Los Angeles Homeless Services Authority

a joint powers authority of the city & county of los angeles

CONTRACTOR'S ACCOUNTING HANDBOOK

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LOS ANGELES HOMELESS SERVICES AUTHORITY

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INTRODUCTION

The purpose of this Handbook is to establish required accounting, financial reporting, and internal control standards for agencies which contract with the Los Angeles Homeless Services Authority (LAHSA).

The accounting, financial reporting and internal control standards described in this Handbook are fundamental. These standards are not intended to be all-inclusive or replace acceptable existing procedures or preclude the use of more sophisticated methods. Instead, this Handbook represents the minimum required procedures and controls that must be incorporated into a **Contractor's** accounting and financial reporting systems. The internal control standards described are those that apply to organizations with adequate staffing. Organizations with a smaller staff must attempt to comply with the intent of the standards and implement internal control systems appropriate to the size of their staff/organization. The Contractor's subcontractors must also follow these standards unless otherwise stated in the Agreement.

In addition to the accounting, financial reporting, and internal control standards described in this Handbook, each LAHSA Contractor must comply with its respective Agreement, applicable state and federal guidelines and regulations, including OMB Circular A-122, "Cost Principles for Non-Profit Organizations".

A . ACCOUNTING AND FINANCIAL REPORTING

1.0 Basis of Accounting

Contractor may use either the cash or accrual basis of accounting for recording financial transactions. However, if Contractor uses the cash basis throughout the year, Contractor's records must be converted to the accrual basis at the end of the year. Contractor must submit LAHSA required reports (I.e., invoices) on the basis (cash and/or accrual) required by the Agreement. Data included on such reports must be supported by schedules or other documentation that is readily traceable to Contractor's accounting records.

1.1 Cash Basis

Under the cash basis, revenues are recorded in the accounting period in which they are received and expenditures are recorded when the cash is disbursed.

- If the cash basis is used throughout the year, all computations, supporting documentation (e.g., deposit slips, copies of checks, accounts receivable ledger, etc.), and explanatory notes used in converting from the cash basis to the accrual basis must be retained.

1.2 Accrual Basis

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

1.3 Accruals

Accruals shall be recorded observing the following:

- Only accruals where cash will be disbursed within six months of the accrual date should be recorded.
- Recorded accruals must be reversed in the subsequent accounting period.

1.4 Prepaid Expenses

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

2.0 Disbursements

2.1 Double Entry System

Contractor shall maintain a double entry accounting system (utilizing debits and credits) with a General Journal, Cash Receipts Journal, Cash Disbursements Journal, General Ledger and Payroll Ledger.

2.2 General Journal

A General Journal shall be maintained for recording adjusting entries, reversing entries, closing entries, and other financial transactions not involving cash. Entries into the General Journal must be in chronological order with sufficient explanatory notes.

Example: Rent Expense (debit) $1,000

Rent payable (credit) $1,000

To record accrued rent for March 31, 199X

2.3 Cash Receipts Journal

A Cash Receipts Journal shall be maintained for recording all cash (or cash equivalent) receipts (e.g., checks/warrants, contributions, interest income, etc.). The Cash Receipts Journal shall, at a minimum, contain the following information:

- Date
- Receipt number
- Description (must specify the source of cash receipts)
- Cash debit amount
- Income credit account title(s) and amount(s):
    - *LAHSA payments (one per program)
    - *Contributions
    - *Other income (grants, sales, rental income, miscellaneous fees, etc.)

2.4 Cash Disbursements Journal

A Cash Disbursements Journal shall be maintained for recording all cash disbursements (e.. g., rent, utilities, supplies, etc.). The Cash Disbursements Journal shall, at a minimum, contain the following information:

- Date
- Check number
- Cash credit amount
- Expense account title(s) and amount(s)
- Description (must specify the nature of the expense and the corresponding expense classification)

2.5 Payroll Ledger

A Payroll Ledger should be maintained for recording all payroll transactions. The Payroll Ledger shall contain (minimum requirements) the following information:

- Name
- Position
- Social Security Number
- Salary or hourly wage
- Payment record including:
    - Accrual period
    - Gross pay
    - Itemized payroll deductions
    - Check number
    - Net pay amount

2.6 General Ledger

A General Ledger shall be maintained with accounts for all assets, liabilities, fund balances, expenditures, and revenues. Separate accounts or cost centers must be maintained to record expenses and revenues for each of the Contractor's programs and contracts.

2.7 Chart of Accounts

A Chart of Accounts shall be maintained.

Each account title must clearly identify the nature of the transaction(s) posted to the accounts.

Contractor must consistently post transactions that are of a similar nature to the same account. For example, all expenses related to travel shall be posted to the account titled "travel" or "travel expense" and not intermingled with other expenses.

3.0 Records

Adequate care shall be exercised to safeguard the accounting records and supporting documentation. Any destruction or theft of the Contractor's accounting records or supporting documentation shall be immediately reported to LAHSA.

3.1 Retention

All accounting records (e.g., journals, ledgers, etc.), financial records and supporting documentation (e.g., invoices, receipts, checks, etc.) must be retained for a minimum of five years after the termination of the Contractor's Agreement.

3.2 Supporting Documentation

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

Invoices, receipts and canceled checks will be required to support an outlay of program funds. Unsupported disbursements will be disallowed on audit. Contractor will be required to repay LAHSA for all disallowed costs. Photocopied invoices or receipts, any internally generated documents (Le., vouchers, request for check forms, requisitions, etc.), and account statements do not constitute adequate supporting documentation for purchases.

Supporting documentation is required for various types of expenditures as follows:

Payroll - Time and attendance records signed by the employee and approved in writing by the supervisor, time distribution records by program (accounting for total work time on a daily basis) for all employees, records showing actual expenditures for Social Security and unemployment insurance, State and Federal quarterly tax returns, Federal/State W-2 forms, and Federal/State W-4 forms.

Consultants/Contract Services - Executed contracts specifying agreed-upon costs and services to be provided including fees and/or hourly rates, contractor invoices/billings detailing the dates and hours worked and specific services provided.

Travel - Travel policies of the Contractor (written); travel expense vouchers showing location, date and time of travel, purpose of trip, and rates claimed; vehicle mileage logs showing dates, destination and headquarters, purpose of trip, and mileage. Travel related to conferences should include conference literature detailing purpose of the conference.

Receipts shall be required for lodging and meals for approved out-of-town travel dates.

Maximum rates for reimbursement are set by the Los Angeles County Auditor-Controller. As of 1999, the maximum reimbursable lodging amount is $114.00 plus applicable taxes for a single occupancy hotel; and reimbursement for actual receipts or per diem rates for meal expenses shall not exceed $49.75 per day when three meals are purchased on anyone-day,

Operating Expenses (e.g., utilities, office supplies, equipment rentals, etc.) - bona fide contracts or lease agreements, if any, and invoices detailing the cost and items purchased will constitute the primary supporting documentation. For internal control purposes, the Contractor may maintain vouchers, purchase orders, requisitions, stock received reports, bills of lading, etc.

Outside Meals - receipts and/or invoices for all meals, a record of the nature and purpose of each meal, and identification of the participants.

3.3 Filing

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

- checks .. numerically
- invoices - vendor name and date
- vouchers - numerically
- receipts - numerically
- timecards - pay period and alphabetically

3.4 Referencing

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

- invoices - vendor name and date
- checks - number
- vouchers - number
- revenue - receipt number

Supporting documentation for non-payroll expenditures (i.e. operating expenditures) should be cross-referenced to the corresponding check issued for payment. If multiple invoices are paid with one check, all related invoices should be bound together and cross-referenced to the check issued for payment.

4.0 Restricted Donations and other Sources of Revenue

Restricted donations and other sources of revenue earmarked specifically for the program must be utilized on allowable program expenditures.

5.0 Single Audit Requirements

OMB Circular A- 133, "Audits of Institutions of Higher Learning and Other Non-Profit Organizations" require that certain organizations receiving federal awards, including pass-through awards, have annual audits. Details are contained in the Circular.

A copy of any Single Audit reports must be submitted to LAHSA within the timeframes prescribed by the applicable Circular.

B. INTERNAL CONTROLS

Internal controls safeguard the Contractor's assets from misappropriation, misstatement and misuse. Each Contractor shall prepare necessary written procedures establishing internal controls for its personnel. The Contractor shall instruct all of its personnel in these procedures and continuously monitor operations to ensure compliance with them.

1.0 Cash Receipts

1.1 Separate Fund or Cost Center

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

1.2 Deposits

All checks shall be restrictively endorsed upon receipt. Cash received shall be recorded on pre-numbered receipts. Checks shall be recorded on a check remittance log at the time of receipt.

Cash receipts (i.e., cash and checks) totaling $500 or more shall be deposited within one day of receipt. Collections of less than $500 may be held and deposited weekly or when the total reaches $500, whichever occurs first.

Duplicate deposit slips shall be retained and filed chronologically, and shall contain sufficient reference information for comparison to the Cash Receipts Journal (and individual receipts, if-applicable).

1.3 Separation of Duties

An employee who does not handle cash shall record all cash receipts.

1.4 Bank Reconciliation

Bank statements should be received and reconciled by someone with no cash handling or check writing duties.

A monthly bank reconciliation should be prepared within 30 days of the bank statement date and reviewed by management for appropriateness and accuracy. The bank reconciliation should be signed by both the preparer and the reviewer. Reconciling items should be resolved timely.

2.0 Disbursements

2.1 General

All disbursements for expenditures, other than petty cash, shall be made by check.

Blank check stock shall be secured and accounted for to preclude unauthorized use.

Checks shall not be payable to "cash" or signed in advance. Checks written to employees for reimbursement of out-of-pocket costs must be supported by receipts and invoices.

If the bookkeeper signs checks, a second signature shall be required on the checks.

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

Unclaimed or undelivered checks shall be canceled periodically, I.e., within six months of check date.

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

Disbursements without adequate supporting documentation will be disallowed on audit.

2.2 Approvals and Separation of Duties

Employees responsible for approving cash disbursements and/or signing of checks shall examine all supporting documentation at the time the checks are approved and signed.

All disbursements, excluding petty cash purchases, shall be approved by persons independent of check preparation and bookkeeping activities.

2.3 Petty Cash

A petty cash fund up to $500 may be maintained for payment of small incidental expenses incurred by the Contractor (e.g., postage due, small purchases of office supply items, etc.). The Contractor must obtain written approval from LAHSA to establish a petty cash fund greater than $500.

Petty cash disbursements must be supported by invoices, store receipts or other external authenticating documents indicating the item purchased and the employee making the purchase. In the event that outside (external) supporting documentation is not obtainable for minor disbursements (under $10), such as parking meters, etc., then documentation shall be considered as proper supporting documentation on a basis of reasonableness. Petty cash disbursements should not be used as a substitute for normal purchasing and disbursement practices (i.e., payment by check).

The petty cash fund shall be maintained on an imprest basis. A check should be drawn to set up the fund and to make periodic reimbursements. Receipts, vouchers, etc., supporting each fund

replenishment must be bound together, filed chronologically and cross referenced to the reimbursement check.

2.4 Credit Cards

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

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

Credit card purchases should be pre-approved by Contractor management to ensure that they are necessary and cannot be made by normal purchasing methods.

All credit card disbursements must be supported by original invoices, store receipts or other external authenticating documents indicating the item purchased and the employee making the purchase. Credit card statements are not sufficient support for credit card purchases.

3 Timekeeping

3.1 Timecards

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

All timecards and time reports must be signed in ink by the employee and the employee's supervisor to certify the accuracy of the reported time.

3.2 Personnel and Payroll Records

Adequate security must be maintained over personnel and payroll records with access restricted to authorized individuals.

Personnel and payroll records should include (but not be limited to) the following:

- Employee's authorized salary rate
- Employee information sheet
- Resume and/or application
- Proof of qualifications for the position, if required (e.g., notarized copy or original diploma, license, etc.)
- Performance evaluations
- Criminal record clearance
- Citizenship status
- Benefit balances (e.g.. , sick time, vacation, etc.)

3.3 Benefit Balances

Employee benefit balances (e .. g., sick time, vacation, personal time, etc.) should be maintained on at least a monthly basis. Benefit balances should be increased when benefit hours are earned and decreased as hours are used.

3.4 Limitations on Positions and Salaries

If an employee serves in the same or dual capacities under more than one Agreement or program, the employee may not charge more than 100% of their time to the contracts or programs taken as a whole. Salaried employees who work less than 40 hours per week shall be paid a salary that corresponds with the employee's work schedule.

The salary expense of salaried employees working on more than one Agreement or program shall be allocated to each program based on the ratio of the number of hours worked on each program during the pay period to the total number hours worked during the pay period.

3.5 Separation of Duties

Payroll checks should be distributed by persons not involved in timekeeping, preparing of payroll, or reconciling bank accounts. All employee hires and terminations, or pay rate changes, shall be approved by authorized persons independent of payroll functions.

4.0 Fixed Assets

A fixed asset is defined as an article of nonexpendable tangible personal property having a useful life or more than two year (s) and an acquisition cost of $500 or more per unit. Contractor may determine a higher threshold amount for designation of a fixed asset, but this must be approved by LAHSA and documented in their accounting policies.

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

4.1 Identification &Inventory

All fixed assets purchased with Program funds are to be used solely for the benefit of the Program and should be appropriately tagged.

Contractor shall maintain a current listing of fixed assets, including the item description, serial number, date of purchase, acquisition cost and sources of funding.

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

4.2 Security

Physical security should be adequately maintained over fixed assets to prevent misuse and defalcation of Program property.

4.3 Property Management

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

Contractor shall report promptly, in writing, to LAHSA all cases of burglary, loss, damage, or destruction of fixed assets. The report shall contain at a minimum, item identification, recorded value, facts relating to loss, and a copy of the law enforcement report.

Contractor shall dispose of fixed assets, if necessary, in accordance with non-profit law.

C. COST PRINCIPLES

1.0 Policy

It is the intent of LAHSA to provide Program funds for the purpose of Contractor providing services required by their respective Agreement.

Contractor shall use these funds for actual expenses in an economical and efficient manner insofar as they are reasonable, proper and necessary costs of providing services and are allowable in accordance with the applicable OMS Circular.

1.1 Limitations on Expenditures of Program Funds

Contractor shall comply with the approved budget in their respective Agreement and the applicable OMS Circular. The Circular defines direct and indirect costs, discusses allowable cost allocation procedures and the development of Indirect Cost Rates, and specifically addresses the allowability of a variety of different costs.

If a Contractor is unsure of the allowability of any particular type of cost or individual cost, the Contractor should request advance written approval from LAHSA prior to incurring the cost.

1.2 Expenses Incurred Outside the Agreement Period

Expenses charged against program funds may not be incurred prior to the effective date of the Agreement or subsequent to the Agreement termination date.

1.3 Necessary, Proper &Reasonable

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

2.0 Allocable Costs

For Contractors that operate multiple programs, the Contractor shall allocate expenditures that benefit various programs or funding sources on an equitable basis.

In accordance with the applicable OMS Circular, agencies shall define their allocable costs as either direct or indirect costs (as defined below) and allocate each cost using the basis most appropriate and feasible.

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

2.1 Direct Costs

Direct costs are those costs that can be identified specifically with a particular final cost *objective* (I.e., a particular program, service, or other direct activity of an organization). Examples of direct costs include salaries and benefits of employees working on the program, supplies and other items purchased specifically for the program, costs related to space used by employees working on the program, etc.

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

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

Examples of bases for allocating joint costs as direct costs:

- Number of direct hours spent on each program
- Number of employees in each program
- Square footage occupied by each program
- Relative *revenue volume*
- Relative expenditure *volume*
- Other equitable methods of allocation

2.2 Indirect Costs

Indirect costs are those costs that *have* been incurred for common or joint objectives and cannot be readily identified with a particular final cost *objective,* Examples of indirect costs include salaries, employee benefits, supplies, and other costs related to general administration of the organization, use allowances, and the salaries and expenses of *executive* officers, personnel administration, and accounting.

Examples of bases for allocating indirect costs:

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

2.3 Acceptable Indirect Cost Allocation Methods

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

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

Simplified Allocation Method

This method can be used when an organization's major functions benefit from its indirect costs to approximately the same degree. Using this method, all allocable costs are considered indirect costs and an indirect cost rate is determined by dividing total allowable indirect costs by an equitable distribution base.

Example:

Agency-wide indirect costs	$250,000
Less: Capital expenditures	10,000
Allocable indirect cost	240,000
Total agency-wide direct salaries	1,000,000
Indirect cost rate	24%
Program direct salaries	100,000
Program indirect costs	$24,000

Direct Allocation Method

This method can also be used when an organization's major functions benefit from its indirect costs to approximately the same degree. Using this method, all costs except general administration and general expenses are treated as direct costs. Joint costs for rental, facilities maintenance, telephone, and other similar expenses are prorated individually to each direct activity on a basis appropriate for that type of cost.

The remaining costs, which consist exclusively of administration and general expenses, are then allocated using the simplified allocation method previously discussed.

Multiple Allocation Base Method

This method can be used when an organization's major functions benefit from its indirect costs in varying degrees" Using this method, indirect costs are grouped to permit allocation of each grouping on the basis of the benefits provided to the major functions" Each grouping is then allocated individually using the basis most appropriate for the grouping being allocated.

Negotiated Indirect Cost Rates

Agencies have the option of negotiating an indirect cost rate or rate for use on all their Federal programs" The Contractor must submit a cost allocation plan to the federal agency providing the most funds to the organization" The approved indirect cost rate is then applied to the total approved direct cost base.

3.0 Cost Allocation Plan

If the Contractor has a negotiated indirect cost rate approved by a federal agency, it shall submit a copy of the approval letter when requested by LAHSA.

If the Contractor does not have a negotiated indirect cost rate, Contractor shall submit to LAHSA an annual Agency-wide Cost Allocation Plan. This document shall be submitted by May 151 for the fiscal years beginning on July 15t or August 15t for the federal fiscal year (October 1 – September 30)" For first-time Contractors, the plan for the initial Agreement year must be submitted within ninety days of Agreement execution. The timeframes may be revised upon written notice by LAHSA The Cost Allocation Plan shall be prepared in accordance with LAHSA instructions and the applicable OMB Circular and include the following information:

1. Contractor general accounting policies:

   - Basis of accounting (cash or accrual)
   - Fiscal year
   - Method for allocating indirect costs (simplified, direct, multiple, negotiated rate)
   - Indirect cost rate allocation base

2. Identify the Contractor's direct and indirect costs (by category) and describe the cost allocation methodology for each category.

3. Signature of Contractor management certifying the accuracy of the Plan

4. If Contractor has a Federally approved indirect cost rate, Contractor shall submit a copy of the approval letter to LAHSA upon request in lieu of the requirements of this Section.

4.0 Payments to Affiliated Organizations or Persons

Contractors shall not make payments to affiliated organizations or persons for program expenses (e.g., salaries, services, etc..) that exceed the lower of actual cost or the reasonable cost for such expenses. A reasonable cost shall be the price that would be paid by one party to another when the parties are dealing at arm's length (fair market price). **In** addition, rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property vested in the organization, notwithstanding "fair market value".

Organizations or persons (related parties) related to the Contractor or its members by blood, marriage, or through legal organization (incorporation, partnership, association, etc.) will be considered affiliated for purposes of this Agreement. LAHSA shall be solely responsible for the determination of affiliation unless otherwise allowed and approved by other State or federal agencies.

Payment to affiliated organizations or persons will be disallowed on audit to the extent the payments exceed the lower of actual costs or the reasonable costs for such items.

5.0 Unallowable Costs

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

- Bad debts
- Contingency provisions
- Contributions and donations
- Fines and Penalties
- Fundraising activities
- Interest expense
- Losses on other awards

6.0 Overpayments

If upon audit, or at any time during the Agreement year, it is determined that invoices submitted and used as a basis for payments to the Contractor were inaccurate, LAHSA shall determine the total overpayment and require the

Contractor to repay LAHSA. LAHSA may withhold payments from Contractor's future payments for any amounts not returned to the LAHSA unless otherwise prohibited by State or federal regulations.

D. MISCELLANEOUS REQUIREMENTS

1.0 Insurance

Contractor is responsible for securing and maintaining insurance coverage as required by the Agreement. Contractor must notify LAHSA Contracts Manager when insurance is revoked, reduced to a level of coverage less than required, or otherwise made ineffective.

Insurance shall include an endorsement naming LAHSA as an additional insured.

2.0 Political Activity

No funds, materials, property, or services paid to the Contractor under this Agreement shall be used in the performance of any political activity, the election of any candidate, or the defeat of any candidate for public office.