



Financial Rules and Guidelines

State Funded Grants

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INTRODUCTION

The intent of this document is to provide guidance for Grantees when expending state funds (grants) to provide adult and/or juvenile services. The reader should use this document in conjunction with the *Grant Application*.

Throughout this document reference is made to Grantee, which is defined as “the entity directly receiving the grant funds from Kansas Department of Corrections (KDOC).” Each Grantee has the fiduciary responsibility to ensure all KDOC funded grants follow this guide and the generally accepted accounting principles (GAAP) or Kansas Municipal Audit and Accounting Guide (KMAAG).

GENERAL INFORMATION

Access and Request for Information

KDOC shall have the right to access any pertinent books, documents, papers, or other records of Grantee and/or subgrantees/subcontractors relevant to the grant to prepare audits, examinations, excerpts, and transcripts. When information is requested, the Grantee should respond in a timely manner. Responses in electronic format are encouraged.

ACCOUNTING SYSTEM

System Requirements

All Grantees are required to establish and maintain an accounting system to accurately account for all KDOC grants. Grantees are responsible for establishing policies, procedures, and internal controls for the accounting system. Grantees must ensure that KDOC grants:

- Are maintained in a separate general ledger account.
- Are not **comingled** with other funds from local, state, and federal agencies.
- Are reconciled at least every quarter to the Grantee’s general ledger.

An acceptable and adequate accounting system should be able to:

- Present and classify projected and historical costs of the grant as required for budgetary and evaluation purposes.
- Provide cost and property control to ensure optimal use of the grant including gas and/or prepaid cards.
- Control funds and other resources to ensure the expenditures and use of property conform with any general or specific conditions applying to the grant,
- Meet the prescribed requirements for periodic financial reporting.
- Provide financial data for planning, control, measurement, and evaluation of costs.

- Provide the Grantee with the ability to separately track each funding source and allow for reconciliation of the sub-system to the general ledger.
- Retain receipts and record expenses in the appropriate line-item.
- Require a special program account structure, beyond normal classifications, by type of receipts, expenditures, assets, and liabilities based on the various financial and program requirements of KDOC funded programs, as well as the need for the Grantee to separately account for individual grants.

Supplanting

- The use of KDOC funds to replace non-KDOC funds appropriated for the same purpose is prohibited.
- The use of KDOC funds to offset a reduction in non-KDOC funding is acceptable, however, the Grantee will be required to supply documentation demonstrating the reduction in non-KDOC funds occurred for reasons other than the receipt, or expected receipt, of KDOC funds.
- Potential supplanting will be the subject of application review, as well as pre-award review, post-award monitoring and audit.

Contractual

When a Grantee contracts with another entity to provide services, there must be a contract between the two parties. There are two aspects of contracts: Operational Contracts and Contractual Services:

- 1) Operational contracts are for items related to the entity's office such as copier and computer maintenance, copier rental, postage meter, shredding, etc.
- 2) Contractual Services are directly related to the client such as drug testing/supplies, transportation assistance, outsourcing of programs including prevention, intake and/or behavioral health services, etc.

Agencies can subcontract with another entity to provide services such as behavioral health, juvenile intake, or juvenile prevention programs. Agency is responsible for ensuring proper use of funds and have supporting documentation (e.g. subcontractor expense ledger and invoices) from subcontractor for all expenditures. Any contract, at a minimum, must specify the services the subcontractor will provide and the payment schedule. All contracts are subject to the audit process.

Subcontractor Accounting Responsibilities

- Reviewing Financial Operations: When a KDOC grant program or one of its components is delegated to a sub-contractor, the Agency is to ensure that the following sub-contractor maintains the following:
 - Proper accounting and financial recordkeeping.
 - The accounting of receipts and expenditures, grant management, the maintaining of adequate financial records, and the refunding of expenditures from reimbursements. The Agency shall be familiar with, and periodically monitor, their sub-contractor's financial operations, records, system, and procedures, as well as the maintenance of current data.

- Budget and Budget Review: The Grantee shall ensure each sub-contractor prepares an adequate budget on which its award commitment will be based. The detail of each subprogram budget should be maintained on file by the Grantee and in the detail tabs of the financial reporting tool.
- Reporting Irregularities: KDOC and the Grantee should be promptly notified of any illegal acts or irregularities and of proposed and actual actions, if any. Illegal acts and irregularities include, but are not limited to, conflicts of interest, falsification of records or reports, and misappropriation of funds or other assets.

INTERNAL CONTROLS

Bonding for Appropriate Staff

- Staff handling cash transactions must be bonded.
- KDOC recommends all staff handling any monetary transactions be bonded as well.
- Bonding for appropriate staff is a safeguard should monies become missing.
- The Grantee should have Policy and Procedures in place indicating which staff are required to be bonded.
- A surety bond covering all employees may also be considered.

Signature Control

Policy and procedure must indicate the following:

- Who signs what documents.
- Describe under what circumstances signatory control could temporarily pass to someone else.
- A written contingency plan should the person with signatory approval become unavailable.

Separation of Duties

At least two appropriate staff within the entity must be involved in all financial transactions. Separation of duties include, but is not limited to, deposits, petty cash, and expenditures.

In these examples a staff person and the signatory authority need to sign/initial supporting documentation:

- One staff generates the deposit slip and another staff reviews and approves the slip.
- One staff prepares the petty cash reconciliation sheet and the other approves it.
- Employee generates the timesheet and the Supervisor/Director approves it.

This example shows where only the reviewer needs to initial the supporting documentation:

- One staff purchases items. Another staff reviews and initials the receipt/packaging slip after verifying items received match receipt and merchandise is in correct quantity as well as in good condition.

Cash Control

Policy and procedure must state the forms of payment the Grantee accepts (i.e. cash, check, money order, cashier's check, etc.). Cash and personal checks, if accepted, must have stringent internal controls. Checks and money orders must be restrictively endorsed "**For Deposit Only**" immediately upon receipt by the Grantee staff.

Petty Cash

If the Grantee has a policy allowing a petty cash fund, several internal controls must be in place to ensure the integrity of the fund. The policy and procedures must:

- Detail the purpose and use of petty cash funds.
- Clearly identify who can access the fund.
- Detailed process of withdrawing and recording the withdrawal of monies from the fund.
- State that the use of funds for employee advances or IOUs is strictly prohibited.
- Require the cash expenditures from the petty cash fund must have detailed documentation which can be reviewed, approved, and initialed by an authorized person.
- Confirmation the funds are secured when not being accessed.
- Detailed process of replenishing the fund.
- Detailed process and frequency of reconciling the petty cash fund.
- State the predetermined maximum dollar limit for the size of the petty cash fund and the maximum dollar limit that can be withdrawn at one time.

Credit/Purchasing Cards

Internal controls regarding credit/purchasing cards must include:

- Who is authorized to use the card.
- All credit/purchasing card expenditures must have supporting documentation which includes itemized receipts.
- The process for reconciling credit/purchasing statements with receipts and the general ledger.
- How the credit/purchasing card is secured when not in use.
- How unauthorized purchases are addressed.

Grantee must reconcile fuel receipts with mileage logs and fuel card/credit card statements.

Travel

Policy, procedure, and practice must detail how the Grantee ensures travel expenditures are proper and prudent. No out-of-state travel is allowed with grant funds without prior written approval from the Deputy Secretary of Juvenile and Adult Community Based Services at KDOC. All requests for approval of out-of-state travel and training will be submitted at least two weeks prior to scheduling or obligation of grant funds. Internal controls must include discussion of mileage logs, per diem rates, safeguards ensuring fuel charged to grant funding is for Grantee vehicles, supporting documentation for all travel expenditures, and how travel expenses are reconciled to the KDOC fiscal workbook and the Grantee's general ledger.

Policy and Procedures

As the Grantee issues new policies and procedures or updates current policies and procedures relative to financial matters, KDOC should be notified in a timely manner by sending the updates electronically to KDOC_CO_Workbooks@ks.gov

PAYROLL

Salary and Benefits

Acceptable cost allocation methodologies include allocations based on time activity analysis and/or random moment time study. Documentation of the cost allocation methodology must be maintained in the grant files. These files are subject to audit including verification that time worked corresponds to the source of financing.

All position requests must clearly show a direct relationship to KDOC funded programs. The budget narrative must include a detailed description of the methodology justifying the allocation of a position's salary to multiple funding sources. The cost allocation methodology must be reviewed annually when developing the grant application to KDOC to ensure the allocations are accurate.

If a director or supervisory staff spends a portion of their time providing direct services, the portion of their salary equal to the percentage of time spent on direct client services should be allocated to NON-ADMIN Personnel or NON-ADMIN Personnel RES in the reporting tool. Clerical/Office Support staff should be reported as ADMIN.

Timesheets

Policy and procedure must state the methodology for recording time worked, how adjustments to recorded time are made, and the approval process.

Retirement Payout Fund (Community Corrections and Juvenile Graduated Sanctions Agencies Only)

Grantees can create a payout fund for paying unused leave, such as PTO, annual leave, and sick leave when an employee retires. If a payout fund is permitted in policy, Grantee may utilize grant funds.

Grantee must have policy and procedures in place stating:

- The sources of funds used to contribute to the payout fund.
- How the contributions are calculated.
- How the payout funds show on the general ledger.

Payout funds must be:

- Included in Grantee's annual budget. If not included, expenditures will not be allowed.
- Maintained in a separate general ledger account from the grant funds.

When payout fund is used, Grantee must:

- Pay employee directly from the payout fund account.
- Not transfer funds to grant fund.
- Not record these expenses on the KDOC financial tool as the expense was reported when amount was moved from grant fund to payout fund.

EXPENDITURES

Reporting Expenses

Policy and procedure must state the form of supporting documentation used when making payment (i.e. purchase order, payment voucher, or invoice). Supporting documentation must identify the general ledger account(s), dollar amount or percent of invoice to be charged to each account and the KDOC financial reporting tool line item. Documentation must also include proper signatory approval whether digital or written. It is strongly suggested the Grantee date stamp invoices with the received date.

Grant expenditures shall be reported in the same month the expenditure posts to the general ledger. Grantees are allowed 30 days after the grant end date to complete processing payments which will be included in the final grant report.

Allowable Expenditures

Expenditures charged against any KDOC grant must:

- Be necessary and reasonable for proper and efficient performance and administration of KDOC awards.
- Conform to any limitations or exclusions set forth in these guidelines or state laws, terms, and conditions of KDOC awards, or other governing regulations as to types or amounts of cost items.
- Be consistent with Grantee policies, regulations, and procedures so long as those policies do not conflict with these guidelines.
- Except as otherwise provided for in the guidelines, be determined in accordance with generally accepted accounting principles (GAAP).
- Obtain prior approval from KDOC before any facility improvements begin with a cost of \$5,000 or more.

Cost(s) must be reasonable, allocable, necessary to the program, and comply with the funding requirements. A cost is reasonable if, in its nature and amount, it does not exceed what would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

In determining reasonableness of a given cost, consideration shall be given to:

- Whether the cost is ordinary and necessary for the operation of the Grantee and the performance of the grant award.
- The restraints or requirements of sound business practices; state, county, and other laws and regulations; and terms and conditions of the award.

- Market prices for comparable goods or services.
- A significant deviation from the established practices of the Grantee, which may unjustifiably increase KDOC award cost.

Unallowable Expenditures

The following costs cannot be paid with grant awarded funds:

- Entertainment Costs: - Costs of entertainment including amusement, diversion, social activities, and any costs directly associated with such costs (i.e. tickets to shows or sporting events, meals, lodging, rentals, transportation, and gratuities).
- Independent Audit Costs: KDOC funds cannot be used to pay for the cost of independent audit work. These costs are the responsibility of the Grantee.
- Lobbying: Grantee may not use KDOC funds for any activities aimed at influencing decisions regarding grants, contracts, cooperative agreements, etc.
- Late Fees/Interest Charges: Grantee cannot use KDOC funds to pay late fees, interest charges, or finance charges.
- Food Purchases: Food purchases for employees are unallowable. This does not include per diem reimbursements to staff in travel status.
- State general funds shall not be used in the purchasing of firearms/weapons, accessories, or related trainings for employees or contract staff with the exception of less than lethal for adult community corrections agencies.
- Costs which are used to meet cost sharing or matching requirements of any other grant in either the current or the prior period, except as specifically authorized by KDOC.
- Salary and Wage Costs: Grantee may not fund bonuses or other financial incentives outside of a position's normal salary costs with KDOC grant funds. Grantee must demonstrate salaries for all positions are reasonable and consistent with market rates.

Prepaid Cards

If Grantee issues prepaid cards to clients, a policy and procedure must be in place which specifically states:

- Using the card to support Grantee operations is prohibited.
- Itemized receipts are required from establishments that sell alcohol and tobacco products to verify proper use of the card.

Example: If the client's family receives a prepaid card for fuel to visit the client, an itemized receipt is required.

Inventory

Grantee shall have policy and procedure governing inventory which must, at a minimum, include discussion of the following internal controls:

- Acquisition of items costing \$1,000.00 or more, or with an expected life of one year or more, must be classified as reportable property.
- All equipment line items must be directly related to the official business of the grant program. If there are any questions as to the use or purchase of such equipment, KDOC reserves the right to make this determination.
- Careful screening should take place before acquiring property to ensure it is needed, with consideration given to whether the equipment already in the possession of the Grantee can meet identified needs.
- Any loss, damage or theft of the property must be investigated, and fully documented, and made part of the official program records.

At a minimum, the following is required for the management of equipment acquired with KDOC funds:

- Grantee property records must include:
 - description of the property.
 - serial number or other identification number.
 - source of the property (vendor information).
 - funding source(s) used to acquire property and amount per source.
 - identification of who holds the title.
 - acquisition date.
 - cost of the property.
 - location of the property.
 - disposition data.
- A physical inventory of the property purchased with state funds must be taken and the results reconciled with the property records at least once per year. Documentation related to this inventory must be included in the Grantee's files for audit purposes.
- A control system must exist to ensure adequate safeguards to prevent:
 - loss
 - damage
 - theft of property
- Adequate maintenance procedures must exist to keep property in good working condition.

Detailed inventory records as specified above must be kept for all equipment purchased with KDOC grant funds. Lack of policy and procedure and/or enough inventory documentation may result in an audit finding.

Disposal of Equipment

Grantees may dispose of equipment worn, outdated, obsolete, or no longer needed in accordance with policy. They must ensure the disposal of equipment is reflected in the physical inventory. Records should be retained

indicating the date of purchase, the purchase price, the date of disposal, the name and address of the recipient, and the amount (if any) paid to the Grantee for the equipment.

- The Grantee must provide KDOC prior notification of intent to dispose of equipment with a current aggregate value greater than \$1,000.00.
- Any program purchasing equipment with KDOC grant funds that ceases operations, either entirely or only in the corrections field, before the equipment in question reaches the end of its useful life, will be required to reimburse KDOC for the current value of the equipment.
 - For example, if a program provider purchases new computers with KDOC grant funds, and then decides to no longer provide services a year later, that provider must reimburse KDOC for the current value of the computers. Exceptions may be granted if the Grantee requests in writing the equipment be transferred to a similar provider.

KDOC FINANCIAL AUDITS

Grantees receiving state funds through KDOC will be subject to audit. The purpose of the audit is to review compliance with the rules and guidelines established in this document, the Grantee's policies and procedures, and the grant conditions. Special audits may be conducted as directed by the Secretary of Corrections or designee. The Grantee will be notified by letter and/or email with the details.

GLOSSARY AND DEFINITIONS

ALLOWABLE COST: Expenditures permissible by regulations and the *KDOC Financial Rules & Guidelines*.

AUDIT FINDING: Control weakness, policy violation, or other issue that does not conform to regulations, *KDOC Financial Rules & Guidelines*, and/or approved grant application(s) and conditions.

BONUS: A type of supplemental wage; type of compensation paid to an employee in addition to the employee's regular wage.

COMINGLING: Combining funds from local, state, and/or federal in one general ledger account or fund.

CONTRACTUAL: The subcategory under category Grantee Operations which includes operational contracts and contractual services.

1. Operational contracts are for items related to the entity's office such as copier and computer maintenance, copier rental, postage meter, shredding, etc.
2. Contract Services are directly related to the client such as drug testing/supplies, transportation assistance, outsourcing of programs including prevention, intake and/or behavioral health services, etc.

GENERAL LEDGER: Master set of accounts summarizing all financial transactions made by Grantee.

GRANTEE: The entity directly receiving the grant funds from Kansas Department of Corrections (KDOC).

INVENTORY: A record of items costing \$1,000.00 or more or with an expected life of one year or more are classified as reportable property.

LINE ITEM: Expenditure type identified under a category and/or sub-category.

PAYOUT FUND: Monies expended to a separate general ledger account to be used for paying employees unused leave (such as PTO, annual leave, and sick hours) when an employee retires.

PERSONNEL: Salaries and benefits. Salary includes gross annual salary for each position. Benefits paid by the employer include but are not limited to KPERs, FICA, Unemployment Compensation Insurance, Worker's Compensation Insurance, Health Insurance, Life Insurance, and Longevity.

PETTY CASH: A small amount of cash used for expenditures where it is not practical to go through the entity's financial office for payment. The Grantee must have properly documented internal controls.

SIGNATORY AUTHORITY: Authority given to an individual through policy to approve documents on behalf of the Grantee.

SUBCONTRACT: Unit of local government, non-profit entity, and other organization entering into a contractual agreement with the Grantee to provide behavioral health, graduated sanctions, prevention, and/or intervention services. All subcontracts must adhere to applicable State laws and procedures and these Guidelines.

SUPPLANTING: The use of KDOC funds to replace funds already appropriated for the same purpose by another funding entity.

TRAVEL: Under category Grantee Operations, the subcategory used for costs associated with everyday trips for business relative to the grant purpose.

TRAINING: Under category Grantee Operations, the subcategory used for costs associated with employee training.

UNALLOWABLE COST: Expenditures not permissible by regulations, *KDOC Financial Rules & Guidelines*, and Grantee policy.