

State of New York
Unified Court System
Financial Planning & Control Manual

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2.010 Introduction

These sections establish the basic fiscal policies governing the fiscal activities of not-for-profit contractors who do business with the Unified Court System. Entities including, but not limited to, legal aid societies, bar associations and dispute resolution organizations that conduct business with the UCS must follow these provisions to ensure that their internal accounting, billing, reporting and record keeping practices are consistent with these standards.

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2.020 UCS Accounting Requirements & Information

It is important to keep in mind that each term Contract Period (typically the State fiscal year - April 1 through March 31) constitutes a separate legal agreement. The contract period starts and ends on the dates specified in the contract, even though the contract may be executed several months before or after its beginning date.

Although the New York State Unified Court System recognizes that there are a variety of bookkeeping systems implemented by its contractors and encourages contract agencies to adopt systems most appropriate to their individual needs, all providers must adhere to the following basic provisions:

1. Maintain records for each grant or contract in a manner consistent with generally accepted accounting practices.
2. Maintain a list of all funds received, including those received pursuant to UCS contract, including a description of the source, date received, and amounts (Cash Receipts Journal).
3. Maintain a list of all funds disbursed pursuant to contract with the UCS, including payee, date paid, and amount (Cash Disbursements Journal). Proper receipts should be maintained for all expenditures.
4. Maintain accurate and complete documentation to support revenues and expenses (e.g., bank deposit slips, invoices, time sheets, etc.)
5. Maintain accurate and complete time records for all employees, including the Program Director and administrative staff, under this contract. Time records must be signed by both the employee and the supervisor and absences charged against available leave accruals.

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6. Maintain an accurate, complete and current inventory of equipment purchased with State-appropriated funds.
7. Retain all financial records for a minimum of six (6) years after the completion of any Contract Period.
8. Hold funds in interest-bearing accounts wherever practicable.
9. Establish procedures regarding the proper and appropriate authorization for signing checks. All authorized signatures should be on file with the contractor, with copies of bank cards listing such authorized signatures.
10. Maintain adequate control of financial stationery to assure accountability of receipts and disbursements. A perpetual inventory of receipt forms and checks should be maintained.
11. Submit, as required pursuant to the contract terms, a quarterly reconciliation statement to the UCS within 30 days after the end of each quarter.
12. Submit, as required in the contract terms, an independent audit of the agency to the UCS. The scope of these audits should include adequate testing to certify as to the appropriateness of program expenditures and revenue receipts and compliance with contractual program goals. The audit should include a review of the internal controls in place for the cash receipt and disbursement functions including but not limited to:
 - ! the proper authorization for transactions
 - ! timely and accurate bank reconciliations
 - ! adequate separation of duties
 - ! documentation for the payment of goods and services
 - ! adherence to procedures for the procurement of goods and services.

In addition, the contractor should provide to the UCS copies of any management letters which are included as part of the audit report.

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2.030 Summary of Non-Reimbursable Costs

The following expenditures are not reimbursable pursuant to UCS contracts absent the specific written approval of the UCS:

Wages & Salaries- Ineligible Expenses

1. Overtime - Time paid in excess of 40 hours per week.
2. Payments or loans to parents, spouses, siblings, and children of current officers or directors.
3. Loans or advances to employees without written approval of the UCS.
4. Retroactive salary increases, unless specifically approved in the budget.
5. Housing allowances.
6. Bonus payments.
7. Honorarium to staff.

Fringe Benefits - Ineligible Expenses

1. Federal Unemployment Insurance. Not for Profit Corporations are exempt under Section 501C(3) of the Internal Revenue Code.
2. Direct payments for medical services.

Miscellaneous Ineligible Expenses

1. Pre-Contract or Post-Contract Period Costs unless such costs are specifically allowed by contract.
2. Contributions and donations by the program.
3. Fines and Penalties.
4. Sales Taxes.

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2.040 Annual Budget Process

Each contractor shall submit an annual budget proposal to the UCS Division of Financial Management or other designated UCS administrative entity. Budget requests will be solicited by the UCS each year by the issuance of Budget Instructions. Budget forms for the fiscal year commencing on the following April 1st will usually be sent out in late June or early July of the proceeding year. Completed budgets are generally returnable to the UCS in late August.

Contractor budgets will be reviewed by UCS during the months of September and October, during which process the programs will be contacted in order to discuss the proposal. Pursuant to Article VII, Section 1 of the NYS Constitution, the Judiciary Budget Request, within which not-for-profit contract costs are budgeted, must be submitted to the Governor and the legislative leaders by December 1st of each year, after having been approved by the Court of Appeals and certified by the Chief Judge.

Thirty days prior to the beginning of each new fiscal year, the contractor shall submit a request for an advance payment for an amount up to forty (40) percent of the amount approved for payment for that annual budget period. This initial advance can be paid as soon as funds are appropriated each fiscal year.

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2.050 Budget Amendment

During the contract year, it may become necessary for the approved budget to be amended to comply with changing contractual requirements.

Although the specific contract may vary from location to location, the five-year agreements currently utilized by the UCS call for written contract amendments to be requested for budget/staffing adjustments which meet the following criteria:

- 1) staffing increases effecting the total number of positions providing services pursuant to the terms of the contract;
- 2) salary adjustments which increase any budget line by an amount exceeding five (5) percent;
- 3) nonpersonal service interchanges which increase any budget line by more than twenty (20) percent, except where the monetary amount of change is less than \$1,000.

In order to revise the budget, a Budget Amendment request must be submitted to the UCS for consideration and approval. Justification for each change must be provided in an attached narrative explanation. Unless additional funds are provided through a budget amendment, the total amount of all decreases must equal or exceed the total amounts to be increased. The amendment request must contain an original signature; after the amendment is approved, the budget should be adjusted to reflect the approved amounts. The effective date of a Budget Amendment which either transfers funds between categories or adds descriptions within a budget category is the initial date of the contract unless otherwise specified by either party. Only after the amendment request is approved in writing by the UCS can the approved budget be revised and expenditures be made. Where possible, an agency should limit its use of a Budget Amendment to one per calendar quarter.

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2.060 Quarterly Reconciliation Report

The reconciliation report is intended to document the total program expenditures for each quarter. The reconciliation is due within thirty days after the end of each quarter and should be signed by the chief executive officer (or the chief financial officer) of the organization. A sample reconciliation report is attached.

All year-to-date summaries must be calculated from the beginning of the State fiscal year (i.e. April 1st) and include expenditures for the quarter as well as a year-to-date calculations. Thus, the year-to-date (YTD) summary for the second quarter (July through September) would include expenditures for the July-September period as well as expenditures for the year-to-date (i.e., April - September).

Documentation to be Maintained by Contractor

Outlined below is supporting documentation to be maintained by the contractor for a period of six years:

1. Payroll registers (Quarterly Combined Withholding and Wage Reports): a listing for each employee claimed showing, as appropriate, Name, Social Security Number, Regular Pay, Deferred Wages, Cafeteria Plan amounts, Federal and State withholding taxes, FICA, and other deductions. It should show Quarterly/YTD totals for each respective quarter.
2. Disbursement Journal Report: identifying expenditures for each quarter, providing name of vendor, amount, date of service, check number, budget category, etc.
3. For Fringe Benefits: a copy of invoices for each benefit (i.e. Health, Dental, Life, AD&D, Retirement, etc.) should be provided.

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2.070 Voucher Preparation and Processing

Thirty days prior to the beginning of each new fiscal year, the contractor shall submit a request for an advance payment for an amount up to forty (40) percent of the amount approved for payment for that annual period. When funds are appropriated, an advance payment will be issued.

Further contractual payments will be made following the submission, review and approval of quarterly vouchers prepared by the Contractor at the conclusion of each three-month period. The initial advance will be normally be 40 percent of the total annual contract amount. Subsequent payments at the conclusion of the first, second and third quarters of each contract year will be limited to the lesser of: 1) 20 percent of the approved annual contract amount; or 2) the contractor's actual expenses for the preceding quarter.

Payments for the first three quarters will be made subsequent to the receipt of vouchers submitted by the Contractor and will be made as soon as practicable after the conclusion of each quarter, which typically end on June 31, September 30, and December 31, respectively.

The voucher for the final quarter, due within sixty (60) days of the conclusion of the fiscal year, shall reflect the final expenses to be charged for that period and shall include a final annual reconciliation of contract expenses and payments received. If the final reconciliation reveals that total charged expenses fall short of payments previously received from the UCS, it will be necessary for Contractor to reimburse the UCS for the difference. The Contractor will be notified in writing when funds are due to the State; amounts should be made payable to the "NYS Unified Court System".

Contents of the Voucher or Invoice

The timing and amounts of the quarterly reimbursement claims should be determined as outlined in the previous section. This section specifies the other data which the UCS will require in order to make those quarterly payments.

Reimbursement claims are usually submitted on a Standard NYS Voucher (copy attached); however, it is no longer necessary that that form be used. If, for example, an agency has an invoice

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system, an original invoice can be used to request the State reimbursement, provided it includes the following information:

- The name and address of the program
- The contract number and payee ID number
- The period of time for which the reimbursement is being requested.
- A brief description of the service rendered (i.e, for Family court representation pursuant to contract # ...)
- The payment amount requested
- The original signature of the executive officer or chief financial officer of the organization.

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2.080 Administration Costs

The UCS does allow reimbursement for the central administrative services provided by a contracting not-for-profit agency. Administrative services are provided by either program staff who are included in the contract budget or, where the program is part of a larger not-for-profit entity, by a parent agency. In the case of the latter, UCS reimbursement is provided in the Administration Costs category, based on a percentage of the total program budget. The rationale for use of a particular administrative cost percentage rate must be provided in writing to the UCS.

Those administrative services to be provided by the contracting agency may include the following as appropriate: overall management and planning, personnel services, inter-agency and governmental relations, legal services including contract and lease review, budget development, accounting, auditing, purchasing and payroll services, central data processing functions, employee benefits, labor union negotiation, library administration, facilities management, public information, and other related administrative and support services and operating expenses performed by the contract agency pursuant to the contract.

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2.090 Purchasing Guidelines

In order to maintain proper internal control, the following procedures should be used when purchasing any goods which will be paid for from State funds:

1. The person requesting the goods should complete a purchase requisition.
2. That document is signed by the Program Director, authorizing the purchase.
3. Designated purchasing staff should order the item.
4. Someone other than the bookkeeper should verify the receipt of the goods by signing a receiving copy of the Purchase Order or the invoice itself.
5. Where possible, purchasing, receiving, record-keeping and payment functions should be separated.

Pursuant to the purchasing guidelines of the UCS, the NYS Office of General Services (OGS) contracts, or other preferred source contracts, should be used whenever possible. The OGS web site is available at: <http://www.ogs.state.ny.us/purchase/SearchBrowse.asp>

For all other purchases the following procedures apply:

Purchases Less Than \$15,000

1. Select reliable vendor
2. Obtain written price confirmation from selected vendor
3. Document reasonableness of price (obtain written quotes)
4. Issue PO to selected vendor

Purchases More Than \$15,000

Any Purchase for goods in this range should have 3-5 bids. These bids should be attached to the Purchase Request. After receipt of bids and selection of a vendor, a purchase order may be issued.

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Quote

A quote is the stated price for which a vendor will sell an item. It may be verbal and taken either over the telephone or in person but must be documented in writing. The quote should contain the following information:

1. Date.
2. Type of quote (telephone, in person, written).
3. Name of vendor.
4. Full description of item.
5. Cost.
6. Signature of person taking quote.

Bid

A bid is the stated price for which a vendor will sell an item. However, unlike a quote, a bid must be in writing, on the vendor's letterhead and contain the following:

1. Date.
2. Full description of item.
3. Cost.
4. Signature of vendor's representative.

Sole Source Procurement

There are certain instances when the solicitation of competitive bidding may be impractical. This might occur, for example, in the area of professional services, such as forensic experts, consulting firms, etc. Since such providers are not disposed toward "bidding" their rates, and it might be unwise to select a vendor simply based on the lowest estimate, another method of vendor selection is often preferred. In these cases, a competitive analysis is recommended, which incorporates several of the key elements of a more formal bidding procedure, such as:

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- 1) how many firms/vendors were contacted;
- 2) is the prospective contractor technically qualified to perform the service;
- 3) what is the reputation or performance record of the provider;
- 4) what if any additional benefits will be derived from one provider versus another;
- 5) what are the direct and indirect costs of the service per hour, month, or period covered;
- 6) perhaps most important, are the rates and overall costs of the firm or individual selected in line with those charged by other firms for performing similar or comparable work, that is, is the cost reasonable?

Contractual Agreements

Contractual agreements with organizations or people should be signed by all parties. The agreement should specify the nature of the services, the duration of the contract, and the rate and method of payment. Competitive bids should be sought as appropriate.

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2.100 Petty Cash, Payroll, Shared Costs and Source Documents.

Petty Cash

Petty cash refers to a small amount of cash on hand for smaller purchases which cannot conveniently be paid by check. It should not be used as a general fund, but simply an alternative disbursement mechanism subject to the same regulations and accounting practices as those in place for other purchases.

Petty cash advances should not exceed \$25, and petty cash disbursements must be for approved line item budget expenditures.

A petty cash record must be completed and kept with the fund for each petty cash disbursement. The following information must be maintained:

1. Amount of Disbursement.
2. Date of Disbursement.
3. Payee.
4. Purpose.
5. Approved by: Signature.
6. Received by: Signature.

The petty cash fund should be reconciled monthly (by someone other than the authorized signatory/account custodian) and the fund replenished when needed. Any replenishment of petty cash must be by a check disbursement from the checking account and made payable to a petty cash account. The expenditures are then recorded in the journal and ledger and the petty cash vouchers are filed. The petty cash disbursements should be recorded under the appropriate budget line item on the reconciliation report.

The petty cash box or safe should always be kept in a secure locked place. In addition, access to the fund should be limited to the manager with oversight responsibility and where necessary, a designee.

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Payroll

An agency's payroll records should consist of the following records: time and attendance records; individual earnings record; payroll journal; and, where applicable, a separate payroll checking account.

A separate file should be maintained for each employee and contain all pertinent data (e.g. the W-4, memo on the approved rate of pay and other information relevant to the payroll.) All payroll changes should be in writing and filed in the employee's individual file.

A time sheet must be maintained by each employee, and at the end of the payroll period, signed by the employee and approved by the employee's supervisor. This serves as documentation of hours worked and authorization for payment. All payrolls must be authorized on the basis of a supervisor-approved time sheet. Each employee's gross pay should be calculated and, together with the various deductions and net pay, recorded on the employee's individual earnings record.

The Individual Earnings Record is the payroll history of each employee. It is from this record that an employee's W-2 is prepared. The deductions for Social Security and Federal Withholding Tax are taken from the tables included in the Federal Employer's Tax Guide Circular E. The deduction for the New York State Withholding Tax is taken from the Withholding Tax Tables IT2100.1.

Shared Costs

Where an agency operates programs in addition to those provided pursuant to UCS contract and incurs costs common to more than the one program, the costs may be allocated over some or all of the programs. However, the allocation must be done on a quantitative basis and in accordance with the percentage of time allocated by that employee to each program.

If more than one type of cost is to be allocated, the method of allocation may be different for each and must be documented. For example:

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1. Office supplies may be allocated on the basis of the number of participants in each program.
2. Rental costs and utilities may be allocated on the basis of a percentage of the number of square feet used by the program in relation to the total number of square feet used by the agency.

When allocating the cost of nonpersonal service items on an invoice, the names of the programs and amounts being charged to each should be noted.

Source Documents

A source document is a form or record containing data about a transaction. Every journal entry should be supported by a source document. The most common source documents are invoices, receipt stubs, canceled checks, and personnel time cards. Source documents should be filed in daily order, alphabetical order, or by category of expenditure.

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2.110 Equipment Inventory Records and Fiscal Records

Equipment Inventory Records

Inventory records must be maintained for equipment purchased with State Funds (i.e., purchased under the State contract). This applies regardless of the percentage of State Funds used or the contract period during which the purchase was made.

A permanent, separate, numbered label should be affixed to each piece of equipment. An equipment inventory file should be maintained containing the following information:

1. Equipment inventory number (same as on numbered label).
2. Name of item.
3. Description of item (e.g., desk, 30 x 60 executive.)
4. Date of purchase.
5. Cost.
6. Location of item (physical location).
7. Physical condition

Should equipment be missing or be vandalized, the contractor should immediately contact the appropriate law enforcement personnel. Retain one copy of the police report as an attachment to the inventory records. If the loss is compensated by insurance, the UCS should be notified.

Equipment purchased under the contract may not be sold or disposed of in any manner without written authorization of the UCS.

In the event of the termination of the contract, all equipment, including data processing hardware and software, should be made available to the UCS for transfer to any subsequent service provider(s).

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Fiscal Records and Retention

Accounting records should be accurate and complete so that information is accessible and can be extracted readily.

The contractor shall keep such records that will fully disclose the amount and disposition of the total funds, from all sources budgeted for the grant period; the purpose or undertaking for which such funds were used; and such other records as contractually prescribed. Such records shall be preserved for a period of not less than six (6) years following the last disbursement under the grant or any amendment.

In the event of the termination of the contract, all records, including fiscal or program files, should be made available to the UCS for transfer to any subsequent service provider(s).

Upon termination of the contractual agreement, contractor will account for all expenditures and refund any unexpended funds to the UCS within sixty (60) days from the conclusion of the Contract Period unless written approval is obtained for the contractor to hold the unexpended funds for a longer period.

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2.120 Bank Reconciliation

All checking accounts should be reconciled monthly as soon as the bank statement is received. The reconciliation should be done by someone other than the person responsible for bank deposits or disbursements.

The reconciliation process should include the following steps:

- Verify all bank deposits shown on the ledger. Any receipts not credited on the bank statement should be listed on the bank reconciliation form. Any differences should be resolved immediately.
- Any deposit not credited on the bank statement should be reviewed and resolved.
- Verify the check amounts with the amounts shown on the bank statement. Also, verify, on a spot-check basis, the signatures shown on the checks with the official signatures to be sure they are the same.
- Place the canceled checks in numerical order and verify that the amount recorded in the cash disbursements journal and the amount paid by the bank are the same.
- After the account is reconciled, the bank reconciliation form should be stapled to, and filed with the bank statement. All canceled checks and duplicate deposit slips should be filed with the bank statement. The monthly bank reconciliation should be initialed by the person completing it and reviewed and initialed by the program or agency director, or the agency comptroller.

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2.130 Audit Concerns

The Unified Court System's Internal Audit Unit has conducted audits of several not-for-profit agencies with whom the UCS has contracted for services over the past several years. As a result of these audits, internal auditors have developed various recommendations regarding the financial practices which should be followed by not-for-profit contractors. A summary of these findings follows. Compliance with these provisions constitutes a significant step towards sound fiscal management for not-for-contract contractors seeking to conduct business with the UCS:

1. Regardless of the bookkeeping system used by a program, it must be in accordance with sound accounting principles and accurate and complete documentation should be maintained. The system should include a properly maintained journal for cash receipts (listing the source of funds received) and cash disbursements. In addition, programs should maintain a general ledger which would allow for monitoring of expenditures against approved budgeted amounts. A ledger for accounts receivable and payable should also be maintained.
2. Record keeping system - Some programs use a "one-write" system to record and prepare receipts and disbursements. The system was developed to simplify record keeping and to establish accountability. The system is designed so that the preparation of a press-numbered receipt or check simultaneously completes the journal entry. The use of this type of system requires assurance that journals are posted at the time receipts or checks are written.
3. Accounting records should be accurate and complete so that information is accessible and can be extracted readily. The cash receipts and disbursement journals alone are not sufficient. Maintaining a general ledger allows monitoring expenditures against budgeted allocations and also provides the necessary recording of any receivables or payables due.
4. Control over financial stationery - In order to provide proper control over financial stationery, all receipt forms and checks should be press-numbered and used sequentially. In addition, a perpetual inventory of receipt forms and checks should be maintained. Adequate control of financial stationery must be maintained to assure accountability of receipts and disbursements.

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5. Authorization for disbursements - The program's Board of Directors establishes policy regarding the authorization of signing checks. The authorized signatures should be on file at the program, with copies of bank cards listing the signatures of individuals authorized to sign checks.
6. Proper receipts must be maintained for all expenditures.
7. Fair allocation of expenses to the law guardian program - If the program is part of a larger agency, it is important that shared expenses be distributed equitably between the law guardian office and any other programs that share the expense. For example, if a not-for-profit legal services provider has three program components, including a law guardian office, the allocation of shared expenses (i.e., real estate rental, office supplies, telephones) should be allocated between programs on a logical and quantifiable basis and documented to the UCS. (For example, the cost distribution might be based on the overall number of program employees or a more specific measure, such as the number of telephone instruments.)
8. Section IV of the UCS contract - Reimbursement and Payment - summarizes the budgeting and interchange limitations imposed in the contract. Programs should be familiar with these limitations and should seek UCS written approval when funding transfers beyond the threshold amounts as defined in the contract are required. Failure to comply with this provision may jeopardize reimbursement.
9. Wherever practicable, programs should be discouraged from transferring money from one agency program to another. If this practice is necessary, the program must have complete documentation to illustrate both the transfer and its subsequent repayment.
10. Time and attendance records must be maintained properly. Attendance records must be signed by the employee, supervisor and/or executive director. In addition, absences must be charged against available leave accruals.

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11. Expenses related to unauthorized telephone calls are not reimbursable expenses to the state. If a program incurs a large amount of toll calls, it should implement effective controls to assure that the calls are business related.

12. Contractual arrangements with organizations or people must be signed in writing. The agreement should specify the nature of the services, the duration of the contract, and the rate and method of payment. In addition, competitive bids should be sought as appropriate.

13. Programs must maintain inventory records of all equipment purchased with State funds.