
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL
AUDIT OF GRANT AWARD**

**Friends of Southwest Virginia
Abingdon, Virginia**

**Final Report Number: 14-26
Project Number: VA-17382
August 2014**

**Prepared by:
Leon Snead & Company, P.C.**



**LEON SNEAD
& COMPANY, P.C.**

*Certified Public Accountants
& Management Consultants*

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August 15, 2014

Appalachian Regional Commission
Office of Inspector General
1666 Connecticut Avenue, N.W.
Washington, D.C. 20009

Leon Snead & Company, P.C. has completed an audit of grant number VA-17382 awarded by the Appalachian Regional Commission (ARC) to the Friends of Southwest Virginia (FSWVA). The audit was performed to assist the Office of Inspector General in carrying out its oversight of ARC grant funds.

The audit objectives were to determine whether: (1) program funds were managed in accordance with the ARC and federal grant requirements; (2) internal grant guidelines, including program (internal) controls, were adequate and operating effectively; (3) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (4) the matching requirements and the goals and objectives of the grant were met.

FSWVA did not have an effective financial management system and related internal controls in place to manage and administer the ARC grant reviewed. As a result, we questioned \$184,833 in costs claimed for reimbursement and questioned \$10,506 in costs used as matching costs because the expenditures were: incurred prior to the grant start date; unallowable costs; or not adequately supported.

We found that FSWVA had an adequate process in place for obtaining and recording data related to the goals and objectives of the grant. The records and reports indicated that the tasks required by the grant agreement were being accomplished. However, the overall results of the project and use of ARC's funding were not determinable because the documentation had not been completed.

Leon Snead & Company appreciates the cooperation and assistance received from the FSWVA and ARC staff during the audit.

Sincerely,

Leon Snead & Company, P.C.
Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of grant number VA-17382 awarded by the Appalachian Regional Commission (ARC) to the Friends of Southwest Virginia (FSWVA). The audit was conducted at the request of the ARC, Office of Inspector General, to assist the office in its oversight of ARC grant funds.

FSWVA, a 501 (c)(3) entity, was incorporated on October 26, 2010, as a non-stock corporation in the state of Virginia. The mission of FSWVA is to: preserve, promote, and present cultural and natural assets of Southwest Virginia; work in partnership in the region to generate economic development through these efforts; provide educational and cultural opportunities for the general public and students of the region; and showcase the cultural assets of Southwest Virginia at Heartwood, Southwest Virginia's Artisan Gateway. A board of directors made up of 7-15 members governs FSWVA. The current board represents state, local and regional governments; state and local tourism, educational, cultural and music organizations; and the Virginia General Assembly. An executive director selected by the board manages the day-to-day operations and programs.

ARC grant VA-17382 was awarded to cover the period October 1, 2012 through March 31, 2014. The grant provided \$500,000 in ARC funds and required \$500,000 in non-ARC matching funds as start-up funding for the grantee to manage cultural and heritage tourism programming in the region. The grantee was to work in partnership with the Southwest Virginia Cultural Heritage Foundation, Round the Mountain, Heartwood, and the Crooked Road programs. Funding was provided for local events and broadcasts to be undertaken for the Crooked Road and Round the Mountain, and support for the operation and marketing of the Heartwood retail center and associated programs. The grant agreement also stated that a Business Plan would be developed to outline a sustainable program to support these activities and that ARC would underwrite the costs of personnel, equipment, supplies, and contractual expenses. At the time of the audit, the grant activities had been completed, but the final report had not been prepared. The total project cost reported under the grant through December 31, 2013, was \$720,390 (\$467,791 from ARC and \$252,599 non-ARC match).

Objectives, Scope, and Methodology

The audit objectives were to determine whether: (1) program funds were managed in accordance with the ARC and federal grant requirements; (2) internal grant guidelines, including program (internal) controls, were appropriate and operating effectively; (3) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (4) the matching requirements and the goals and objectives of the grant were met.

We reviewed the documentation provided and interviewed the FSWVA staff to obtain an overall understanding of the grant activities, the accounting system, and the operating procedures. We reviewed FSWVA's administrative procedures and related internal controls to determine if they were adequate to administer the grant funds. We reviewed financial and other required reports to determine whether they were properly supported and submitted in accordance with the

requirements. We also reviewed the most recent audit reports to determine whether there were any issues that impacted the ARC grant.

Of the \$467,791 in expenditures charged to the grant and claimed for reimbursement through December 31, 2013, we selected a sample of \$252,057 in expenditures charged to the grant for testing to determine whether the charges were properly supported and allowable. In addition, we selected a sample of \$207,483 in expenditures for testing that were used as matching costs.

The primary criteria used in performing the audit were the provisions of the ARC grant agreement, applicable Office of Management and Budget (OMB) Circulars, and relevant parts of the ARC Code. The audit was performed in accordance with the *Government Auditing Standards*. The fieldwork was performed during the period of March 31 through April 14, 2014, including on-site work at FSWVA's office in Abingdon, Virginia. The audit results were discussed with the FSWVA representatives at the conclusion of the on-site visit.

Summary of Audit Results

FSWVA did not have an effective financial management system and related internal controls in place to manage and administer the ARC grant reviewed. As a result, we questioned \$184,833 in costs claimed for reimbursement and questioned \$10,506 in costs used as matching costs because the expenditures were: incurred prior to the grant start date; unallowable costs; or not adequately supported.

We found that FSWVA had an adequate process in place for obtaining and recording data related to the goals and objectives of the grant. The records and reports indicated that the tasks required by the grant agreement were being accomplished. However, the overall results of the project and use of ARC's funding were not determinable because the documentation had not been completed.

The issues noted during the audit and our recommended corrective actions are discussed in detail in the Findings and Recommendations section of the report.

Findings and Recommendations

A. Costs Incurred Prior to Grant Period

We questioned \$26,541 in expenditures charged to the grant and \$75 in expenditures used as matching costs because the expenditures were incurred prior to the October 1, 2012 grant start date, as identified in the table below. The ARC Grant Administration Manual states that ARC will not reimburse for expenditures occurring before or after the grant period.

Costs Incurred Prior to Grant Period			
Invoice/Item	Date(s)	Amount Charged to Grant	Amount Used as Matching Costs
People, Inc.	07/01/12 - 09/30/12	\$24,983	-
Magee Bookkeeping #5800	September 2012	1,558	-
Dwayne Herndon	September 22, 2012	-	\$75
Totals		\$26,541	\$75

The issue of charging costs incurred prior to the grant period was discussed with FSWVA representatives at the conclusion of the on-site visit. They did not express any disagreement with the finding or indicate what action would be taken to address the issue.

Recommendations

FSWVA should:

1. Provide to ARC supporting documentation to replace the \$26,541 claimed for cost incurred before the grant start date and the \$75 in prior year costs used as matching. If documentation cannot be fully provided for these costs, refund to the ARC any unsupported amount.
2. Submit a revised SF-270 report to ARC to adjust for any changes or refunds that are made.

Grantee Response

FSWVA stated in its response that it concurs with the finding and have removed the \$26,541 in ARC costs, along with \$75 in matching costs.

Reviewer's Comments

The two recommendations should remain open and ARC will determine whether the actions identified in the grantee's response are adequate to resolve the recommendations or whether additional information or actions are needed.

B. Unallowable Costs

We questioned the allowability of \$71,647 in expenditures charged to the grant and \$5,424 reported as matching costs for fundraising activities, indirect costs, and salary and benefits, as identified in the table below.

Questioned Costs				
Items	Dates	Vendor	Grant Costs	Matching Costs
Fundraising Activities	Sep. 2012 - Oct. 2013	Mill Creek Creative	\$ 33,000	-
Indirect cost @ 10% to 11%	Oct. 2012 - Dec. 2013	People, Inc.	13,280	\$ 998
Director of Administration - Salary & Benefits	Oct. 2012 - Dec. 2013	People, Inc.	25,367	4,426
Totals			\$71,647	\$5,424

The grant agreement provided start-up funding for FSWVA to manage cultural and heritage tourism programming for the region; for local events and broadcasts to be undertaken for the Crooked Road and Round the Mountain (RTM); and for support of the operation and marketing of the Heartwood retail center and associated programs. The supporting documents provided by FSWVA showed that RTM entered into a retainer services agreement with Mills Creek Creative, LLC on February 9, 2011, for fundraising services. The executive director of FSWVA, who also serves in a managing capacity for RTM, signed the agreement for RTM. The agreement originally specified a term of one year at a cost of \$100,000. However, the contract was notated as extended until March 2013. Monthly invoices in varying amounts were charged to the grant for the months of September 2012 through October 2013. The supporting invoices provided details of funds raised and fundraising activities undertaken, but did not include details related to the expenditures.

We questioned \$33,000 in expenditures charged to the grant because the applicable federal cost principles (OMB Circular A-122) disallow fundraising, unless specifically required by the Federal award. Further, the applicable federal cost principles states that professional services costs are allowable based on the adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions). In addition, in order for retainer fees to be allowable, the fees must be supported by evidence of bona fide services.

Although the construction was funded by the Southwest Virginia Cultural Heritage Commission (the Commission), the Heartwood Building is owned by People, Inc., a non-related party, who in turn leases the building back to the Commission. The lease agreement provided that the Commission would pay to People, Inc. monthly maintenance fees, including indirect expenditures multiplied as a percentage of direct monthly expenditures. The agreement also includes reimbursement for 25 percent of the salary and fringe benefits for the Director of Administration for People, Inc. There was no documentation supporting the salary expense charged to the grant.

Unallowable costs, according to the OMB Circular A-122 cost principles, include amounts paid for profit and/or management fees that would not have been incurred had the non-profit organization purchased the facility. In addition, the cost must be reasonable for the performance of the award and be allocable in accordance with the relative benefits received. As stated previously, the federal cost principles states that professional services costs are allowable based on the adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions). The ARC Grants Administration Manual also requires that salaries and wages must reflect an after-the fact determination of the actual activity of each employee, and specifies that budget estimates do not qualify as support for charges to grants. As a result, we questioned the indirect expenses of \$14,278 (grant - \$13,280 & matching - \$998) billed as a percentage of building maintenance costs and \$29,793 (grant - \$25,367 & matching - \$4,426) in indirect salaries and benefits.

The issue relating to the claiming of unallowable costs was discussed with the FSWVA representatives at the conclusion of the on-site visit. They indicated that they believed not all of the Mills Creek expense was related to fundraising, but did not provide any additional supporting documentation. They also indicated that they believed the indirect costs charged by People, Inc. to be reasonable.

Recommendations

FSWVA should:

1. Provide to ARC supporting documentation to show that the \$71,647 of questioned costs is allowable or refund to ARC any unsupported amount.
2. Obtain adequate supporting documentation to replace the \$5,424 reported as matching costs and submit it to ARC for consideration. If documentation cannot be obtained, refund to ARC the \$5,424 reported as matching costs.
3. Submit a revised SF-270 report to ARC to adjust for any changes or refunds that are made.

Grantee Response

FSWVA stated in its response that it disagrees with the finding related to the costs claimed for fundraising activities and the indirect costs claimed for People, Inc. FSWVA stated that it had Fundraising Activities listed not only in its original, approved application, but also in every quarterly Narrative sent in with its reimbursement requests.

Also, FSWVA stated in its response that People, Inc. provides services such as landscaping, maintenance, repairs, building insurance, all at direct cost to them. FSWVA stated that because they were arranging for, and overseeing these services, they incur indirect costs and operates under an indirect cost plan through the Department of Human Services. FSWVA stated that it does not understand why provision of direct services would not include these

costs. In addition, FSWVA stated in its response that it is requesting People, Inc. to provide the timesheets to support the salaries and benefit costs charged to the grant.

Reviewer's Comments

The three recommendations should remain open and ARC will determine whether the actions identified in the grantee's response are adequate to resolve the recommendations or whether additional information or actions are needed.

C. Supporting Documentation

We questioned \$86,645 in expenditures charged to the grant and \$5,007 in expenditures used as matching costs because of insufficient supporting documentation.

The ARC grant agreement requires that documentation in support of each action in the accounting records be filed in such a manner that it can be readily located. Also, the applicable federal cost principles (OMB Circular A-122) require that all costs must be adequately documented in the grantee's files to support the amounts claimed for reimbursement.

Although the construction was funded by the Southwest Virginia Cultural Heritage Commission (the Commission), the Heartwood Building is owned by People, Inc., a non-related party, which in turn leases the building back to the Commission. The lease agreement dated May 27, 2009, provided that the Commission would pay to People, Inc. monthly maintenance fees upon receipt of a detailed inventory from People, Inc. showing the monthly expenditures for maintenance and operations.

The People, Inc. invoices for maintenance costs contained no information other than line item expenditures. The lease agreement indicates that all maintenance supplies and expenses for contractors, landscaping, ground-keeping, building security, utilities, and insurance costs shall be included in the monthly billing. However, our review of costs charged to the grant included some of these same items, such as utilities, landscaping, and ground-keeping. Emails between the FSWVA accountant and People, Inc. during 2013, and in response to our audit, indicated they were also unclear as to the exact costs included in the monthly invoices. While we were told that the billing agreement had been re-negotiated as of July 1, 2013, in order that "... we wouldn't have to pay direct Overhead..." on costs such as ground-keeping and janitorial, the staff was unable to locate the written agreement.

A total of \$170,910 had been claimed for reimbursement from the ARC grant and \$10,431 reported as matching costs for the People, Inc. monthly maintenance costs through October 2013. Of the amounts, we previously questioned in Findings A and B a total of \$63,630 in expenditures charged to the grant and \$5,424 used as matched costs. In addition, we obtained adequate documentation from People, Inc. to support \$20,635 claimed for liability insurance premiums. However, FSWVA did not provide sufficient documentation to support the remaining \$86,645 in expenditures charged to the grant and \$5,007 in expenditures used as matching costs. As a result, we have questioned these costs.

The issue of insufficient supporting documentation was discussed with the FSWVA representatives at the conclusion of the on-site visit. The executive director stated that he believed the indirect costs charged by People Inc. to be reasonable and that he disagreed with the finding.

Recommendations

FSWVA should:

1. Obtain appropriate documentation to support the \$86,645 in questioned expenditures charged to the grant and the \$5,007 in expenditures used as matching costs and submit it to ARC for consideration. If documentation cannot be obtained, refund to ARC the \$86,645 charged to the grant and remove the \$5,007 used as matching costs.
2. Submit a revised SF-270 report to ARC to adjust for any changes or refunds that are made.

Grantee Response

FSWVA stated in its response that it disagrees with the finding because People, Inc. is a vendor with specific contracted services. As such, FSWVA stated that it cannot audit the People, Inc. billings beyond the itemized costs they submit based on their contracts.

Reviewer's Comments

The two recommendations should remain open and ARC will determine whether the actions identified in the grantee's response are adequate to resolve the recommendations or whether additional information or actions are needed.

D. Financial Management and Grant Administration

FSWVA needs to improve its financial management system and related internal controls to manage the ARC grant more effectively and comply with the federal requirements. We identified the following issues concerning the adequacy of FSWVA's overall financial management system.

- FSWVA had a written document covering some areas of financial management such as control over disbursements and payroll. However, FSWVA had no written procedures for drawing funds and issuing payments; ensuring that required reports are prepared and submitted; or outlining procurement procedures, all of which are required by OMB Circular A-110. Also, FSWVA did not have procedures in place for determining the reasonableness, allocability, and allowability of costs in accordance with OMB Circular A-122 and the terms and conditions of the grant.
- The accounting records were not always supported by source documentation. The records were not maintained in an orderly manner and supporting documentation was missing. The FSWVA staff had to contact several different vendors to obtain important supporting documentation, including copies of invoices, timesheets, payroll, and other supporting information for transactions we reviewed. The federal cost principles applicable to FSWVA require that all costs must be adequately documented in the grantee's files to support the amounts claimed for reimbursement. The ARC grant agreement also requires that "...The documentation in support of each action in the accounting records shall be filed in such a manner that it can be readily located...." In addition, OMB Circular A-110 requires that "...a system for contract administration shall be maintained to ensure contractor conformance with the terms, conditions and specifications of the contract and to ensure adequate and timely follow up of all purchases...."
- The audit report for FSWVA's fiscal year ended June 30, 2013, reported one significant deficiency in internal control. The Organization received a check from a grantor and erroneously deposited the funds in the bank account of another organization. Additionally, all revenues and expenses related to the grant were recorded on the books of the other organization. The grant was awarded to Friends of Southwest Virginia; however, the revenues and expenses related to that grant were not reflected on their books, but instead on the books of Round the Mountain (RTM). RTM management responded that they had implemented further review steps to ensure all checks would be properly accounted for and payable to the correct organization.

Recommendations

FSWVA should:

1. Develop written policy and procedures for the grant management system to include procedures for:

- drawing funds and issuing payments;
 - ensuring that financial reports are prepared and submitted; and
 - determining the reasonableness, allocability, and allowability of costs in accordance with applicable federal cost principles and the terms and conditions of the grant.
2. Establish controls to ensure compliance with the procurement standards in OMB Circular A-110.
 3. Establish controls to ensure proper documentation and retention of procurement files.
 4. Ensure that supporting documentation for accounting transactions are maintained and filed in such a manner that they can be readily located.

Grantee Response

FSWVA stated in its response that it concurs with the finding and has since adopted the procurement standards in OMB Circular A-110.

Reviewer's Comments

The four recommendations should remain open and ARC will determine whether the actions identified in the grantee's response are adequate to resolve the recommendations or whether additional information or actions are needed.

**Appendix I
Grantee Response**

This is in response to Draft Report from Leon Snead Company in regards to ARC Grant #VA-17382.

Finding A – Costs Incurred Prior to Grant Period –

We concur with this finding, and have removed the \$26,541 in ARC costs, along with \$75 in Matching Costs.

Finding B – Unallowable Costs –

We strongly disagree with the first line of this finding – for Fundraising Activities. We have had Fundraising Activities listed not only in our original, approved application, but also in every quarterly Narrative we sent in with our reimbursement requests.

We disagree with the second line of the finding – for Indirect Costs to People, Inc. During the Grant period, People, Inc. provides services such as landscaping, maintenance, repairs, building insurance, all at direct cost to them. Because they were arranging for, and overseeing these services, they incur indirect costs. They operate under an indirect cost plan through the Department of Health and Human Services as is their cognitive agency. We do not understand why provision of direct services would not include these costs.

We are requesting the backup of timesheets as requested.

Finding C – Supporting Documentation –

We disagree with this finding, as People, Inc. is not a sub recipient, but a vendor with specific contracted services. As such, we cannot audit their billings beyond the itemized costs they submit based on their contracts.

Finding D – Financial Management and Grant Administration –

We concur with this finding, and have since adopted the procurement standards in OMB Circular A-110.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Program Support Center
Financial Management Service
Division of Cost Allocation

7700 Wisconsin Avenue, Suite 2301
Bethesda, MD 20814
PHONE: (301)492-4855
FAX: (301) 492-5081

April 11, 2014

Ms. Janet Shrader
Chief Financial Officer
People Incorporated of Virginia
1173 West Main Street
Abingdon, VA 24210

Dear Ms. Shrader,

A copy of an indirect cost Rate Agreement is being faxed to you for signature. This Agreement reflects an understanding reached between your organization and a member of my staff concerning the rate(s) that may be used to support your claim for indirect costs on grants and contracts with the Federal Government.

Please have the original signed by an authorized representative of your organization and fax it to me, retaining the copy for your files. Our fax number is (301) 492-5081. We will reproduce and distribute the Agreement to the appropriate awarding organizations of the Federal Government for their use.

An indirect cost proposal, together with the supporting information, is required to substantiate your claim for indirect costs under grants and contracts awarded by the Federal Government. Thus, your next proposal based on actual costs for the fiscal year ending 06/30/2014, is due in our office by 12/31/2014.

Sincerely,

Darryl W. Mayes
Deputy Director, Mid-Atlantic Field Office
Division of Cost Allocation

Enclosures

PLEASE SIGN AND FAX A COPY OF THE RATE AGREEMENT

ORIGINAL**NONPROFIT RATE AGREEMENT**

EIN: 54-0763686

DATE: 04/11/2014

ORGANIZATION:

FILING REF.: The preceding
agreement was dated

People Incorporated of Virginia

11/26/2013

1173 West Main Street

Abingdon, VA 24210

The rates approved in this agreement are for use on grants, contracts and other agreements with the Federal Government, subject to the conditions in Section III.

SECTION I: INDIRECT COST RATES

RATE TYPES: FIXED FINAL PROV. (PROVISIONAL) PRED. (PREDETERMINED)

EFFECTIVE PERIOD

<u>TYPE</u>	<u>FROM</u>	<u>TO</u>	<u>RATE(%)</u>	<u>LOCATION</u>	<u>APPLICABLE TO</u>
FINAL	07/01/2012	06/30/2013	11.30	All	All Programs
PROV.	07/01/2013	06/30/2015			Use same rates and conditions as those cited for fiscal year ending June 30, 2013.

*BASE

Total direct costs excluding capital expenditures (buildings, individual items of equipment; alterations and renovations), that portion of each subaward in excess of \$25,000 and flow-through funds.

ORGANIZATION: People Incorporated of Virginia
 AGREEMENT DATE: 4/11/2014

SECTION II: SPECIAL REMARKS

TREATMENT OF FRINGE BENEFITS:

The fringe benefits are specifically identified to each employee and are charged individually as direct costs. The directly claimed fringe benefits are listed below.

TREATMENT OF PAID ABSENCES

Vacation, holiday, sick leave pay and other paid absences are included in salaries and wages and are claimed on grants, contracts and other agreements as part of the normal cost for salaries and wages. Separate claims are not made for the cost of these paid absences.

Fringe Benefits include: FICA, Unemployment Insurance, Worker's Compensation Insurance, and Health Insurance.

Equipment means an article of nonexpendable and tangible personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit.

TREATMENT OF ADMINISTRATIVE COSTS:

This organization charges all costs direct to a final cost objective, e.g. a particular award, project, service, or other direct activities, with the exception of the costs listed below:

1. Salaries & Wages and Related Fringe Benefits

Executive Director	Director of Administration
Chief Financial Officer	Director of Accounting
Accountant (2)	Finance Officer (2)
Director of HR	IT Specialist
IT Assistant	Program Developer (3)
Board Liason / Officer Manager	Receptionist
Maintenance	

2. Non-Labor Expenses

Travel	Equipment
Material and Supplies	Contractual
Other	

Your next proposal based on actual costs for the fiscal year ending 06/30/2014, is due in our office by 12/31/2014.

ORGANIZATION: People Incorporated of Virginia
AGREEMENT DATE: 4/11/2014

The indirect cost rate has been negotiated in compliance with the Administration for Children and Families Program Instruction (ACF-PI-NS-08-03) dated 5/12/2008, which precludes recipients of Head Start grants to use any Federal funds to pay for any part of the compensation of an individual either as a direct cost or any pro-ration as an indirect cost if that individual's compensation exceeds the rate payable of an Executive Level II. As of January 2012, the rate of compensation for an Executive Level II is \$179,700 per year.

ORGANIZATION: People Incorporated of Virginia

AGREEMENT DATE: 4/11/2014

SECTION III: GENERAL

A. LIMITATIONS:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government.

B. ACCOUNTING CHANGES:

This Agreement is based on the accounting system purported by the organization to be in effect during the agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. FIXED RATES:

If a fixed rate is in this Agreement, it is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined, an adjustment will be made to a rate of a future year(s) to compensate for the difference between the costs used to establish the fixed rate and actual costs.

D. USE BY OTHER FEDERAL AGENCIES:

The rates in this Agreement were approved in accordance with the authority in Office of Management and Budget Circular A-122, and should be applied to grants, contracts and other agreements covered by this Circular, subject to any limitations in A above. The organization may provide copies of the Agreement to other Federal Agencies to give them early notification of the Agreement.

E. OTHER:

If any Federal contract, grant or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

BY THE INSTITUTION:

People Incorporated of Virginia

(INSTITUTION)

(SIGNATURE)

(NAME)

(TITLE)

(DATE)

ON BEHALF OF THE FEDERAL GOVERNMENT:

DEPARTMENT OF HEALTH AND HUMAN SERVICES

(AGENCY)

(SIGNATURE)

Darryl W. Mayes

(NAME)

Deputy Director, Division of Cost Allocation

(TITLE)

4/11/2014

(DATE) 1035

NHS REPRESENTATIVE:

Lucy Siow

Telephone:

(301) 492-4855

Friends of Southwest Virginia

Accounting Policies and Procedures

Approved by the Board of Directors on 6/17/2014

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Accounts Payable Procedures

- Office Admin Receives/Opens mail, stamps with date received stamp, and distributes to Accounting Office
- Accounting Office assigns Expense coding and fund source
- Accounting Office prepares checks for all invoices every Wednesday
- Accounting Department distributes checks and invoices to Operations Manager for approval on Invoices
- Accounting Department obtains Executive Director approval on Invoices
- Executive or Administrative Assistant secures two approved signatories on checks, and returns to Accounting Department
- Accounting Department mails signed and approved checks every Friday

Accounts Receivable Procedures

- Accounting Department prepares all Invoices to Customers
- Operations Manager approves Invoices
- Accounting Department updates Accounts Receivable monthly
- Accounting Department and Office Admin reconcile Accounts Receivable monthly, before the fifth day of the month

Bank Account Reconciliations

- Accounting Department prepares Bank Reconciliations and gives to Operations Manager for Final Approval on a monthly basis

Capitalization Policy

- A “Capital Asset” is defined as a unit of property that (1) has an economic useful life that extends beyond 12 months; **and** (2) was acquired or procured for a cost of \$2,500 or more
- Capital Assets will be capitalized and depreciated on an annual basis for Financial Statement purposes
- \$2,500 is the threshold amount for minimum capitalization. Any items costing below this amount will be expensed in Friends of Southwest Virginia’s Financial Statements
- All Capital Assets are recorded at historical cost as of the Date Acquired.
- Tangible assets costing below the aforementioned threshold amount are recorded as an expense for Friends of Southwest Virginia’s annual Financial Statements. Alternatively, assets with an economic useful life of 12 months or less are required to be expensed for Financial Statement purposes, regardless of the acquisition or production cost.
- Invoice substantiating an acquisition cost of each unit of property shall be retained

Credit Card Policy and Charges

- All staff members who are authorized to carry an organization credit card will be held personally responsible in the event that any charge is deemed personal or unauthorized. Examples of unauthorized use includes, but is not limited to:
 - Personal expenditures of any kind
 - Expenditures that have not been properly authorized
 - Meals (not company or travel related)
 - Entertainment
 - Gifts
 - Any other expenditure which is prohibited by budgets, laws and regulations
- The current approved charge limit by the Board of Directors is \$5,000
- The credit card account will be reconciled and paid in full on a monthly basis
- The credit card charges are coded each month by the Accounting Office, and approved by the Operations Manager before payment (see Accounts Payable)

Deposit Procedures

- Office Administrator/Executive Assistant prepares all Deposits on a daily basis
- Accounting Office codes to appropriate account
- Accounting Office prepares all Deposits and takes to bank on a daily basis

Division of Responsibilities

The following is a list of personnel who have fiscal and accounting responsibilities:

Board of Directors

- Reviews and approves the annual budget
- Reviews and approves periodic financial statements
- Reviews Executive Director's report
- Three members of the board will be appointed to be authorized signers on the bank accounts (this may include the Executive Director)
- Executive Committee reviews and approves all contracts from \$50,000 to \$100,000
- Full Board Reviews and approves all contracts over \$50,000
- Full Board Reviews and approves all non-budgeted expenditures over \$50,000
- Reviews and approves all Accounting policies and procedures

Executive Director / Operations Manager

- Reviews and approves all financial reports including cash flow projections
- Sees that an appropriate budget is developed annually
- Reviews and approves all expenditures under \$100,000
- Reviews and approves all contracts under \$100,000
- Reviews and approves all grant submissions
- Reviews all Bank Statements and Reconciliations, reviews for any irregularities
- Reviews completed monthly financial statements before sending to Board of Directors
- Reviews and approves all timesheets for employees
- Reviews and approves all incoming and outgoing invoices
- Monitors program budgets
- Monitors all expense allocations

- Oversees the adherence to all internal controls

Accounting Department

- Overall responsibility for data entry into accounting system and integrity of accounting system data
- Makes Bank Deposits
- Follows each Grant reporting period funding request
- Monitors grant reporting and appropriate release of temporarily restricted funds
- Processes Payroll and is responsible for all personnel files
- Maintains General Ledger
- Prepares monthly and year-end financial reports
- Reconciles all bank accounts
- Manages Accounts Receivable
- Assists Executive Director with the development of annual and program budgets

Executive/Administrative Assistant

- Prepares Bank Deposits
- Receives, opens, codes and date stamps all incoming mail
- Initiates donor thank you letter acknowledgements
- Ensures vendor checks are signed by signatories on account

Files and Record Management

- All original Files are to be kept at the Accounting Office for a minimum of Seven (7) years

Financial Reporting

Monthly Reports

- The Accounting Department will prepare a set of monthly financial reports on a cash basis for distribution and approval to the Executive Director and Operations Manager once all Bank Statements have been reconciled
- Approved Financial Statements will be presented to the Board of Directors by the Executive Director/Operations Manager during scheduled Board Meetings for approval
- The Financial Statements provided to the Board of Directors will include (but not be limited to):
 - Balance Sheet
 - Budget vs. Actual Report
 - Income Statement by Fund (Operating, Grant, etc)

Year-End Report / Audit

- Within three months of fiscal year end, The Accounting Department will prepare and submit the appropriate Financial Reports on an Accrual Basis and Notes to Financial Statements for the year to the current independent auditor.
- The independent auditor should be scheduled to conduct their review within six months of the Fiscal Year End

Fiscal Policy Statements

- All cash accounts owned by Friends of Southwest Virginia will be held in financial institutions which are federally insured
- Employee paychecks and/or personal checks will not be cashed through the petty cash fund under any circumstances
- No salary advances will be made without prior written authorization from the Board of Directors
- No travel cash advances will be made except under special conditions and without prior written authorization from the Board of Directors
- Reimbursements for out of pocket expenses will only be made when supporting documentation has been presented for approved costs incurred
- Pay rates for all employees will be equal to or surpass the federal minimum wage
- All funds received for each project will be segregated into separate project accounts in the general ledger to avoid any possibility of comingling project monies with general operating funds. A full computerized ledger accounting system will be maintained. Monthly financial statements will be prepared for each project (see Financial Reporting; Accounts Payable)
- Bank statements will be reconciled monthly in order to account for any outstanding or lost checks (see Bank Account Reconciliations)
- Expense reports will be maintained which will disclose the nature of expenses and the dates incurred (see Financial Reporting)

- Separate files will be maintained for each bank account and vendor. Files will be kept separately for each fiscal year
- The services of a Certified Public Accountant will be engaged by the Executive Director to prepare a formal financial audit for each Fiscal Year End
- Correction fluid should never be used in preparing timesheets or any accounting documents

Grant Compliance

- When a new grant is received, amended or renewed, a copy of the executed grant must be forwarded to the Accounting Department
- The Accounting Department will set up a permanent file for the grant, maintain all original contracts along with any other financial correspondence regarding the grant
- The Executive Director (or otherwise appointed Grant Manager) will be responsible for reviewing the grant contract and extract any fiscal items which must be compiled with by XXX.
- For government grants, reference will be made to various publications put out by the Office of Management and Budget (OMB). Currently, the publications include:
 - **OMB Circular A-110** Grants and Agreements with the Institutions of Higher Learning, Hospitals and Other Non-Profit Organizations
 - **OMB Circular A-122** Cost Principles for Non-Profit Organizations

- **OMB Circular A-133** Audits of Institutions of Higher Learning & Other Non-Profit Organizations

Governmental Generally Accepted Accounting Principles

- It is policy to adhere to any restrictions imposed by its funders, both governmental and private. Therefore, employees are expected to bring to the attention of management any instances of non-compliance
- When federal funds are expended, prior written approval from the funder agency is required for the purchase of:
 - Capital expenditures for land or buildings
 - Insurance and indemnification expenses
 - Preaward costs
 - Public information service costs
 - Publications and printing costs
 - Rearrangement and alteration costs
- Friends of Southwest Virginia will never request federal funds to pay for the following costs:
 - Bad Debt Expenses
 - Contingencies
 - Entertainment expenses
 - Fines and penalties
 - Interest

Payroll Procedures

- The Accounting Department is responsible for maintaining personnel files on staff persons
- Each personnel file should contain the following information, at a minimum:
 - Employment application or resume
 - Date of employment
 - Position, pay rates and changes therein
 - Authorization of payroll deductions
 - Earnings records for non-active employees
 - W4 Form, withholding authorization
 - VA4 Form, withholding authorization
 - I9 Immigration Form
 - Termination data, when applicable
- Timesheets are to be prepared by applicable staff persons and submitted semi-monthly on the 15th and last day of each month. Time should be input on a daily basis.
- Timesheets are to include specific time spent on each grant/project, if applicable
- Timesheets are to be approved by the Executive Director/Operations Manager
- All approved timesheets are to be sent to the Accounting Department no later than five days past the end of the pay period

- All Vacation/Sick/Personal time should be recorded on approved Forms as set forth in the Personnel Policy Manual, approved by the Operations Manager or Executive Director and be turned in at the same time as Approved Timesheets
- The Accounting Department will process the timesheets and prepare the Direct Deposit paychecks
- The Accounting Department will prepare all payroll tax deposits, payroll tax Forms (such as 941 Forms), and end of year payroll Forms (such as W2 Forms)

Petty Cash Procedures

- Friends of Southwest Virginia does not utilize Petty Cash

Small Purchase Policy

- For purchases of less than \$2,500, efforts will be made to get the lowest and best price, but written records of such efforts are not necessary.
- Purchases of supplies, equipment and services which cost \$2,500 and above will require written estimates, but no legal advertisement are required. Friends of Southwest Virginia will solicit written responses from at least two vendors, and if no such responses are available, a statement explaining the procurement will be prepared and filed.
- The Board of Directors will approve all bids for purchases of supplies, equipment and services which cost \$100,000 and above.
- For all Federally Funded purchases – The guidelines set forth in OMB Circular A-110 and A-122 will be followed.