to the Bookkeeper.
3. The Executive Director will send the prelisting and the duplicate deposit slip prepared by the Secretary to the Bookkeeper.
4. The Bookkeeper compares the duplicate deposit slips prepared by the Secretary and the bank to the prelisting, and records the data in the cash receipts ledger.
5. All persons handling cash will be adequately bonded.
6. Reconciliation of the bank statements to the records will be done by an individual who is not otherwise involved in cash transactions.

X. Petty Cash Control

A. Policy

1. The purpose of a petty cash fund is to avoid writing checks for small purchases, such as stamps and office supplies. If at all possible, Contractor XXX will avoid setting up a petty cash fund since it is difficult to control abuse by employees. Instead of a petty cash fund, charge accounts will be set up at various businesses for small purchases. However, if a petty cash fund is implemented, it will not exceed \$50.
2. The cash will be kept in a safe place under lock and key. Prenumbered vouchers will be used to record the purchase of all items.
3. The Secretary will be responsible for disbursing the cash and maintaining the vouchers. Only authorized persons will be allowed to make petty cash purchases, preferably the Secretary. The Secretary, in turn, must seek permission from either the Executive Director or the Bookkeeper before

making any purchases.

4. Any employee can request a petty cash purchase. However, the Executive Director or Bookkeeper must approve all such purchases in advance.

5. At the end of each month, the Secretary will summarize the petty cash disbursements and submit the summarization along with the vouchers and supporting documentation to the Executive Director who will authorize the fund to be reimbursed.

6. The reimbursement procedures will be the same as for any cash disbursement as outlined in Section VIII.

7. At all times, the total of receipts and cash on hand must equal the petty cash balance of \$50.

XI. Payroll

A. Policy

The payroll will be controlled by keeping

appropriate payroll records, by preparing time sheets, and by having more than one person involved in the payroll procedures.

B. Procedures

1. Payroll Records - All employees will be paid on a bi-monthly basis. The Bookkeeper will be responsible for preparing payroll checks and maintaining the records in a payroll journal.

2. Deductions from Employees - The employer is responsible for deducting the appropriate social security taxes (FICA), federal income taxes withheld, state income taxes withheld, and state disability insurance from the gross earnings of employees. These taxes are compulsory and the employer must submit these taxes to the proper agencies on either a monthly or quarterly basis. Other deductions are voluntary and include such things as charitable contributions, insurance premiums, and savings bond purchases. The Bookkeeper, under the direction of the Board of Directors, will keep the appropriate records to ensure that the proper amounts are

withheld and that payment of monies withheld is made at the appropriate intervals.

3. Payroll Taxes - Contractor XXX has the obligation to pay the following taxes: social security taxes (FICA), federal unemployment insurance taxes, and state unemployment insurance taxes. The Bookkeeper, under the direction of the Board of Directors, will ensure that these taxes are paid when due and that the appropriate records are maintained.

4. Time Sheets - A time sheet is a form on which each staff person records the number of hours worked on a given day. Each employee will be responsible for preparing a time sheet, signing the time sheet, and submitting it to his or her immediate supervisor for signed approval.

5. Specific Duties and Responsibilities

a. The employee is responsible for filling out his or her time sheet every two weeks, signing it, and submitting it to his or her immediate supervisor for

approval.

- b. The supervisor will review each time sheet and, if it is correct, will sign the time sheet. If the time sheet is not correct it will be returned to the employee for correction. The employee's pay for any given pay period will not be processed unless both the employee's and the supervisor's signatures appear on the time sheet.
- c. After the time sheet is approved, it is submitted to the Secretary, who will calculate the amount to be paid and enter it on the time sheet.
- d. The time sheets are then submitted to the Executive Director for review and approval.
- e. Once the Executive Director has approved the time sheet for payment, signified by the Executive Director initialing the time sheet, the time sheets are given to the Bookkeeper, who checks leave balances and prepares the vouchers and

checks. The Bookkeeper also makes the appropriate entries in the records.

f. The rest of the payroll process follows the cash disbursement procedures outlined in Section VIII.

6. During each pay period, the Bookkeeper records all of the payroll data in the Payroll Register. This includes such data as each employee's total earnings, taxable earnings, deductions, and net pay. The cumulative amount of each employee's earnings is recorded in an Employee's Earning Record. The payroll is recorded in the General Ledger.

7. Payroll taxes are accumulated as liabilities to the employer. These taxes are paid at least four times a year to the federal and state governments. The Bookkeeper prepares the special tax forms and posts the taxes to the appropriate General Ledger Accounts. The payment of the taxes follows the cash disbursement procedures outlined in Section VIII.

8. Alternate Procedures - As an alternative to in-house preparation of payroll, Contractor XXX may find it more cost effective to contract with an outside payroll service to handle the actual preparation of the payroll, to pay the appropriate taxes, and to keep the appropriate records.

- a. If a payroll service is utilized, the Bookkeeper will be responsible for preparing the input to the service from the time sheets which have gone through steps 5a through 5e above.
- b. When the payroll checks and registers are returned from the payroll service, they should go to an individual who has not otherwise been involved in the payroll process. This individual will compare the checks to the input and the register. The individual will certify the payroll for payment by signing the payroll register returned by the payroll service.
- c. The Bookkeeper will make the appropriate entries in the in-house records.

XII. Travel Reimbursement

A. Policy

1. Travel expenses and per diem rates will be established by the Board of Directors in accordance with IRS rules and regulations and/or provisions of contracts from granting sources.

B. Procedures

1. All reimbursement requests must be submitted on a form adopted by the Board of Directors.
2. The Executive Director must approve all travel expenses for staff. The Director's travel expenses must be approved by a member of the Board.
3. Travel outside of the normal work area (as defined by the Board of Directors) or overnight travel must be approved in advance by the Budget and Finance Committee or a designated member of the committee.

4. Expenses, other than mileage, must be accompanied by original receipts.

XIII. Fixed Asset Control

A. Policy

1. Fixed assets consist of furniture, fixtures, and other equipment. These assets, whether owned or borrowed, must be controlled by proper accounting records. Procedures will be established for the control of all assets having a unit value of \$300 or more for Alcohol programs and \$500 or more for Drug programs.

B. Procedures

1. Any equipment to be purchased or leased which has a unit value of \$300 or more for Alcohol programs and \$500 or more for Drug programs will require at least three bids.
2. All equipment purchases will require approval of the Budget and Finance

Committee.

3. The Bookkeeper must maintain inventory records of all fixed assets, whether purchased or donated.
4. All fixed assets (purchased or donated) must have all pertinent data recorded as soon after acquisition as is practical.
5. Each item must be recorded on a fixed asset record. Each item should be recorded at cost. The record includes the contract or grant number which paid for the item, purchase price, freight charges, and installation charges.
6. Each item will be tagged with a numbered inventory tag.
7. An annual equipment inventory will be conducted by an individual who is not otherwise involved in the acquisition of, receiving of, or record keeping for the fixed assets.
8. The disposal of any fixed asset must be

authorized by the Board and done in accordance with the requirements of the grant or contract source which paid for the equipment.

XIV. Consultants

A. Policy

Whenever consultants are hired, it must be demonstrated that there is a need for this service and that there is adequate documentation of services and payment.

B. Procedures

1. The need for a consultant can be recommended by the Executive Director, but final approval must be made by the Board of Directors.
2. A written contract, approved by an attorney, must be drawn up and signed by both parties.
3. The contract must spell out the duties of the consultant and the method of compensation.
4. An adequate record of payment must be

EXAMPLE OF A TYPICAL VOUCHER

Voucher No. _____

Date: _____

Check No. _____

Amount \$ _____

Accounts Charged by Amount

_____	_____	_____
_____	_____	_____
_____	_____	_____

Purpose: _____

Voucher Prepared By: _____ Date: _____

Voucher Prepared By: _____ Date: _____

_____ Date: _____

SAMPLE CHART OF ACCOUNTS

The following Appendix is an example of a typical Chart of Accounts. It is meant as an example only and is by no means a requirement by ADP.

ASSET ACCOUNTS

<u>ACCOUNT</u>	<u>ACCOUNT</u>
<u>NUMBER</u>	<u>DESCRIPTION</u>
11010	CASH IN BANK - CHECKING
11020	CASH IN BANK - PAYROLL ACCOUNT
11030	SAVINGS ACCOUNT
11110	PETTY CASH FUND
11210	A/R
11211	A/R - COUNTY
11212	A/R - STATE
11340	EMPLOYEE TRAVEL ADVANCE
11350	BENEFICIARY TRAVEL ADVANCE
11360	SALARY ADVANCE
11410	INTRA - FUND TRANSFER
11510	FRINGE - GENERAL HEALTH
11520	FRINGE - WORKERS' COMPENSATION
11610	EXP. - SECURITY DEPOSIT

11620 EXP. - REPRODUCTION & PRINTING
11630 PPD. EXP. - GEN. INSURANCE
11640 PPD. EXP. - POSTAGE & SHIP.
11710 INVENTORY - OFFICE SUPPLY
11720 INVENTORY - MEDICAL SUPPLY
11810 OTHER ASSETS
11910 PURCHASED FURN. & EQUIP.
11920 DONATED FURN. & EQUIP.

LIABILITY ACCOUNTS

22010 A/P - VENDOR
22020 A/P - OTHER
22110 ACCRUED WAGES
22210 FIT PAYABLE
22220 EMPLOYER FICA PAYABLE
22221 EMPLOYEE FICA PAYABLE
22230 SIT PAYABLE
22231 SDI PAYABLE
22232 SUI PAYABLE
22333 STATE TAX
22334 FEDERAL TAX
22335 OTHER DED. PAYABLE

FUND ACCOUNTS

33333 FUND BALANCE

33500 ALCOHOLISM
33999 FIXED ASSETS FUND BALANCE

REVENUE ACCOUNTS

43201 COM. DEV. OTHER REVENUE
45001 ALCOHOLISM OTHER REVENUE
45401 PATIENT FEE REVENUE
45402 MEDI-CAL REVENUE
45403 STATE CONTRACT REVENUE
45404 COUNTY CONTRACT REVENUE
46601 OTHER REVENUE
49130 IN-KIND REVENUE
49150 IN-KIND REVENUE-ALCOHOLISM

PROGRAM ACCOUNTS



30 CENTRAL ADMINISTRATION
40 REFERRAL
50 EMERGENCY
60 TREATMENT
70 RECOVERY
80 REHABILITATION



CURRENT EXPENDITURE CODES

CODE STRUCTURE

All expenditures are coded with five digits. This is done to maintain consistency with the five digit balance sheet account codes.

All expense codes start with the digit 9 to signify that the item is an expense. This is followed by a two-digit cost category code which identifies the type of expense. Each type of expense and corresponding code is shown on the pages immediately following.

The last two digits signify the program or fund that the expense is chargeable to. As an example of the above, any expense account can be interpreted as follows:

X - Expense Account

XX - Specific Cost Category

XX - Program

- Example:
1. Account No. 93130
 2. Account No. 95260

1. 93130 means: 9 - expense account
31 - salaries and wages
30 - central admin.

2. 95260 means: 9 - expense account
52 - employee travel out of town
60 - treatment

COST CATEGORIES

Personnel:

- 31 - Salaries and wages - paid
- 32 - Salaries and wages - contributed
- 35 - Employee payroll taxes
- 36 - Employee benefits

Consultants and Contract Services:

- 41 - Consultants - temporary services
- 42 - Consultants - continuing services
- 43 - Professional services
- 44 - Bookkeeping and data processing services
- 49 - Other contract services

Travel:

- 51 - Employee travel within community
- 52 - Employee travel out of town
- 53 - Beneficiary travel
- 54 - Other travel

Space Costs and Rentals:

- 61 - Rental of space
- 62 - Leasehold improvements and repairs
- 63 - Utilities
- 64 - Maintenance
- 69 - Other space costs

Consumable Supplies:

- 71 - Office supplies and minor accessories
- 72 - Program supplies and minor equipment
- 73 - Supplies
- 74 - Food
- 75 - Maintenance supplies
- 76 - Other consumable supplies

Equipment-Purchased, Leased, or Rented:

- 81 - Equipment purchased
- 82 - Equipment leased or rented

Other Costs:

- 91 - Insurance and bonding
- 92 - Publications, printing, and subscriptions
- 93 - Repairs and other services
- 94 - Employee development and recruitment
- 95 - Beneficiary costs
- 96 - Telephone and telegraph
- 97 - Postage, freight, and express
- 98 - Other expenditures

SAMPLE BOOKS AND STATEMENTS

This Appendix contains examples of some of the types of books that should be maintained. This example is not meant to be all inclusive, nor does it show the only way that the books can be kept.

CASH RECEIPTS JOURNAL

These are the typical columnar headings found on cash receipts journals.

Columnar Headings

- | | |
|-----------------|--|
| Received From | - Date transaction is recorded. |
| Date Received | - Name of party from whom funds were received with brief description of nature of the transaction. |
| Check Date/Cash | - Date of check from the party or write the word "cash." |

Check Number - Number of party's check.

Check/Cash Amount - Amount of funds received.

One column for receipt number.

One column for the program code.

One column for each funding source.

One column for other:

Amount

One column for deposit subdivided to:

Date Deposited

Amount Deposited

(For an Example of Cash Receipts Journal, See Fig. 1.)

EXAMPLES OF CASH RECEIPTS JOURNAL

CASH RECEIPTS JOURNAL

Invoice Num	Date Received	Cash Over/Under	Check Number	Amount	Receipt Number	Position Code	5 Digit	County	Tax	Revenue Code	Date Received	Amount Received
100	8/1/83	21/87	6542	\$ 5000.00	100	30	10000				8/1/83	\$ 5000.00
101	8/1/83				101	40	5000					
102	8/1/83				102	50	5000					
103	8/1/83				103	60	10000					
104	8/1/83				104	70	10000					
105	8/1/83				105	80	10000					
106	8/1/83				106	90	10000					
107	8/1/83				107	00	10000					
108	8/1/83				108	10	10000					
109	8/1/83				109	20	10000					
110	8/1/83				110	30	10000					
				\$ 5000.00								\$ 5000.00
				\$ 10000.00								\$ 10000.00
				\$ 6000.00								\$ 6000.00
				\$ 1750.00								\$ 1750.00
				\$ 5000.00								\$ 5000.00
				\$ 5715.00								\$ 5715.00

FIG. 1

CASH DISBURSEMENTS JOURNAL

These are the typical columnar headings for a Cash Disbursements Journal.

Columnar Headings

- | | |
|--------------------|---|
| Description | - Payee and brief description of transaction. |
| Voucher or Invoice | - If voucher is used, number is listed. Alternative is to list vendor's invoice number. |
| Date | - Date of Check. |
| Check Number | - Number of check. |
| Amount | - Net amount of check. |
| Account Code | - If account codes are used, they are listed. At end of the month a summary is used. This is more typical of a computerized system. |

EXAMPLE OF CASH DISBURSEMENTS JOURNAL

CASH DISBURSEMENTS
JOURNAL

(EXAMPLE USING ACCOUNT COOBS)

DISCRPTION	VOUCHER #	DATE	CHECK #	AMOUNT	ACCOUNT COOB
JOHN BLOW	107	8/1/83	201	\$1000 ⁰⁰	93130
N JONES	108	8/1/83	202	500 ⁰⁰	93170
W SMITH	109	8/1/83	203	750 ⁰⁰	93170
K FALL	110	8/1/83	204	850 ⁰⁰	93160
B SHORT	111	8/1/83	205	400 ⁰⁰	93130
L MOSS	112	8/1/83	206	750 ⁰⁰	93140
P&E UTILITIES	113	8/5/83	207	500 ⁰⁰	96330
PT&T TELEPHONE	114	8/5/83	208	200 ⁰⁰	96330
I PROPERTIES RENT	115	8/5/83	209	1500 ⁰⁰	96330
M&N SUPPLIES OFFICE	116	8/15/83	210	50 ⁰⁰	97160
J. T. BUILDING REPAIR	117	8/20/83	211	500 ⁰⁰	96430
VOID	118		212		
VOID			213		
UU BANK PAYROLL TAX	119	8/25/83		1000 ⁰⁰	222
				<u>\$8000⁰⁰</u>	
TOTAL AUG 83					

EXAMPLE OF CASH DISBURSEMENT JOURNAL

CASH Disbursements Journal

(Example Using Accounts Assembly and Cash (Current) ...)

Particulars	Account	Date	Check #	Amount	Payroll	Utilities	Supplies	Travel	Conting.	Transp.	Other
John B. Co.	107	8/1/83	201	\$1,000.00							
W. Jones	108	8/1/83	202	500.00							
W. Smith	107	8/1/83	203	750.00							
K. York	119	8/1/83	204	500.00							
B. Street	111	8/1/83	205	850.00							
L. Wall	112	8/1/83	206	400.00							
P. West	113	8/5/83	207	500.00		500.00					
P. West	114	8/5/83	208	200.00		200.00					
M. & S. Supplies	115	8/10/83	209	50.00			50.00				
J. J. Pappas	116	8/10/83	210	75.00			75.00				
K.E. Durobin Motors	117	8/11/83	211	400.00				400.00			
Quick Rent	118	8/15/83	212	100.00			100.00				
J. Brown	119	8/15/83	213	50.00						50.00	
E.E. Construction	120	8/15/83	214	1,700.00					1,700.00		
U. U. Boat Repair Co.	121	8/25/83	215	200.00							200.00
Total				\$9,015.00	\$4,000.00	\$700.00	\$1,225.00	\$400.00	\$1,700.00	\$50.00	\$2,000.00

FIG. 3

PURCHASE ORDER (PO) LOG

Columnar Headings

- Vendor - Name of vendor.

- Purchase Order - Contains three categories: date of the PO, number of the PO, and item description.

- Account Code - 5 digit account code.

- Amount - Amount of purchase.

- Paid - Contains three categories: date check is issued, check number, amount of check.

- Data Required - Request for purchase order, purchase orders, invoices.

(For an example of a Purchase Order Log see Figure 4)

EXAMPLE OF PURCHASE ORDER LOG

PODENSE GEORGE Lot

Vendor	Date	P. O. #	ITEM	Account		Paid		
				Chg	Amount	Date	Check #	Amount
Z & W SUPPLIES NY BUILDINGS REPAIR EQUIPMENT From NY 85/84	9/7/85	222	MISC. OFFICE SUPPLIES	971.30	\$1,000.00	9/10/85	220	\$1,000.00
	10/19/85	223	LUMBER FOR REPAIRS	962.80	200.00	10/21/85	235	200.00
	3/4/84	224	TWO IBM STRUCTURES	981.30	\$2,000.00	4/1/85	451	2,000.00
					<u>\$ 3,200.00</u>			<u>\$ 3,200.00</u>

FIG. 4

DONATION/CONTRIBUTIONS JOURNAL

These are the typical headings found on the Donation/
Contributions Journal.

Columnar Headings

- | | |
|--------------|---|
| Donor | - Name of party who made the donation. |
| Date | - The date when the contribution was posted in the In-Kind Journal. |
| Item Donated | - Two columns show item donated and unit cost. |
| Form Number | - In-Kind form serial number. |
| Amount | - The total amount donated. |
| Program Code | - Two-digit cost center code to show which program the item is for. |

One column each for the amount breakdown according to cost category.

EXAMPLE OF INKIND
CONTRIBUTION LEDGER

Contributions Bureau

Donor or Co.	Item	Date	Amount	Revised Cost	Label	Office Supplies	Photographic	Flourish	Firmers	Verticals	Other
J. N. Hill	4 Boxes Ink	7/1/41	\$4.00	.70							
C. W. Taylor	100 lbs. Printing Ink	7/1/41	300.00	.30	\$500.00						
E. B. Gammeter	100 lbs. Printing Ink	12/1/41	200.00	.20							
S. S. Gammeter	100 lbs. Printing Ink	1/15/42	1,500.00	.40							
W. W. Gammeter	500 lbs. Printing Ink	3/10/42	1,000.00	.60		\$1,000.00					
K. W. Gammeter	100 lbs. Printing Ink	4/1/42	1,000.00	.20							
	Total		\$4,000.00		\$500.00	\$1,000.00	\$1,500.00	\$200.00	\$1,000.00	\$2,000.00	\$
					\$500.00	\$1,000.00	\$1,500.00	\$200.00	\$1,000.00	\$2,000.00	\$

Form No. FX 05/60

FIG. 5

TRIAL BALANCE AND FINANCIAL STATEMENTS

Figure 8 is an example of a generalized trial balance for the first quarter of fiscal year 1983/84. The trial balance is derived from the general ledger Figure 9. As can readily be seen, the balance for each general ledger account is recapped on the trial balance. From the trial balance the unadjusted financial statement (income statement and balance sheet) are derived. In this example there are no adjustments to the financial statements so the final statement for the period ending September 30, 1983 can be directly made. (See Figures 6 and 7.)

FIGURE 6

BALANCE SHEET

September 30, 1983

Assets

Checking	\$ 8,450	
Savings	22,100	
Petty Cash	100	
Receivables	30,000	
Pre-Paid Expenses	<u>1,000</u>	
Total Assets		\$61,650

Liabilities

Accounts Payable	\$ 1,250	
FIT Payable	1,250	
Employer Paid FICA	500	
SIT Payable	200	
SDI Payable	400	
UI Payable	100	
State Tax Payable	300	
Federal Tax Payable	<u>450</u>	
Total Liabilities		<u>\$ 4,450</u>
Fund Balance September 30, 1990		<u>57,200</u>
Total Liabilities and Fund Balance		<u>\$ 61,650</u>

FIGURE 7

INCOME STATEMENT AND CHANGES IN FUND BALANCE
For the Period July 1, 1983 through September 30, 1983

Revenue:

Alcoholism Other Income	\$ 8,275	
Patient Fees	25,000	
State Contract	50,000	
County Contract	<u>20,000</u>	
Total Revenue		\$103,275

Expenses:

Salaries and Wages	\$50,000	
Employee Benefits	5,000	
Consultants	10,000	
Bookkeeping Service	7,000	
Travel	1,000	
Rent	6,000	
Utilities	4,000	
Maintenance	100	
Office Supplies	1,500	
Maintenance Supplies	1,000	

EXAMPLE OF TRIAL BALANCE AND
ASSOCIATED FINANCIAL STATEMENTS UNADJUSTED

Trial Balance
As of 9/30/83

ACCOUNT NAME	ACCOUNT No	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
ASSET ACCOUNTS							
CASH IN BANK - CHECKING	11010	\$ 8450 ⁰⁰				\$ 8450 ⁰⁰	
CASH IN BANK - SAVINGS	11030	22100 ⁰⁰				22100 ⁰⁰	
PATTY CASH FUND	11110	100 ⁰⁰				100 ⁰⁰	
ACCOUNTS RECEIVABLE - STATE	11212	30000 ⁰⁰				30000 ⁰⁰	
PREPAID EXPENSE - GENERAL	11630	1000 ⁰⁰				1000 ⁰⁰	
LIABILITY ACCOUNTS							
ACCOUNTS PAYABLE - OTHER	22020		\$ 1250 ⁰⁰				\$ 1250 ⁰⁰
FIT - PAYABLE	22210		1250 ⁰⁰				1250 ⁰⁰
EMPLOYER PAID FICA	22220		500 ⁰⁰				500 ⁰⁰
SIT PAYABLE	22230		200 ⁰⁰				200 ⁰⁰
SDI PAYABLE	22231		400 ⁰⁰				400 ⁰⁰
U.I. PAYABLE	22232		100 ⁰⁰				100 ⁰⁰
STATE TAX PAYABLE	22333		300 ⁰⁰				300 ⁰⁰
FED TAX PAYABLE	22334		450 ⁰⁰				450 ⁰⁰
FUND ACCOUNTS							
FUND BALANCE	33333		42425 ⁰⁰				42425 ⁰⁰
INCOME ACCOUNTS							
ALCOHOLISM - OTHER LEADS	45001		8275 ⁰⁰	\$ 8275 ⁰⁰			
PATIENT FEES	45401		25000 ⁰⁰		25000 ⁰⁰		
STATE CONTRACT	45403		50000 ⁰⁰		50000 ⁰⁰		
COUNTY CONTRACT	45404		20000 ⁰⁰		20000 ⁰⁰		
EXPENSE ACCOUNTS							
SALARIES & WAGES	31-	50000 ⁰⁰		\$ 50000 ⁰⁰			
EMPLOYEE BENEFITS	36-	5000 ⁰⁰		5000 ⁰⁰			
CONSULTANTS	42-	10000 ⁰⁰		10000 ⁰⁰			
BOOKKEEPING SERVICE	44-	7000 ⁰⁰		7000 ⁰⁰			
TRAVEL	57-	1000 ⁰⁰		1000 ⁰⁰			
RENT	61-	6000 ⁰⁰		6000 ⁰⁰			
UTILITIES	63-	4000 ⁰⁰		4000 ⁰⁰			
MAINTENANCE	64-	100 ⁰⁰		100 ⁰⁰			
OFFICE SUPPLIES	71-	1500 ⁰⁰		1500 ⁰⁰			
MAINTENANCE SUPPLIES	75-	1000 ⁰⁰		1000 ⁰⁰			
INSURANCE AND BONDING	91-	2000 ⁰⁰		2000 ⁰⁰			
POSTAGE	97-	500 ⁰⁰		500 ⁰⁰			
OTHER	98-	400 ⁰⁰		400 ⁰⁰			
TOTAL		\$ 150150 ⁰⁰	\$ 150150 ⁰⁰	\$ 88500 ⁰⁰	\$ 103275 ⁰⁰	\$ 61650 ⁰⁰	\$ 46875 ⁰⁰
EXCESS OF INCOME OVER EXPENSES				\$ 14775 ⁰⁰		\$ 14775 ⁰⁰	
TOTAL				\$ 103275 ⁰⁰	\$ 103275 ⁰⁰	\$ 61650 ⁰⁰	\$ 61650 ⁰⁰

GENERAL LEDGER ACCOUNT EXAMPLES

ASSET ACCOUNTS

45-105 EYE-EASE
45-405 20-20 BUFF
NATIONAL

CASH IN BANK - CHECKING

Acct. No. 11010

EXPLANATION	DATE	REF.	DEBIT	CREDIT	BALANCE
BALANCE FORWARD	6/30/83				\$1,000 ⁰⁰
	7/30/83	CRJ #1	\$ 2,000 ⁰⁰		
	7/30/83	CDJ #1		\$ 1,500 ⁰⁰	1,500 ⁰⁰
	8/31/83	CRJ #2	2,577 ⁷⁵		
	8/31/83	CDJ #2		707 ⁵⁰	8,170 ⁰⁰
	7/30/83	CRJ #3	1,450 ⁰⁰		
	9/30/83	CRJ #3		807 ⁵⁰	8,450 ⁰⁰

45-105 EYE-EASE
45-405 20-20 BUFF
NATIONAL

CASH IN BANK - SAVINGS

Acct. No. 11030

EXPLANATION	DATE	REF.	DEBIT	CREDIT	BALANCE
BALANCE FORWARD	6/30/83				\$2,000 ⁰⁰
	7/1/83	GT #6	100 ⁰⁰		2,000 ⁰⁰
	9/30/83	CRJ #3	2,000 ⁰⁰		2,200 ⁰⁰

45-105 EYE-EASE
45-405 20-20 BUFF
NATIONAL

PETTY CASH FUND

Acct. No. 11110

EXPLANATION	DATE	REF.	DEBIT	CREDIT	BALANCE
BALANCE FORWARD	6/30/83				\$100 ⁰⁰

FIGURE 9

FIT PAYABLE

Acct. No. 22020

EXPLANATION	DATE	REF.	DEBIT	CREDIT	BALANCE
BALANCE FORWARD	6/30/83				<1000 ⁰⁰ >
	7/30/83	COJ #1	\$ 300		<700 ⁰⁰ >
	8/31/83	GJ #8		\$ 1000 ⁰⁰	<1700 ⁰⁰ >
	9/30/83	COJ #3	450		<1250 ⁰⁰ >

EMPLOYER PAID FICA

Acct. No. 22220

EXPLANATION	DATE	REF.	DEBIT	CREDIT	BALANCE
BALANCE FORWARD	6/30/83				\$1000 ⁰⁰
	7/30/83	COJ #	500		<500 ⁰⁰ >

SIT PAYABLE

Acct. No. 22230

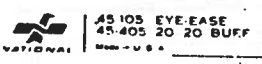
EXPLANATION	DATE	REF.	DEBIT	CREDIT	BALANCE
BALANCE FORWARD	6/30/83				<1000 ⁰⁰ >
	7/30/83	COJ #1	\$ 900 ⁰⁰		<100 ⁰⁰ >
	8/30/83	GJ #8		\$ 500 ⁰⁰	<600 ⁰⁰ >
	9/30/83	COJ #3	400 ⁰⁰		<200 ⁰⁰ >

FED TAX PAYABLE

Acct. No. 22334

EXPLANATION	DATE	REF	DEBIT	CREDIT	BALANCE
BALANCE FORWARD	6/30/83				<8,000 ⁰⁰ >
	7/30/83	CDJ#1	9,000 ⁰⁰		<1,000 ⁰⁰ >
	8/30/83	GJ#8		4,000 ⁰⁰	<5,000 ⁰⁰ >
	9/30/83	CDJ#3	4,550		<450 ⁰⁰ >

FUND ACCOUNTS

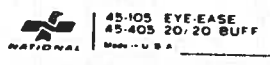


FUND BALANCE

Acct. No. 33333

EXPLANATION	DATE	REF.	DEBIT	CREDIT	BALANCE
BALANCE FORWARD	6/30/85				<4,225 ⁰⁰ >

INCOME ACCOUNTS



ALCOHOLISM - OTHER INCOME

Acct. No. 45001

EXPLANATION	DATE	REF.	DEBIT	CREDIT	BALANCE
	7/30/83	CRJ#1		2,000	<2,000 ⁰⁰ >
	8/31/83	CRJ#2		500	<1,500 ⁰⁰ >
	9/30/83	CRJ#3		1,275	<825 ⁰⁰ >

MAINTENANCE SUPPLIES

Acct. No. 75

EXPLANATION	DATE	REF.	DEBIT	CREDIT	BALANCE
	8/30/83	CDJ#8	\$1,000 ⁰⁰		\$1,000 ⁰⁰

INSURANCE AND BONDS

Acct. No. 91-

EXPLANATION	DATE	REF.	DEBIT	CREDIT	BALANCE
	7/30/83	CDJ#7	\$1,200 ⁰⁰		\$1,200 ⁰⁰
	9/30/83	CDJ#9	800 ⁰⁰		800 ⁰⁰

OTHER

Acct. No. 98-

EXPLANATION	DATE	REF.	DEBIT	CREDIT	BALANCE
	8/31/83	CDJ#8	\$200 ⁰⁰		\$200 ⁰⁰
	9/30/83	GJ#9		150 ⁰⁰	
	9/30/83	CDJ#9	350 ⁰⁰		\$400 ⁰⁰

POSTAGE

Acct. No. 97-

EXPLANATION	DATE	REF.	DEBIT	CREDIT	BALANCE
	9/30/83	CDJ#9	\$500 ⁰⁰		\$500 ⁰⁰

INTERNAL CONTROL STANDARDS AND SEPARATION OF DUTIES

Internal controls are a set of techniques designed to insure that the organization accomplishes its objectives (see Section 0600 of the Audit Assistance Guide). Internal controls should not interfere with the economy and efficiency of program operations. Reasonable assurance that the objectives of internal controls are achieved depends on the competence and integrity of personnel, the independence of their assigned functions, and their understanding of the prescribed procedures. Specific standards to assist organizations in meeting adequate internal control are as follows:

CONTROL STANDARDS

- o No one person should handle all phases of a given business transaction from beginning to end.
- o Duties are assigned in a manner that eliminates opportunity for concealment of errors or irregularities.
- o Procedures designed to detect errors and irregularities are performed by persons other than those who are in a position to perpetrate them.

- o Duties are separated in a manner that minimizes risks by combining only less responsible control duties.

- o The cost of a control system should not exceed the benefits expected to be derived.

SEPARATION OF DUTIES

The separation of duties assigned to individuals in an organization is an important technique in an internal control system. The duties assigned to individuals to provide a separation of critical duties may differ greatly depending upon the size of the organization and the number of individuals available to perform the duties. There may be many other factors that influence the assignment of duties and have an impact on the internal control system. These may be such things as physical location, experience or competence of an employee, and the attitude of the administrators.

The standards for the evaluation of the adequacy of an internal control system (when considering the separation of duties) do not vary. The standards are universal, and are applicable to any organization regardless of size or function. However, on those instances where the number of individuals available to perform control duties is limited, the adequacy of the control system becomes a matter of individual judgment.

To illustrate this control aspect, examples of the assignment of cash disbursement, cash receipt, payroll, and property management duties for various size organizations is presented. Also shown are the duties that should not be assigned to individuals if they are performing significant control functions.

The significant control functions and the duties that should not be assigned are listed separately. These lists will assist in clarifying the examples if read when reviewing the examples.

The examples are for illustrative purposes only and should not be considered to be the most desirable required assignment.

SEPARATION OF DUTIES - LARGE ORGANIZATIONS

Significant Cash Disbursements Control Functions

AUTHORIZATION OF PURCHASE; APPROVAL OF DISBURSEMENT; MACHINE SIGNS CHECKS;
MANUALLY SIGNS CHECKS

Should Not:

- Prepare Checks
- Control Signature Plate and Key
- Mail or Distribute Checks
- Control Blank Check Forms
- Reconcile Bank Accounts

PREPARES CHECKS

Should Not:

- Approve Disbursement
- Control Signature Plate and Key
- Mail or Distribute Checks
- Control Blank Check Forms
- Manually or Machine Sign Checks
- Maintain Accounts Payable Ledger

MAILS OR DISTRIBUTES CHECKS; CONTROLS BLANK CHECK FORMS

Should Not:

- Prepare Checks
- Manually or Machine Sign Checks
- Maintain Disbursements Journal
- Maintain General Ledger

PETTY CASH CUSTODIAN

Should Not:

- Authorize Purchases
- Approve Disbursement
- Prepare Checks
- Manually or Machine Sign Checks

RECONCILES BANK ACCOUNTS

Should Not:

- Approve Disbursements
- Maintain Disbursements Journal
- Control Blank Checks
- Maintain General Ledger

MAINTAINS GENERAL LEDGER

Should Not:

- Authorize Purchases
- Approve Disbursements
- Prepare Checks
- Manually or Machine Sign Checks
- Control Blank Check Forms
- Reconcile Bank Accounts

INTERNAL CONTROL FOR - LARGE ORGANIZATIONS
 (This is a hypothetical example which illustrates how cash receipts duties may be assigned to strengthen internal controls.)

FUNCTIONAL TITLE

X = Duty assigned
 N = Should not be assigned because of other duties

SUGGESTED DUTIES

CASH RECEIPTS

- A. Opens mail and receives cash
- B. Prepares prelistings
- C. Receives counter collections
- D. Prepares receipt forms
- E. Prepares collection reports
- F. Prepares bank deposits
- G. Makes bank deposits
- H. Comparison of prelistings and collection reports with deposits
- I. Maintains cash receipt journal (register)
- J. Controls number receipt forms
- K. Reconciles bank accounts
- L. Maintains receivable ledger
- M. Maintains general ledger

	Executive Director	Program Directors or Component Managers	Administrative Asst.	Procurement/Property	Secretary/Reception.	Fiscal Officer	Accounting Office*	Counselor/Recovery Program Staff
							5 N	
							4 N	
A.					X		2 N	
							5 N	
							4 N	
B.					X		2 N	
							5 N	
							4 N	
							2 N	
C.					X		1	
							5 N	
							4 N	
							2 N	
D.					X		1	
							5 N	
							4 N	
							2 N	
E.					X		1	
							5 N	
							4 N	
							1 N	
F.					N		2	
							2 N	
G.							3	
							4	
H.							4 N	
							2 N	
I.							3	
							.	
J.			X				5 N	
							2 N	
K.	N	N	N				4	
							1 N	
L.					N		5	
							4 N	
							3 N	
							2 N	
M.			N				5	

*The Accounting Office has five staff persons which will be identified as #1, #2, etc.

SEPARATION OF DUTIES - LARGE ORGANIZATIONS

Significant Cash Disbursements Control Functions

AUTHORIZATION OF PURCHASE; APPROVAL OF DISBURSEMENT; MACHINE SIGNS CHECKS;
MANUALLY SIGNS CHECKS

Should Not:

- Prepare Checks
- Control Signature Plate and Key
- Mail or Distribute Checks
- Control Blank Check Forms
- Reconcile Bank Accounts

PREPARES CHECKS

Should Not:

- Approve Disbursement
- Control Signature Plate and Key
- Mail or Distribute Checks
- Control Blank Check Forms
- Manually or Machine Sign Checks
- Maintain Accounts Payable Ledger

MAILS OR DISTRIBUTES CHECKS; CONTROLS BLANK CHECK FORMS

Should Not:

- Prepare Checks
- Manually or Machine Sign Checks
- Maintain Disbursements Journal
- Maintain General Ledger

PETTY CASH CUSTODIAN

Should Not:

- Authorize Purchases
- Approve Disbursement
- Prepare Checks
- Manually or Machine Sign Checks

RECONCILES BANK ACCOUNTS

Should Not:

- Approve Disbursements
- Maintain Disbursements Journal
- Control Blank Checks
- Maintain General Ledger

MAINTAINS GENERAL LEDGER

Should Not:

- Authorize Purchases
- Approve Disbursements
- Prepare Checks
- Manually or Machine Sign Checks
- Control Blank Check Forms
- Reconcile Bank Accounts

INTERNAL CONTROL FOR - LARGE ORGANIZATIONS
 (This is a hypothetical example which illustrates how cash disbursement duties may be assigned to strengthen internal controls.)

FUNCTIONAL TITLE

X = Duty assigned
 N = Should not be assigned because of other duties

SUGGESTED DUTIES

CASH DISBURSEMENTS

A. Authorization of purchase

B. Approval of disbursement

C. Prepares checks

D. Comparison of checks with vouchers (invoices); done when checks are signed

E. Machine signs checks

F. Manually signs checks--depending on amount of check

G. Controls signature plate and key

H. Mails or distributes checks

I. Maintains disbursements journal (register)

J. Controls blank check forms

K. Petty cash custodian

L. Accessibility to safe(s)

M. Maintains accounts payable ledger

N. Maintains general ledger

O. Reconciles bank accounts

	Executive Director	Program Directors or Component Managers	Administrative Asst.	Procurement/Property	Secretary/Reception.	Fiscal Officer	Accounting Office*	Counselor/Recovery Program Staff
A. Authorization of purchase	X						5 N 5 N 4 N	
B. Approval of disbursement		X					1 N 5 N 3 N	
C. Prepares checks	N	N	N			N	1	
D. Comparison of checks with vouchers (invoices); done when checks are signed	X					X	5 N 3 N 2 N	
E. Machine signs checks	X		N			X	1 N 5 N	
F. Manually signs checks--depending on amount of check	X		N			X	3 N 1 N	
G. Controls signature plate and key	N	N				N	2 1 N	
H. Mails or distributes checks	N	N				N	3 4 N	
I. Maintains disbursements journal (register)			N				3 N 1	
J. Controls blank check forms	N	N	X			N	5 N 4 N	
K. Petty cash custodian							1 N	
L. Accessibility to safe(s)						X	2 1 N	
M. Maintains accounts payable ledger							3 5 4 N	
N. Maintains general ledger			N				3 N 2 N	
O. Reconciles bank accounts	N	N				N	5 N 4	

*The Accounting Office has five staff persons which will be identified as #1, #2, etc.

SEPARATION OF DUTIES - LARGE ORGANIZATIONS

Significant Payroll Control Functions

MAINTAIN ATTENDANCE REPORTS; CERTIFICATION OF PAYROLL ATTENDANCE REPORTS;
SIGNS REPORTS OF APPOINTMENT AND SEPARATION; SIGNS PAYROLL CHECKS

Should Not:

Receive or Pick Up Payroll Checks for Distribution
Retain Undistributed Payroll Checks

PREPARES PAYROLL CHECKS

Should Not:

Sign Payroll Checks
Distribute Payroll Checks
Retain Undistributed Payroll Checks

RECEIVES OR PICKS UP PAYROLL CHECKS FOR DISTRIBUTION; RETAINS UNDISTRIBUTED
PAYROLL CHECKS

Should Not:

Maintain Attendance Reports
Certify Payroll Attendance Reports
Prepare Payroll Checks
Sign Payroll Checks
Maintain Employee Roster

INTERNAL CONTROL FOR - LARGE ORGANIZATIONS
 (This is a hypothetical example which illustrates how payroll duties may be assigned to strengthen internal controls.)

FUNCTIONAL TITLE

X - Duty assigned
 N - Should not be assigned because of other duties

SUGGESTED DUTIES

PAYROLL

- A. Maintains attendance reports
- B. Certification or payroll attendance reports
- C. Prepares payroll checks
- D. Signs payroll checks
- E. Receives or picks up payroll for unit distribution; individuals are designated from each unit to distribute payroll checks.
- F. Retains undistributed payroll checks
- G. Maintains employees' roster
- H. Maintains vacation, sick leave and overtime accumulation records
- I. Signs reports of appointment and separation
- J. Maintains payroll expenditure register

	Executive Director	Program Directors or Component Managers	Administrative Asst.	Procurement/Property	Secretary/Reception.	Fiscal Officer	Accounting Office*	Counselor/Recovery Program Staff
A. Maintains attendance reports					X		2 N	
B. Certification or payroll attendance reports		X					2 H	
C. Prepares payroll checks							1	
D. Signs payroll checks	X					X	1 N	
E. Receives or picks up payroll for unit distribution; individuals are designated from each unit to distribute payroll checks.							2 N	
F. Retains undistributed payroll checks	N	N	N		N	N	2	
G. Maintains employees' roster							1 N	
H. Maintains vacation, sick leave and overtime accumulation records							3	
I. Signs reports of appointment and separation	X		X					
J. Maintains payroll expenditure register							1	

*The Accounting Office has five staff persons which will be identified as #1, #2, etc.

SEPARATION OF DUTIES - LARGE ORGANIZATIONS

Significant Property and Equipment Control Functions

AUTHORIZE PURCHASE OF EQUIPMENT; AUTHORIZE EQUIPMENT DISPOSAL

Should Not:

- Order Equipment
- Receive Incoming Equipment

ORDERS EQUIPMENT

Should Not:

- Authorize Purchase of Equipment
- Receive Incoming Equipment

RECEIVES INCOMING EQUIPMENT; HAS CUSTODY OF UNASSIGNED EQUIPMENT

Should Not:

- Authorize Purchase of Equipment
- Order Equipment
- Maintain Property Ledger
- Take Physical Inventory

TAKES PHYSICAL INVENTORIES

Should Not:

- Receive Incoming Equipment
- Maintain Property Ledger

MAINTAINS PROPERTY LEDGER; BALANCES PROPERTY LEDGER WITH GENERAL LEDGER ACCOUNT; RECONCILES PHYSICAL INVENTORY TO PERPETUAL INVENTORY RECORDS

Should Not:

- Authorize Purchase of Equipment
- Order Equipment
- Receive Incoming Equipment
- Develop Data for Monthly Entries to General Ledger
- Take Physical Inventory

INTERNAL CONTROL FOR - LARGE ORGANIZATIONS

(This is a hypothetical example which illustrates how property and equipment duties may be assigned to strengthen internal controls.)

FUNCTIONAL TITLE

X - Duty assigned
N - Should not be assigned because of other duties

SUGGESTED DUTIES

PROPERTY AND EQUIPMENT

- A. Authorizes purchase of equipment
- B. Orders equipment
- C. Receives incoming equipment
- D. Has custody of unassigned equipment
- E. Authorizes equipment disposal
- F. Disposes of surveyed equipment
- G. Develops data for monthly entries to general ledger accounts
- H. Maintains property ledger
- I. Balances property ledger with general ledger account
- J. Reconciliation of property accounts with current expenditures
- K. Takes physical inventories
- L. Reconciliation of physical inventory to perpetual inventory records

	Executive Director	Program Directors or Component Managers	Administrative Asst.	Procurement/Property	Secretary/Reception.	Fiscal Officer	Accounting Office*	Counselor/Recovery Program Staff
							4 N	
A. Authorizes purchase of equipment	X			N			3 N	
B. Orders equipment		N		N			3 N	
C. Receives incoming equipment					X		4 3 N 2 N	
D. Has custody of unassigned equipment					X			
E. Authorizes equipment disposal	X							
F. Disposes of surveyed equipment						X		
G. Develops data for monthly entries to general ledger accounts							3 N 3	
H. Maintains property ledger					N		2 N 3	
I. Balances property ledger with general ledger account							3	
J. Reconciliation of property accounts with current expenditures						X	.	
K. Takes physical inventories					N		3 N 2	
L. Reconciliation of physical inventory to perpetual inventory records							3	

*The Accounting Office has five staff persons which will be identified as #1, #2, etc.

SEPARATION OF DUTIES - MEDIUM ORGANIZATIONS

Significant Cash Disbursements Control Functions

- *Introduces an element of risk if performed with other duties.

AUTHORIZATION OF PURCHASE; APPROVAL OF DISBURSEMENTS; MANUALLY SIGNS CHECKS

Should Not:

- Prepare Checks
- Mail or Distribute Checks
- Control Blank Check Forms
- Reconcile Bank Accounts

PREPARES CHECKS

Should Not:

- Approved Disbursements
- Mail or Distribute Checks
- Control Blank Check Forms
- Manually or Machine Sign Checks
- Maintain Accounts Payable Ledger

MAINTAINS GENERAL LEDGER; CONTROLS BLANK CHECK FORMS

Should Not:

- Prepare Checks
- Manually or Machine Sign Checks
- *Maintain Disbursements Journal
- *Maintain General Ledger

PETTY CASH CUSTODIAN

Should Not:

- Authorize Purchases
- Approve Disbursements
- *Prepare Checks
- Manually or Machine Sign Checks

RECONCILES BANK ACCOUNTS

Should Not:

- Approve Disbursements
- Maintain Disbursements Journal
- Control Blank Checks
- Maintain General Ledger

MAINTAINS GENERAL LEDGER

Should Not:

- Authorize Purchases
- Approve Disbursements
- Prepare Checks
- Manually or Machine Sign Checks
- Control Blank Check Forms
- Reconcile Bank Accounts

INTERNAL CONTROL FOR - MEDIUM ORGANIZATIONS
 (This is a hypothetical example which illustrates how cash disbursement duties may be assigned to strengthen internal controls.)

FUNCTIONAL TITLE

X = Duty assigned
 N = Should not be assigned because of other duties

SUGGESTED DUTIES

CASH DISBURSEMENTS

- A. Authorization or purchase
- B. Approval of disbursement
- C. Prepares checks
- D. Comparison of checks with vouchers (invoices); done when checks are signed
- E. Manually signs checks-if the amount is less than an established limit (i.e., \$200), only 1 signature is required; 2 signatures are required for amounts more than established limit
- F. Mails or distributes checks
- G. Maintains disbursements journal (register)
- H. Controls blank check forms
- I. Petty cash fund custodian
- J. Accessibility to safe(s)
- K. Maintains accounts payable ledger
- L. Maintains general ledger
- M. Reconciles bank accounts

	Executive Director	Program Directors or Component Managers	Administrative Asst.	Secretary	Accountant	Account Clerk	Counselor/Recovery Program Staff	Board Member
A. Authorization or purchase	X			N		N		
B. Approval of disbursement		X		N	N	N		
C. Prepares checks	N		N	*X		N		N
D. Comparison of checks with vouchers (invoices); done when checks are signed	X							X
E. Manually signs checks-if the amount is less than an established limit (i.e., \$200), only 1 signature is required; 2 signatures are required for amounts more than established limit	X		N	N		N		X
F. Mails or distributes checks	N	N		N		X		N
G. Maintains disbursements journal (register)			N	N	N	*X		
H. Controls blank check forms	N	N	X	N	N	N		N
I. Petty cash fund custodian				X				
J. Accessibility to safe(s)	X				X			
K. Maintains accounts payable ledger				N		X		
L. Maintains general ledger			N	N	N	*X		
M. Reconciles bank accounts	N	N			X	N		N

*Introduces an element of risk if performed with other duties.

SEPARATION OF DUTIES - MEDIUM ORGANIZATIONS

Significant Cash Receipts Control Functions

OPENS MAIL AND RECEIVES CASH; PREPARES PRELISTINGS; RECEIVES COUNTER
COLLECTIONS; PREPARES RECEIPT FORMS; PREPARES COLLECTION REPORTS

Should Not:

Prepare Bank Deposits
Maintain Receivables Ledger

PREPARES BANK DEPOSITS

Should Not:

Open Mail and Receive Cash
Prepare Prelistings
Receive Counter Collections
Prepare Receipt Forms
Prepare Collection Reports
Reconcile Bank Accounts
Maintain Cash Receipts Journal
Maintain General Ledger
Make Bank Deposits

RECONCILES BANK ACCOUNTS

Should Not:

Open Mail and Receive Cash
Prepare Prelistings
Receive Counter Collections
Prepare Receipt Forms
Prepare Bank Deposits
Maintain Cash Receipts Journal
Maintain General Ledger

MAINTAINS GENERAL LEDGER

Should Not:

Open Mail and Receive Cash
Prepare Prelistings
Receive Counter Collections
Prepare Receipt Forms
Prepare Collection Reports
Prepare Bank Deposits
Reconcile Bank Accounts

INTERNAL CONTROL FOR - MEDIUM ORGANIZATIONS
 (This is a hypothetical example which illustrates how cash receipts duties may be assigned to strengthen internal controls.)

X - Duty assigned
 N - Should not be assigned because of other duties

SUGGESTED DUTIES

CASH RECEIPTS

- A. Opens mail and receives cash
- B. Preparation of prelistings
- C. Receives counter collection.
- D. Preparation of receipt forms
- E. Preparation of collection reports
- F. Preparation of bank deposits
- G. Makes bank deposits
- H. Comparison of prelistings and collection reports with deposits
- I. Maintains cash receipt journal (register)
- J. Control of numbered receipt forms
- K. Reconciliation of bank accounts
- L. Maintains receivables ledger
- M. Maintains general ledger

FUNCTIONAL TITLE

	Executive Director	Program Directors or Component Managers	Administrative Asst.	Secretary	Accountant	Account Clerk	Counselor/Recovery Program Staff	Board Member
A. Opens mail and receives cash			N	X	N	N		
B. Preparation of prelistings			N	X	N	N		
C. Receives counter collection.			N	X	N	N		
D. Preparation of receipt forms			N	X	N	N		
E. Preparation of collection reports			N	X	N	N		
F. Preparation of bank deposits			X	N	N	N		
G. Makes bank deposits			N			X		
H. Comparison of prelistings and collection reports with deposits					X			
I. Maintains cash receipt journal (register)			N		N	X		
J. Control of numbered receipt forms			X					
K. Reconciliation of bank accounts	N	N	N		X	N		N
L. Maintains receivables ledger				N		X		
M. Maintains general ledger			N	N	N	X		

SEPARATION OF DUTIES - MEDIUM ORGANIZATIONS

Significant Payroll Control Functions

MAINTAIN ATTENDANCE REPORTS; CERTIFICATION OF PAYROLL ATTENDANCE REPORTS;
SIGNS REPORTS OF APPOINTMENT AND SEPARATION; SIGNS PAYROLL CHECKS

Should Not:

Receive or Pick Up Payroll Checks for Distribution
Retain Undistributed Payroll Checks

PREPARES PAYROLL CHECKS

Should Not:

Sign Payroll Checks
Distribute Payroll Checks
Retain Undistributed Payroll Checks

RECEIVES OR PICKS UP PAYROLL CHECKS FOR DISTRIBUTION; RETAINS UNDISTRIBUTED
PAYROLL CHECKS

Should Not:

Maintain Attendance Reports
Certify Payroll Attendance Reports
Prepare Payroll Checks
Sign Payroll Checks
Maintain Employee Roster

INTERNAL CONTROL FOR - MEDIUM ORGANIZATIONS
 (This is a hypothetical example which illustrates how payroll duties
 may be assigned to strengthen internal controls.)

FUNCTIONAL TITLE

X = Duty assigned
 N = Should not be assigned
 because of other duties

SUGGESTED DUTIES

PAYROLL

- A. Maintains attendance reports
- B. Certification of payroll attendance reports
- C. Prepares payroll checks
- D. Signs payroll checks
- E. Receives or picks up payroll checks for unit distribution.
- F. Distributes payroll checks
- G. Retains undistributed payroll checks from units
- H. Maintains employees' roster
- I. Maintains vacation, sick leave, and overtime accumulation records
- J. Signs reports of appointment and separation
- K. Maintains payroll expenditure register

	Executive Director	Program Directors or Component Managers	Administrative Asst.	Secretary	Accountant	Account Clerk	Counselor/Recovery Program Staff	Board Member
A. Maintains attendance reports			N	X				
B. Certification of payroll attendance reports		X	N					
C. Prepares payroll checks			N	X				
D. Signs payroll checks	X		N	N				X
E. Receives or picks up payroll checks for unit distribution.	N	N	X	N		N		N
F. Distributes payroll checks	N	N	X	N		N		N
G. Retains undistributed payroll checks from units	N	N	X	N		N		N
H. Maintains employees' roster			N			X		
I. Maintains vacation, sick leave, and overtime accumulation records						X		
J. Signs reports of appointment and separation	X							
K. Maintains payroll expenditure register						X		

SEPARATION OF DUTIES - MEDIUM ORGANIZATIONS

Significant Property and Equipment Control Functions

AUTHORIZE PURCHASE OF EQUIPMENT; AUTHORIZE EQUIPMENT DISPOSAL

Should Not:

- Order Equipment
- Receive Incoming Equipment

ORDERS EQUIPMENT

Should Not:

- Authorize Purchase of Equipment
- Receive Incoming Equipment

RECEIVES INCOMING EQUIPMENT; HAS CUSTODY OF UNASSIGNED EQUIPMENT

Should Not:

- Authorize Purchase of Equipment
- Order Equipment
- Maintain Property Ledger
- Take Physical Inventory

TAKES PHYSICAL INVENTORIES

Should Not:

- Receive Incoming Equipment
- Maintain Property Ledger

MAINTAINS PROPERTY LEDGER; BALANCES PROPERTY LEDGER WITH GENERAL LEDGER ACCOUNT; RECONCILES PHYSICAL INVENTORY TO PERPETUAL INVENTORY RECORDS

Should Not:

- Authorize Purchase of Equipment
- Order Equipment
- Receive Incoming Equipment
- Develop Data for Monthly Entries to General Ledger
- Take Physical Inventory

INTERNAL CONTROL FOR - MEDIUM ORGANIZATIONS

(This is a hypothetical example which illustrates how property and equipment duties may be assigned to strengthen internal controls.)

FUNCTIONAL TITLE

X = Duty assigned
 N = Should not be assigned because of other duties

SUGGESTED DUTIES

PROPERTY AND EQUIPMENT

- A. Authorizes purchases of equipment
- B. Orders equipment
- C. Receive incoming equipment
- D. Has custody of unassigned equipment
- E. Authorizes equipment disposal
- F. Disposes of surveyed equipment
- G. Develops data for monthly entries to general ledger account
- H. Maintains property ledger
- I. Balances property ledger with general ledger account
- J. Reconciliation of property accounts with current expenditures
- K. Takes physical inventories
- L. Reconciliation of physical inventory to perpetual inventory records

	Executive Director	Program Directors or Component Managers	Administrative Asst.	Secretary	Accountant	Account Clerk	Counselor/Recovery Program Staff	Board Member
A. Authorizes purchases of equipment		X	N	N	N	N		
B. Orders equipment	N	N	N	X	N	N		
C. Receive incoming equipment	N	N	X	N	N	N		
D. Has custody of unassigned equipment					X			
E. Authorizes equipment disposal	X							
F. Disposes of surveyed equipment						X		
G. Develops data for monthly entries to general ledger account					X	N		
H. Maintains property ledger			N	N		X		
I. Balances property ledger with general ledger account						X		
J. Reconciliation of property accounts with current expenditures					X			
K. Takes physical inventories			N	X	N	N		
L. Reconciliation of physical inventory to perpetual inventory records						X		

*Introduces an element of risk if performed with other duties.

SEPARATION OF DUTIES - SMALL ORGANIZATIONS

Significant Cash Disbursements Control Functions

*Introduces an element of risk if performed with other duties.

AUTHORIZATION OF PURCHASE; APPROVAL OF DISBURSEMENT; MACHINE SIGNS CHECKS;
MANUALLY SIGNS CHECKS

Should Not:

- Prepare Checks
- Control Signature Plate and Key
- Mail or Distribute Checks
- Control Blank Check Forms
- *Reconcile Bank Accounts

PREPARES CHECKS

Should Not:

- Control Signature Plate and Key
- Mail or Distribute Checks
- Control Blank Check Forms
- Manually or Machine Sign Checks
- *Maintain Accounts Payable Ledger

MAILS OR DISTRIBUTES CHECKS; CONTROLS BLANK CHECK FORMS

Should Not:

- Prepare Checks
- Manually or Machine Sign Checks
- Maintain Disbursements Journal
- Maintain General Ledger

PETTY CASH CUSTODIAN

Should Not:

- Authorize Purchases
- Approve Disbursement
- Prepare Checks
- Manually or Machine Sign Checks

RECONCILES BANK ACCOUNTS

Should Not:

- *Approve Disbursements
- Maintain Disbursements Journal
- Control Blank Checks
- Maintain General Ledger

MAINTAINS GENERAL LEDGER

Should Not:

- Authorize Purchases
- Approve Disbursements
- *Prepare Checks
- Manually or Machine Sign Checks
- Control Blank Check Forms
- Reconcile Bank Accounts

INTERNAL CONTROL FOR - SMALL ORGANIZATIONS

(This is a hypothetical example which illustrates how cash disbursement duties may be assigned to strengthen internal controls.)

FUNCTIONAL TITLE

X = Duty assigned
 N = Should not be assigned because of other duties

SUGGESTED DUTIES

CASH DISBURSEMENTS

- A. Authorization of purchase
- B. Approval of disbursement
- C. Prepares checks
- D. Comparison of checks with vouchers (invoices); done when checks are signed
- E. Manually signs checks-if the amount is less than an established limit (i.e. \$200), only 1 signature is required; 2 signatures are required for amounts more than the established limit.
- F. Mails or distributes checks
- G. Maintains disbursements journal (register)
- H. Control of blank check forms
- I. Petty cash fund custodian
- J. Accessibility to safe
- K. Maintains accounts payable ledger
- L. Maintains general ledger
- M. Reconciles bank accounts

	Director	Administrative Asst. or House Manager	Secretary/Bookkeeper	Counselor/Recovery Program Staff	Board Member			
A. Authorization of purchase	X		N	N				
B. Approval of disbursement	*X		N	N				
C. Prepares checks	N	N	*X	N				
D. Comparison of checks with vouchers (invoices); done when checks are signed	X				X			
E. Manually signs checks-if the amount is less than an established limit (i.e. \$200), only 1 signature is required; 2 signatures are required for amounts more than the established limit.	X	N	N	N	X			
F. Mails or distributes checks	N	X	N		N			
G. Maintains disbursements journal (register)	N	N	X					
H. Control of blank check forms	N	X	N		N			
I. Petty cash fund custodian				X				
J. Accessibility to safe	X							
K. Maintains accounts payable ledger			*X					
L. Maintains general ledger	N	N	X					
M. Reconciles bank accounts	*X		N					

*Introduces an element of risk if performed with other duties.

SEPARATION OF DUTIES - SMALL ORGANIZATIONS

Significant Cash Receipts Control Functions

- *Introduces an element of risk if performed with other duties.

OPENS MAIL AND RECEIVES CASH; PREPARES PRELISTINGS; RECEIVES COUNTER COLLECTIONS; PREPARES RECEIPT FORMS; PREPARES COLLECTION REPORTS

Should Not:

- Prepare Bank Deposits
- Maintain Receivables Ledger

PREPARES BANK DEPOSITS

Should Not:

- Open Mail and Receive Cash
- Prepare Prelistings
- Receive Counter Collections
- Prepare Receipt Forms
- Prepare Collection Reports
- Reconcile Bank Accounts
- *Maintain Cash Receipts Journal
- *Maintain General Ledger
- Make Bank Deposits

RECONCILES BANK ACCOUNTS

Should Not:

- Open Mail and Receive Cash
- Prepare Prelistings
- Receive Counter Collections
- Prepare Receipt Forms
- Prepare Collection Reports
- Prepare Bank Deposits
- Maintain Cash Receipts Journal
- Maintain General Ledger

MAINTAINS GENERAL LEDGER

Should Not:

- Open Mail and Receive Cash
- Prepare Prelistings
- Receive Counter Collections
- Prepare Receipt Forms
- Prepare Collection Reports
- *Prepare Bank Deposits
- Reconcile Bank Accounts

INTERNAL CONTROL FOR - SMALL ORGANIZATIONS
 (This is a hypothetical example which illustrates how cash receipts duties may be assigned to strengthen internal controls.)

FUNCTIONAL TITLE

X = Duty assigned
 N = Should not be assigned because of other duties

SUGGESTED DUTIES

CASH RECEIPTS

- A. Opens mail and receives cash
- B.. Prepares receipt forms
- C. Prepares bank deposits
- D. Makes bank deposits
- E. Maintains cash receipt journal (register)
- F. Control of numbered receipt forms
- G. Reconciles bank accounts
- H. Maintains receivables ledger
- I. Maintains general ledger

	Director	Administrative Asst. or House Manager	Secretary/Bookkeeper	Counselor/Recovery Program Staff	Board Member			
A. Opens mail and receives cash	N	X	N					
B.. Prepares receipt forms	N	X	N					
C. Prepares bank deposits	N	N	*X					
D. Makes bank deposits			N	X				
E. Maintains cash receipt journal (register)	N		*X					
F. Control of numbered receipt forms	X							
G. Reconciles bank accounts	X	N	N	N				
H. Maintains receivables ledger		N	X					
I. Maintains general ledger	N	N	*X	N				

*Introduces an element of risk if performed with other duties.

SEPARATION OF DUTIES - SMALL ORGANIZATIONS

Significant Payroll Control Functions

MAINTAIN ATTENDANCE REPORTS; CERTIFICATION OF PAYROLL ATTENDANCE REPORTS;
SIGNS REPORTS OF APPOINTMENT AND SEPARATION; SIGNS PAYROLL CHECKS

Should Not:

Receive or Pick Up Payroll Checks for Distribution
Retain Undistributed Payroll Checks

Prepares Payroll Checks

Should Not:

Sign Payroll Checks
Distribute Payroll Checks
Retain Undistributed Payroll Checks

RECEIVES OR PICK UP PAYROLL CHECKS FOR DISTRIBUTION; RETAINS UNDISTRIEUTED
PAYROLL CHECKS

Should Not:

Maintain Attendance Reports
Certify Payroll Attendance Reports
Prepare Payroll Checks
Sign Payroll Checks
Maintain Employee Roster

INTERNAL CONTROL FOR - SMALL ORGANIZATIONS
 (This is a hypothetical example which illustrates how payroll duties may be assigned to strengthen internal controls.)

FUNCTIONAL TITLE

X - Duty assigned
 N - Should not be assigned because of other duties

SUGGESTED DUTIES

PAYROLL

- A. Maintains attendance reports
- B. Maintains vacation, sick leave and overtime accumulation records
- C. Prepares payroll checks
- D. Signs reports of appointment and separation
- E. Signs payroll checks
- F. Maintains payroll expenditure ledger
- G. Distributes payroll checks
- H. Retains undistributed payroll checks

	Director	Administrative Asst. or House Manager	Secretary/Bookkeeper	Counselor/Recovery Program Staff	Board Member			
A. Maintains attendance reports	X	N						
B. Maintains vacation, sick leave and overtime accumulation records			X					
C. Prepares payroll checks		N	X					
D. Signs reports of appointment and separation	X							
E. Signs payroll checks	X	N	N		X			
F. Maintains payroll expenditure ledger			X					
G. Distributes payroll checks	N	X	N		N			
H. Retains undistributed payroll checks	N	X	N		N			

SEPARATION OF DUTIES - SMALL ORGANIZATIONS

Significant Property and Equipment Control Functions

*Introduces an element of risk if performed with other duties.

AUTHORIZE PURCHASE OF EQUIPMENT; AUTHORIZE EQUIPMENT DISPOSAL

Should Not:

Order Equipment
Receive Incoming Equipment

ORDERS EQUIPMENT

Should Not:

Authorize Purchase of Equipment
Receive Incoming Equipment

RECEIVES INCOMING EQUIPMENT; HAS CUSTODY OF UNASSIGNED EQUIPMENT

Should Not:

Authorize Purchase of Equipment
Order Equipment
Maintain Property Ledger
Take Physical Inventory

TAKES PHYSICAL INVENTORIES

Should Not:

Receive Incoming Equipment
Maintain Property Ledger

MAINTAINS PROPERTY LEDGER; BALANCES PROPERTY LEDGER WITH GENERAL LEDGER
ACCOUNT; RECONCILES PHYSICAL INVENTORY TO PERPETUAL INVENTORY RECORDS

Should Not:

Authorize Purchase of Equipment
*Order Equipment
Receive Incoming Equipment
Develop Data for Monthly Entries to General Ledger
Take Physical Inventory

INTERNAL CONTROL FOR - SMALL ORGANIZATIONS

(This is a hypothetical example which illustrates how property and equipment duties may be assigned to strengthen internal controls.)

FUNCTIONAL TITLE

X = Duty assigned
 N = Should not be assigned because of other duties

SUGGESTED DUTIES

PROPERTY AND EQUIPMENT

- A. Authorizes purchase of equipment
- B. Orders equipment
- C. Receives incoming equipment
- D. Authorizes equipment disposal
- E. Disposes of surveyed equipment
- F. Maintains property ledger
- G. Takes physical inventories

	Director	Administrative Asst. or House Manager	Secretary/Bookkeeper	Counselor/Recovery Program Staff	Board Member			
A. Authorizes purchase of equipment	X	N	N					
B. Orders equipment	N	N	*X					
C. Receives incoming equipment	N	X	N					
D. Authorizes equipment disposal	X							
E. Disposes of surveyed equipment		X						
F. Maintains property ledger	N	N	X					
G. Takes physical inventories	X	N	N					

*Introduces an element of risk if performed with other duties.

SEPARATION OF DUTIES - VERY SMALL ORGANIZATIONS

Significant Cash Disbursements Control Functions

*Introduces an element of risk if performed with other duties.

AUTHORIZATION OF PURCHASE; APPROVAL OF DISBURSEMENT; MACHINE SIGNS CHECKS; MANUALLY SIGNS CHECKS

Should Not:

- Prepare Checks
- Control Signature Plate and Key
- Mail or Distribute Checks
- *Control Blank Check Forms
- *Reconcile Bank Accounts

PREPARES CHECKS

Should Not:

- Control Signature Plate and Key
- Mail or Distribute Checks
- Control Blank Check Forms
- Manually or Machine Sign Checks
- *Maintain Accounts Payable Ledger

MAILS OR DISTRIBUTES CHECKS; CONTROLS BLANK CHECK FORMS

Should Not:

- Prepare Checks
- *Manually or Machine Sign Checks
- Maintain Disbursements Journal
- Maintain General Ledger

PETTY CASH CUSTODIAN

Should Not:

- Authorize Purchases
- Approve Disbursement
- Prepare Checks
- Manually or Machine Sign Checks

RECONCILES BANK ACCOUNTS

Should Not:

- *Approve Disbursements
- Maintain Disbursements Journal
- *Control Blank Checks
- Maintain General Ledger

MAINTAINS GENERAL LEDGER

Should Not:

- Authorize Purchases
- Approve Disbursements
- *Prepare Checks
- Manually or Machine Sign Checks
- Control Blank Check Forms
- Reconcile Bank Accounts

INTERNAL CONTROL FOR - VERY SMALL ORGANIZATIONS
 (This is a hypothetical example which illustrates how cash disbursement duties may be assigned to strengthen internal controls.)

FUNCTIONAL TITLE

X = Duty assigned
 N = Should not be assigned because of other duties

SUGGESTED DUTIES

CASH DISBURSEMENTS

- A. Authorization of purchase
- B. Approval of disbursement
- C. Prepares checks
- D. Comparison of checks with vouchers (invoices); done when checks are signed
- E. Manually signs checks if the amount is less than an established limit (i.e. \$200), only 1 signature is required; 2 signatures are required for amounts more than the established limit
- F. Mails or distributes checks
- G. Maintains disbursements journal (register)
- H. Control of blank check forms
- I. Petty cash fund custodian
- J. Accessibility to safe
- K. Maintains accounts payable ledger
- L. Maintains general ledger
- M. Reconciles bank accounts

	Director	Secretary/Bookkeeper	Counselor/Recovery Program Staff	Board Member				
A. Authorization of purchase	X	N	N					
B. Approval of disbursement	*X	N	N					
C. Prepares checks	N	*X	N	N				
D. Comparison of checks with vouchers (invoices); done when checks are signed	X			X				
E. Manually signs checks if the amount is less than an established limit (i.e. \$200), only 1 signature is required; 2 signatures are required for amounts more than the established limit	*X	N	N	X				
F. Mails or distributes checks	N	N	X	N				
G. Maintains disbursements journal (register)	N	X	N					
H. Control of blank check forms	*X	N	N	N				
I. Petty cash fund custodian			X					
J. Accessibility to safe	X							
K. Maintains accounts payable ledger		*X						
L. Maintains general ledger	N	X	N					
M. Reconciles bank accounts	*X	N						

*Introduces an element of risk if performed with other duties

SEPARATION OF DUTIES - VERY SMALL ORGANIZATIONS

Significant Cash Receipts Control Functions

*Introduces an element of risk if performed with other duties.

OPENS MAIL AND RECEIVES CASH; PREPARES PRELISTINGS; RECEIVES COUNTER COLLECTIONS; PREPARES PRELISTINGS; RECEIVES COUNTER COLLECTIONS; PREPARES RECEIPT FORMS; PREPARES COLLECTION REPORTS

Should Not:

Prepare Bank Deposits
Maintain Receivables Ledger

PREPARES BANK DEPOSITS

Should Not:

Open Mail and Receive Cash
Prepare Prelistings
Receive Counter Collections
Prepare Receipt Forms
Prepare Collection Reports
Reconcile Bank Accounts
*Maintain Cash Receipts Journal
*Maintain General Ledger
Make Bank Deposits

RECONCILES BANK ACCOUNTS

Should Not:

*Open Mail and Receive Cash
*Prepare Prelistings
*Receive Counter Collections
*Prepare Receipt Forms
*Prepare Collection Reports
Prepare Bank Deposits
Maintain Cash Receipts Journal
Maintain General Ledger

MAINTAINS GENERAL LEDGER

Should Not:

Open Mail and Receive Cash
Prepare Prelistings
Receive Counter Collections
Prepare Receipts Forms
Prepare Collection Reports
*Prepare Bank Deposits
Reconcile Bank Accounts

INTERNAL CONTROL FOR - VERY SMALL ORGANIZATIONS
 (This is a hypothetical example which illustrates how cash receipts duties may be assigned to strengthen internal controls.)

FUNCTIONAL TITLE

X - Duty assigned
 N - Should not be assigned because of other duties

SUGGESTED DUTIES

CASH RECEIPTS

- A. Opens and receives mail
- B. Prepares receipt forms
- C. Prepares bank deposits
- D. Makes bank deposits
- E. Maintains cash receipt journal (register)
- F. Control of numbered receipt forms
- G. Reconciles bank accounts
- H. Reviews bank reconciliations
- I. Maintains receivable ledger
- J. Maintains general ledger

	Director	Secretary/Bookkeeper	Counselor/Recovery Program Staff	Board Member				
A. Opens and receives mail	*X	N						
B. Prepares receipt forms	*X	N						
C. Prepares bank deposits	N	*X						
D. Makes bank deposits		N	X					
E. Maintains cash receipt journal (register)	N	*X	N					
F. Control of numbered receipt forms	X							
G. Reconciles bank accounts	*X	N	N					
H. Reviews bank reconciliations				X				
I. Maintains receivable ledger	N	*X						
J. Maintains general ledger	N	*X	N					

*Introduces an element of risk if performed with other duties.

SEPARATION OF DUTIES - VERY SMALL ORGANIZATIONS

Significant Payroll Control Functions

MAINTAIN ATTENDANCE REPORTS; CERTIFICATION OF PAYROLL ATTENDANCE REPORTS;
SIGNS REPORTS OF APPOINTMENT AND SEPARATION; SIGNS PAYROLL CHECKS

Should Not:

Receive or Pick Up Payroll Checks for Distribution
Retain Undistributed Payroll Checks

PREPARES PAYROLL CHECKS

Should Not:

Sign Payroll Checks
Distribute Payroll Checks
Retain Undistributed Payroll Checks

RECEIVES OR PICKS UP PAYROLL CHECKS FOR DISTRIBUTION; RETAINS UNDISTRIBUTED
PAYROLL CHECKS

Should Not:

Maintain Attendance Reports
Certify Payroll Attendance Reports
Prepare Payroll Checks
Sign Payroll Checks
Maintain Employee Roster

INTERNAL CONTROL FOR -VERY SMALL ORGANIZATIONS
 (This is a hypothetical example which illustrates how payroll duties may be assigned to strengthen internal controls.)

FUNCTIONAL TITLE

X - Duty assigned
 N - Should not be assigned because of other duties

SUGGESTED DUTIES

PAYROLL

- A. Maintains attendance reports
- B. Maintains vacation, sick leave and overtime accumulation records
- C. Prepares payroll checks
- D. Signs reports of appointment and separation
- E. Signs payroll checks
- F. Maintains payroll expenditure register
- G. Distributes payroll checks
- H. Remains undistributed payroll checks

	Director	Secretary/Bookkeeper	Counselor/Recovery Program Staff	Board Member				
A. Maintains attendance reports	X		N					
B. Maintains vacation, sick leave and overtime accumulation records		X						
C. Prepares payroll checks		X	N					
D. Signs reports of appointment and separation	X							
E. Signs payroll checks	X	N	N	X				
F. Maintains payroll expenditure register		X						
G. Distributes payroll checks	N	N	X	N				
H. Remains undistributed payroll checks	N	N	X	N				

SEPARATION OF DUTIES - VERY SMALL ORGANIZATIONS

Significant Property and Equipment Control Functions

*Introduces an element of risk if performed with other duties.

AUTHORIZE PURCHASE OF EQUIPMENT; AUTHORIZE EQUIPMENT DISPOSAL

Should Not:

- Order Equipment
- Receive Incoming Equipment

ORDERS EQUIPMENT

Should Not:

- Authorize Purchase of Equipment
- Receive Incoming Equipment

RECEIVES INCOMING EQUIPMENT; HAS CUSTODY OF UNASSIGNED EQUIPMENT

Should Not:

- Authorize Purchase of Equipment
- Order Equipment
- Maintain Property Ledger
- *Take Physical Inventory

TAKES PHYSICAL INVENTORIES

Should Not:

- *Receive Incoming Equipment
- Maintain Property Ledger

MAINTAINS PROPERTY LEDGER; BALANCES PROPERTY LEDGER WITH GENERAL LEDGER ACCOUNT; RECONCILES PHYSICAL INVENTORY TO PERPETUAL INVENTORY RECORDS

Should Not:

- Authorize Purchase of Equipment
- *Order Equipment
- Receive Incoming Equipment
- Develop Data for Monthly Entries to General Ledger
- Take Physical Inventory

INTERNAL CONTROL FOR - VERY SMALL ORGANIZATIONS
 (This is a hypothetical example which illustrates how property and equipment duties may be assigned to strengthen internal controls.)

FUNCTIONAL TITLE

X = Duty assigned
 N = Should not be assigned because of other duties

SUGGESTED DUTIES

PROPERTY AND EQUIPMENT

- A. Authorizes purchase of equipment
- B. Orders equipment
- C. Receives incoming equipment
- D. Authorizes equipment disposal
- E. Disposes of surveyed equipment
- F. Maintains property ledger
- G. Takes physical inventories

	Director	Secretary/Bookkeeper	Counselor/Recovery Program Staff	Board Member				
A. Authorizes purchase of equipment	X	N	N					
B. Orders equipment	N	*X	N					
C. Receives incoming equipment	N	N	*X	N				
D. Authorizes equipment disposal	X							
E. Disposes of surveyed equipment			X					
F. Maintains property ledger		X	N					
G. Takes physical inventories		N	*X					

*Introduces element of risk if performed with other duties.

PROCURING AUDIT SERVICESCRITICAL ATTRIBUTES OF EFFECTIVE PROCUREMENTAudit Quality

In March 1986, the United States General Accounting Office (GAO) established criteria to measure audit quality, criteria which were accepted by the various sectors of the accounting and auditing community. The criteria focused on auditors' compliance with professional standards for fieldwork and reporting: generally accepted auditing standards of the AICPA and generally accepted government auditing standards of the GAO. Criteria also focused on whether or not auditors satisfactorily adhered to audit standards as a whole.

Fieldwork standards consist of evidence, internal control study and evaluations, and documentation; while reporting standards include financial, internal control, and compliance reporting. According to the criteria, auditors performed an unacceptable quality audit when they did not perform or document substantially all of the required fieldwork in any segment of the audit (compliance with laws and regulations, internal control review, and financial statements) or when they failed to report material internal control weaknesses or non-compliance with laws or

regulations that they had discovered. Non-adherence solely to a general standard; however, did not preclude the audit from satisfactorily adhering to audit standards as a whole, and judged of acceptable quality.

Critical Procurement Attributes

The GAO also developed the following criteria for an effective procurement process. The GAO's panel of experts widely accepted four attributes as being the minimum to ensure an effective procurement: effective competition, solicitation process, technical evaluation of proposals, and written agreement.

PLANNING-DETERMINING WHAT NEEDS TO BE DONE AND WHEN

Define the entity to be audited

If the corporation is multi-funded, do all funds have to be audited?

Do contracts require a single audit of the entire corporation or just their funds?

Scope of audit

For audits of financial statements, you need to determine whether you want the auditor to limit the examination to the general-

purpose financial statements, the minimum allowable audit scope, or to extend the examination to cover additional items such as cost reports or schedule of federal financial assistance.

You may have to seek the assistance of your county to determine if you are receiving federal funds. If so, you have to have an audit in accordance with A-110 or under the A-128, or another requirement.

Deciding on the appropriate auditing standards

While generally accepted auditing standards (GAAS), issued by the AICPA, are typically used for both private and public sector audits, your organization may be subject to contract requirements, grant terms, state statutes, federal regulations, or the Single Audit Act and thus may be required to use generally accepted governmental auditing standards, which are issued by the Comptroller General of the United States. Generally accepted governmental auditing standards incorporate GAAS but involve additional auditor's responsibilities, including special reporting on internal controls and on compliance with applicable laws and regulations. You will need to determine and specify appropriate standards for your auditor to follow.

Identify attributes necessary in an auditor

We suggest that the personnel performing the audit have

experience with audits of similar organizations as well as continuing professional education in governmental accounting and auditing.

Decide how to evaluate prospective audit firms

Developing a systematic procedure for evaluating a firm's qualifications is essential. Although price is important, technical qualifications should be a critical criterion in selecting an auditor.

Consider a multi-year agreement

We believe that competition can be obtained, while concurrently realizing the benefits of lower cost and efficiency, when an organization uses multi-year agreements. Such an agreement involves the organization engaging its auditor for more than one year at a time.

Establish a work schedule

You should develop a schedule--both for yourself and for the auditor you eventually select--that sets forth dates by which certain milestones in the audit process must be reached. This will ensure the timely preparation and issuance of financial statements and related reports.

Small Organizations

All of the foregoing suggestions, including creating and using an audit committee, can help a small organization achieve a quality audit. Small organizations can appoint a 2- or 3-person audit committee that understands what is to be audited and how the audit should be performed.

COMPETITION

Definition

Effective competition is the first critical attribute of an adequate audit procurement process.

Competition occurs when an entity attempts to identify at least two qualified CPA firms which would potentially bid against each other to provide the entity with audit services (an "engagement") by submitting their respective proposals.

Relationship to Quality Audits

Effective competition increases the likelihood of receiving a quality audit. When there is effective competition, it appears to encourage entities to incorporate the other critical attributes. The presence of competition in the procurement process helps an entity to control costs by increasing the likelihood that a

quality engagement will be performed by an audit firm at a fair price.

Accepted Ways of Obtaining Effective Competition

As one of the first steps in obtaining competition, entities should identify the population of bidders. The GAO found that some entities used more than one method to identify the population of bidders:

- o Developing and maintaining a list of bidders. The bidders list may be compiled from the "Yellow Pages"; professional publications; referrals from other entities; contact with the State Controller's Office; the State CPA Society or its local chapter; past experiences with some audit firms; or firms previously expressing interest in the engagement for future years. This was the most common method of obtaining effective competition.
- o Advertising in local or regional newspapers.
- o Contacting firms as a result of referrals from other entities.
- o Direct mailings to CPA's. This was the least popular method; this method will provide an incentive for an audit firm to devote time to submitting a well-developed proposal.

- o Multi-year agreements. This method will provide an incentive for an audit firm to devote time to submitting a well-developed proposal.

The first year of an audit engagement usually involves significant start-up costs as auditors devote considerable time to learning about the organization and its internal control systems. Having completed this groundwork, the auditor usually is able to work at less cost in succeeding years. A multi-year agreement, perhaps a one-year agreement with the option to extend the agreement for up to five years, has two advantages: it enables an auditor to propose a price that takes into account the savings to be realized in the subsequent years and saves the organization the costs associated with repeating the selection process. It can also minimize the risk of producing a poor quality audit, reduce costs, minimize an entity's staff resources spent on procuring audit services and interfacing with different audit firms selected for engagements each year, and improve program and financial operations in the final years; and

- o If using a multi-year CPA agreement, your organization should develop a policy on whether to allow the current audit firm to rebid the audit engagement once the contract period expires.

- o Bidders must affirm their qualifications.

Encouraging as many qualified audit firms as possible to submit their proposals for auditing your organization increases the likelihood that you will receive a quality audit at a fair price.

The next step, then, is to communicate your audit needs to potential bidders.

SOLICITATION PROCESS

Definition

The solicitation process refers to the formal and comprehensive manner in which an entity accurately communicates all of the details and audit requirements to potential bidders. In this way, the entity assures itself that all audit firms clearly understand the requirements of the audit and submit complete proposals that can be evaluated on an equitable basis. Potential bidders must understand what services you want or they will not respond.

Relationship to Quality Audits

Effective solicitation is the second critical attribute of an adequate audit procurement process. An effective solicitation process increases the likelihood of receiving a quality audit.

Accepted Ways of Obtaining an Effective Solicitation Process

Your organization should decide on the method to solicit bids for your audit and the provisions to include in the solicitation document.

- o Formal methods of communicating the same solicitation information to all prospective audit firms (some entities used more than one method).
- o A "request for proposal" (RFP) outlines all pertinent information for a CPA firm to submit a satisfactory proposal and is the most reliable.
- o An "invitation for bid" (IFB) which differs from an RFP in that the selection of a CPA is limited to that qualified firm which submits the lowest cost proposal (this method is commonly used by entities with engagement fees under \$1,000).
- o One or more formal meetings ("presolicitation conferences") with audit firms to provide them with pertinent information.
- o Telephone calls or direct mail (these are not popular methods of communicating solicitation information with audit firms).

- o Time frames for audit firms to respond to the solicitation.
- o Procedures to provide consistent follow-up information or clarification to all potential bidders when required, through:
 - o Group meetings with all bidders.
 - o Written communication with all bidders.
 - o Telephonic communication with all bidders.
 - o Telephonic responses to direct inquiries by various CPA firms, followed by written or telephonic dissemination of the information to each bidder.

The solicitation process should be completed in time to permit the auditor to begin preliminary work prior to the close of the fiscal period to be audited. Ideally, the auditor selection and contract award should be completed prior to or as early as possible into the audit period.

Small Organizations

Preparing a detailed RFP for a small engagement may be economically impractical in many cases. Abbreviated RFP's

designed for small engagements and requiring only a little tailoring to meet individual needs may be available through the county. At a minimum, RFP's should clearly define the work to be done, including the reports and opinions to be delivered. Once the due date for proposals has passed, the organization can begin evaluating the bidders' qualifications.

TECHNICAL EVALUATION

The technical evaluation is important for two reasons:

1. It provides a systematic framework for selecting an auditor on the basis of the entity's established RFP criteria.
2. It documents that the auditor was selected fairly.

Definition

Technical evaluation is the method used by an entity for evaluating the merits of each audit firm's technical proposal and selecting the CPA firm which can provide a quality audit at a fair price.

Relationship to Quality Audits

Effective technical evaluation is the third critical attribute of an adequate audit procurement process. Effective technical

evaluation increases the likelihood of receiving a quality audit.

Accepted Ways of Obtaining an Effective Technical Evaluation

Audit firms and their proposals should be evaluated and ranked on the basis of pre-established technical criteria first; only then should price be considered. For example, the evaluation process may rank the proposals only on technical factors, then you could select a few of the best-qualified proposals. From these best qualified responses, the evaluation could proceed with evaluation of the cost factors.

If a firm is judged not to be technically qualified to perform the audit, then it should not be selected regardless of its cost proposal. Each proposal should be reviewed by an evaluation committee. When necessary, proposals may be pre-screened and selected proposers may be interviewed.

Pre-screening of Audit Firms

Entities with several larger engagements may wish to ensure that only minimally qualified audit firms are sent. Any resultant proposal is then judged against more time-consuming technical evaluation criteria. To be pre-qualified by an entity, a proposer should do all of the following:

- o Affirm that it is licensed to practice in California.

- o Affirm that its staff meets the independence standard outlined in generally accepted governmental auditing standards.
- o Disclose any positive enforcement actions or other matters which may reflect on its professional qualifications.
- o Affirm that its staff does not have a record of poor-quality work.
- o Affirm that its resources and office location which will potentially do the work are within a reasonable distance of the entity.
- o Provide evidence of having received an acceptable independent review with a positive outcome. This additional request for qualifications is sometimes used by government or very large private entities to further screen audit firms already on their qualified bidders' list, thus accelerating the auditor selection process.

Technical Screening of Audit Proposals

The extent and type of technical (non-cost) criteria used in evaluating proposals should reflect the relative size and complexity of the audit engagement and the extent to which the

proposers have been pre-qualified by the entity. The evaluation criteria and the relative importance of each criterion should be developed in advance and carefully and consistently applied. The criteria should be conveyed to proposers, if only in general terms, to allow their proposals to emphasize the firms' particular strengths and to avoid later criticism of unfair selection methods. The rating method and the membership and qualifications of the evaluation committee may be conveyed, too. A review to determine qualified proposals should consider such technical factors as:

- o Pre-qualification criteria above.
- o Size, structure, and location of proposer, considering the audit scope.
- o Range of activities to be performed.
- o Qualifications and technical backgrounds of audit team, including supervisory personnel and consultants, to be assigned to the engagement.
- o Past governmental or industry experience of the proposer, including previous experience auditing alcohol, drug abuse, or other federal funds.
- o Proposer's data processing capability.

- o Proposer's participation in training and continuing professional education, particularly concerning auditing of governmental programs, during the past three years.
- o General direction and supervision by proposer's management over the audit team.
- o Description of proposer's quality control procedures including:
 - o Results of internal quality control reviews.
 - o Whether proposer participates in an external quality control program.
 - o Responsiveness of the proposal in clearly stating an understanding of the work to be performed including:
 - o Comprehensiveness of audit work plan.
 - o Appropriateness of assigned staff levels.
 - o Time frames for fieldwork to commence and be completed.

- o Realistic time estimates of each major segment of the work plan.

Cost Screening of Audit Proposals

After the review of those proposals deemed "best qualified" on technical criteria, the cost of the audit work may now be considered.

- o Cost should be an important but not dominant factor in selecting the auditor even when all other evaluation criteria have been met and the proposals are relatively equal in quality.
- o Unreasonably low proposals should be rejected because of:
 - o Insufficient auditor hours for the audit work plan.
 - o Below-market hourly rates.

Oral Interviews

Interviews of selected proposers may be necessary if:

- o The scoring instrument results in a tie.

- o Several proposals are very similar in quality.
- o Clarification is needed on points of interest on selected proposers' qualifications, including their skills, experience, commitment, and understanding of the audit requirements.
- o Additional information must be brought out to clearly make the final selection.

Right to Reject

Proposers should be informed that the entity may reject any and all proposals submitted and request additional information from all proposers.

WRITTEN AGREEMENT

Definition

A written agreement is a contract or engagement letter between the entity and their selected audit firm which confirms or documents their mutual verbal understanding or expectations as to how the audit will be conducted, the cost, and specifically the accountability of both parties, including the terms and conditions of the audit engagement.

Relationship to Quality Audits

An effective written agreement is the fourth critical attribute of an adequate audit procurement process. An ineffective written agreement increases the likelihood of an unacceptable audit. An effective written agreement enhances an entity's ability to monitor their audit firms' compliance with the agreement. When there is an effective written agreement, an entity is in a better position to take recourse against the audit firm in event of poor-quality work.

Accepted Elements of an Effective Written Agreement

The contract or engagement letter is signed by both the entity and the audit firm.

The agreement contains specific provisions against which both parties could be held accountable (may refer to RFP provisions):

- o Entity's financial records must be in verifiable condition.
- o Scope of audit work to be performed.
- o Fund level to be audited.
- o Applicable auditing standards.

- o Applicable audit guide or program.
- o Legal requirements.
- o Required reports.
- o Due date of final report, and other time requirements.
- o Engagement fee, including billing and reimbursement arrangements.

There are provisions for Equal Employment Opportunity, the entity's monitoring of contract performance, and whether to allow the current audit firm to rebid the audit engagement once the contract period expires.

Provisions exist for recourse in the event of substandard work, contract termination, and/or legal remedies for contract violations.

Entity's Monitoring of Engagement

Objectives of entity:

- o Getting the service they are paying for.
- o Being in a position to take timely recourse if audit is of

unacceptable quality.

Steps to monitor performance of audit team:

- o Ensure that the firm's proposed staff are actually the auditors performing the audit.
- o Hire a consultant, for a short period of time, to assist in monitoring.
- o Obtain volunteers from local professional and educational organizations to assist the entity.
- o Schedule conferences or informal discussions with the audit team, and/or review the auditors' adjusted books or corrective actions.
- o Communicate with cognizant agencies about their quality control reviews of the audit firm.

PERSONNEL WITH GOVERNMENTAL ACCOUNTING AND AUDITING SKILLS

Definition

Since governmental audits are specialized and have unique requirements, government officials with specialized knowledge of governmental accounting and auditing -- not just general

financial backgrounds -- are most desirable in helping entities with planning and implementing the procurement process. Such personnel, independent of the entity, typically are city or county treasurers, controllers, or business managers.

Relationship to Quality Audits

- o Personnel with governmental accounting and auditing skills are the fifth critical attribute of an adequate audit procurement process.
- o Personnel with governmental accounting and auditing skills should know best how to encourage competition, solicit offers, evaluate proposals, and develop/monitor the written agreements which will help the entity satisfy governmental audit requirements. For example, such personnel:
 - o Have contacts with the State Controller's Office, State CPA Society or the local chapter, and local audit firms.
 - o Have past experience with some audit firms' performance.
 - o May already maintain a current bidders' list.
 - o Are usually familiar with Request-for-Proposal and/or

Invitation-for-Bid solicitations and with presolicitation conferences.

- o May have experience in pre-screening audit firms and/or screening audit proposals, including development of proposal rating systems.
- o Are knowledgeable in development of contracts or review of engagement letters.
- o May have monitored audit engagements.

FEDERAL FUND AUDIT REQUIREMENTS

Federal law and regulations applicable to community-based service providers include the following requirements:

U.S. Public Law 97-35, Omnibus Budget Reconciliation Act of 1981

Code of Federal Regulations, Title 45, Part 96, Alcohol and Drug Abuse and Mental Health Services Block Grant

U.S. Office of Management and Budget (OMB) Circular A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations

OMB Circular A-122, Cost Principals for Nonprofit Organizations;
Lobbying and Related Activities

OMB Circular A-133, Audits of Institutions of Higher Education
and Other Non-Profit Institutions

SELECTED ITEMS OF COSTRECREATION COSTS FOR ALCOHOL AND DRUG PROGRAMS(EXCLUDING MEDI-CAL FUNDED SERVICES)Background

Allowable recreation costs are those incurred for the direct therapeutic benefit of program participants. The reasonable cost concept applies to the transportation of clients, admission to recreational events, and the rental or purchase of athletic or physical exercise equipment. Recreation costs for staff or volunteers is allowed if serving a supervisory need. Recreation costs for participants funded under Medi-Cal services is not allowed.

Criteria

California Health and Safety code, Section 11811 and 11991.2.

California Administrative Code, Title 9, Section 9424.

California Drug Program Fiscal System Manual, Table I, page 33.

Suggested Audit Procedure

Ascertain the following:

1. Recreation costs have a direct therapeutic benefit; are not entertainment.
2. All costs are reasonable.
3. Staff or volunteer costs are for supervision.
4. No recreation costs are charged to Medi-Cal services.

SALARIES AND WAGES

Background

Compensation (wages/salaries) includes all remuneration paid currently or accrued for services rendered during the time period of the grant agreement.

Criteria

California Health and Safety Code, Section 11818(a) (Alcohol) and Section 11991.2 (Drug). Federal Register, Part X, OMB, Cost Principles for State and Local Government, Volume 46, No. 18.

Suggested Audit Procedures

Ascertain the following:

1. Compensation expenditures are representative of the labor market for similar services.
2. Payroll time and attendance records support individual employee compensation claims.
3. Where compensation is drawn from several sources, time records are in sufficient detail to apportion costs.

FRINGE BENEFITS

Background

Fringe benefits are those ancillary additions to basic compensation that may include, but are not limited to, medical, dental, and life insurance. The employer may totally fund or share costs with the employee.

Criteria

California Health and Safety Code Section 11818(a) (Alcohol) and Section 11991.2 (Drug). Federal Register, Part X, OMB, Cost Principles for State and Local Government, Volume 46, No. 18.

Suggested Audit Procedures

Ascertain the following:

1. Fringe benefit charges are representative for the service, area, and organization size.
2. Billings of fringe benefits and payroll records are in agreement.
3. Within multi-funded organizations fringe benefits are apportioned.

FUND RAISING COSTS

Background

Alcohol and drug programs are encouraged to utilize fund raising activities for costs not reimbursable from state or federal funds. Examples are entertainment, certain items of equipment, etc. Costs incurred in such activities are not program costs and are not allowable for reimbursement.

Criteria

California Health and Safety Code, Section 11991.2. Drug Program Fiscal System Manual, Chapter II, Table I.

Suggested Audit Procedures

Ascertain that no fund-raising costs have been claimed or reimbursed from county program funds.

CAPITAL EXPENDITURES

Background

State or federal funds may not be used for the purchase or construction of buildings.

Costs incurred for necessary maintenance, repair, or upkeep of property, to keep it in an efficient operating condition, and which neither add to the permanent value of the property nor prolong its intended life, are reimbursable.

Capital improvements which increase the value or useful life of a building and are specially provided for in the county/plan contract, can be expended in the year claimed. Other capital improvements may only be recovered through depreciation or through a use allowance.

Criteria

California Health and Safety code, Sections 11818(a) and 11991.2.
Standards and Procedures for Audits of Federal Block Grant Funds

Allocated by State Department to Local Agencies issued by the State Controller's Office. OMB Circular A-87, Attachment B, Allowable Costs, Item 11.

Suggested Audit Procedures

Ascertain the following:

1. No state or federal funds were used to improve any building or facility without prior approval in the county plan/contract.
2. If unapproved use of state or federal funds was made for capital improvements, recovery was through depreciation of costs.

FACILITY RENTAL COSTS

Background

Facility rental costs are allowed to the extent facilities are used for program purposes. Cost must be reasonable and comparable to costs in the area.

Sales and leaseback agreements or leases with related organizations which result in ultimate ownership interest are allowable only in the amount of depreciation, taxes, repairs, maintenance, and other proprietary costs that would be allowed

if the program owned the property.

Idle capacity or idle facilities in excess of current program needs are not allowable.

Criteria

California Health and Safety Code, Section 11991.2. OMB Circular A-122, "Cost Principles For Nonprofit Organizations," Attachment B, paragraphs 16 and 42.

Suggested Audit Procedures

Ascertain the following:

1. Rented facilities are being utilized to provide program-related services.
2. All of the facility is being utilized for current program needs.
3. Expenditures of a lease agreement do not provide for an ownership interest.
4. Expenditures do not reflect a sale-leaseback arrangement.
5. Expenditures of a lease are not with a related organization.

EQUIPMENT RENTAL COSTS

Background

Rental costs of land, building, equipment, and other personal property are allowable if the rates are reasonable compared to ownership and the degree of utilization. Rental costs must be comparable to charges levied in the area.

Costs under leases which result in an ownership interest, sales, and a leaseback agreement or a lease with a related organization are allowable only in the amount of property costs. These costs include depreciation, repairs, maintenance, and other ownership costs that would be allowed if the program owned the equipment.

Criteria

California Health and Safety Code, Section 11991.2. OMB Circular A-122. Attachment B, paragraph 42.

Suggested Audit Procedures

Ascertain the following:

1. Equipment rental costs are entirely for program-related activities.
2. Expenditures of a lease agreement do not provide an ownership interest.

3. Expenditures do not reflect a sale leaseback arrangement.
4. Expenditures of a lease are not with a related organization.

TRAVEL COSTS

Background

Employees who are required to travel intra-state for official business incidental to a grant program may claim expenses for transportation, lodging, subsistence, and related travel expense items. Out-of-state travel requires prior county and/or state approval.

Criteria

California Health and Safety Code, Sections 11818(a) (Alcohol) and 11991.2 (Drug).

Suggested Audit Procedures

Ascertain the following:

1. Housing, meal, and transportation costs are within limits prescribed by the State or county.
2. Expenses are reasonable and necessary to program operation.
3. The treatment of expenses is consistent with practices in nonfederal sponsored activities. (As an example, travel

costs treated as an indirect charge should be distributed among programs receiving a common benefit.)

4. Out-of-state travel has had prior county and/or state approval.

COUNTY SERVICE SUPPORT OF ALCOHOL AND DRUG PROGRAMS

Background

County alcohol and drug programs receive support and services from other county departments or units such as purchasing, accounting, data processing, county counsel, etc. A portion of these costs may be allocated to alcohol or drug programs through the countywide cost allocation plan. These allocated costs must benefit the respective program and represent actual program costs.

Criteria

California Health and Safety Code, Section 11818. California Administrative Code, Section 9424. Drug Program Fiscal System Manual, Chapter II, Table I.

Suggested Audit Procedures

Ascertain the following:

1. County service support costs have been established by an approved countywide cost allocation plan.
2. Allocated costs are program related and are not a duplication of direct charges.

GAINS AND LOSSES ON DISPOSITION OF EQUIPMENT

Gains and losses on the sale, retirement, or other disposition of depreciable property shall be included in the fiscal year in which they occurred as a credit or charge to program costs.

Under the following conditions, gains and losses will not be recognized:

1. Property is purchased with private funds and no depreciation is claimed against the state program.
2. The gain or loss is processed through an accumulated depreciation account and is reflected in allowable depreciation for the year.
3. Property is traded in on a similar item and gain or loss is applied to the new item's depreciable basis.

Criteria

Health Care Financing Administration (HCFA). Medicare Contractor Reimbursement Manual, (HIM 15-1) Section 132.

Suggested Audit Procedures

1. Determine the funding source used to acquire the property.
2. Determine the method used to adjust applicable depreciation.
3. Determine that gains and losses have been correctly computed.

SERVICE COSTS-RELATED ORGANIZATIONS

Background

Organizations related by common ownership or control may provide subordinate units, services, facilities, and supplies at cost. Such costs shall not exceed those for comparable services, facilities, or supplies purchased in the open market.

Criteria

Health Care Financing Administration (HCFA), Medicare Contractor Reimbursement Manual (HIM 15.1), Chapter 10.

Suggested Audit Procedures

Ascertain the following:

1. Closely related organizational ties exist between the parent and subordinate units.
2. Costs of services, facilities, and supplies are passed through without a markup or profit to the parent organization.
3. Costs of services, facilities, and supplies do not exceed open market costs.

STATHAM FUNDS-COUNTY ALCOHOL PROGRAMS

Background

A portion of the fine paid by a person convicted for driving under the influence is deposited in a special account under the control of the county treasury. These fines, commonly called Statham funds, are to fund additional services.

The state regards Statham funds as county funds. They may be used to provide additional alcohol services or meet county match requirements. Up to five percent of the Statham funds can be retained by the county to offset administrative costs of collection and disbursement.

Criteria

California Penal Code, Section 1463.16. California
Administrative Code, Title 9, Section 9428. Alcohol Services
Reporting System Manual (ASRS) Chapter VIII, page 8.1.

Audit Procedures

Ascertain the following:

1. The portion of convicted drinking driver fines assessed are traceable to a special county alcohol account in the county treasury.
2. Withdrawals from this account were for alcohol purposes only (in accordance with the approved county alcohol plan/budget).
3. The county retained five percent or less of collected drinking driver fines for administrative costs.