



MEMORANDUM

AGENDA ITEM III. M.1

DATE: SEPTEMBER 12, 2011

TO: COUNCIL MEMBERS

FROM: STAFF

SUBJECT: MODIFICATION OF BUDGET AND FINANCE POLICY MANUAL TO ADDRESS WRITE-OFFS OF RECEIVABLES

The Council employs generally accepted governmental auditing standards as set forth in the U.S. General Accounting Offices (GAO) Government Accounting Standards (1994) and subsequent amendments and rules of the Auditor General and the State of Florida for its financial records. On September 10, 2007, the Council approved an update to its Budget and Finance Policy Manual (Manual), which is attached excluding the Chart of Accounts, which is a listing of all general ledger accounts by name, classification, and number. However, the Manual did not include a procedure related to write-offs.

Council staff proposes the following text for inclusion in the Manual, to be inserted on page 4, under the "Internal Control" section, as the standard procedure for write-offs:

PURPOSE

The Purpose of write off policy is to establish uniform guidelines and principles for the internal control, collection, and write-off of accounts receivable held or administered by the Council. Policies contained herein are designed to comply with applicable state laws, rules, and regulations. Internal Control Policies and procedures are established to provide reasonable assurance that the Council has established strong internal control to safeguard its assets. The A-102 Common Rule and OMB Circular A-110 (2 CFR Part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. OMB Circular A-133 requires auditors to obtain an understanding of the non-Federal entity's internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs, plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program, and, unless internal control is likely to be ineffective, to perform testing of internal control as planned.

POLICY

The write-off of receivables will be approved when the minimum standard of collection outlined below has not resulted in payment of the debt.

The following procedures apply:

PROCEDURES

1. **Write-off Authority.** In all cases, someone in authority not directly involved with the billing or collection cycles will approve write-off of accounts receivable in writing. For write-offs of \$1000.00 or less, the Executive Director will approve recommendations for write-off. For amounts greater than \$1000.00 the Chair of the Board must authorize the write-off.

2. **Receivables less than \$1000.00.** Amounts not to exceed \$1000.00 may be authorized by the Executive Director provided all collection efforts were completed satisfactorily and timely and the uncollected receivables have been on the books for at least one year. Adequate documentation should be available for the Executive Director's review, and the Executive Director's approval must accompany the journal voucher writing off the receivable.
3. **Receivables \$1,000.00 or more.** Accounts of more than \$1000.00 or more may be written off with Board Chair's authorization when all collecting efforts by legal Counsel are depleted or a Court has discharged the debt and a final judgment is issued. Adequate documentation should be available for the Executive Director's review, and accompany journal voucher writing off the receivable and submit the journal voucher directly to the Chair for final approval of write-off.
4. **Special Circumstances.** If an account is determined to be an indigent care account or a contractual adjustment, the account is no longer classified as a receivable/debt of the Council and, therefore, the procedures to account for uncollectible receivables do not apply.

Accounting for Receivables Written Off

Uncollectible accounts may be written off on Council financial accounting records and no longer recognized as collectible receivables for financial reporting purposes, but the legal obligation to pay the debts remains. Accounts written off remain debts to the Council until discharged by the Board or collected.

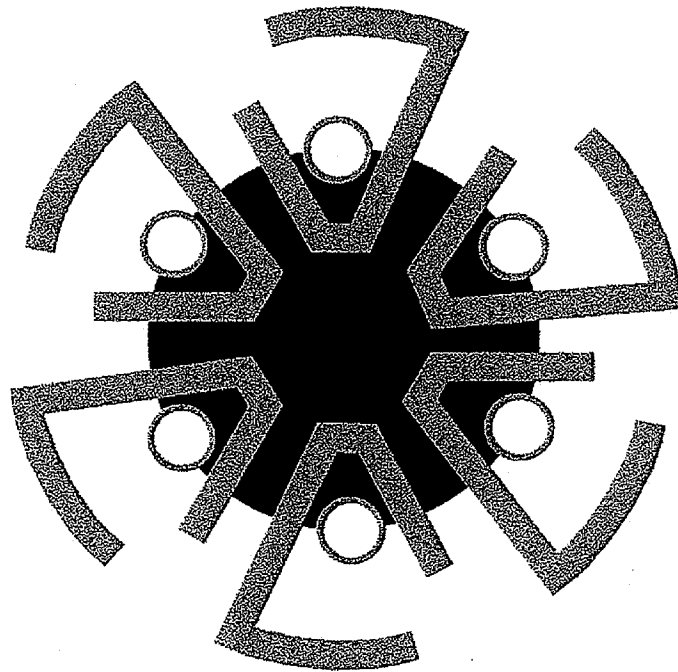
Procedures to account for uncollectible receivables that have been written off are outlined below:

For any uncollectible receivable written off, a summary level record of the accounts sufficient to substantiate the debt is to be retained indefinitely or until the debt has been collected or discharged. A record of accounts written off must be maintained and reported to the Board when requested.

Recommendation

Approve proposed modification to Budget and Finance Policy Manual.

**South Florida Regional Planning Council
Budget and Finance Policy Manual**



Department of Finance – Budget and Finance Policy Manual

Finance shall maintain effective long-term financial planning and controls to support the vision, mission and program of the South Florida Regional Planning Council (SFRPC). Understanding of SFRPC basic accounting and general knowledge of standard accounting practices is essential for the ultimate fiduciary responsibility and the financial health of this organization. In order to establish a greater understanding of the Council's finances, the following procedures will be followed:

BUCS Financial Fund Accounting System Account Structure

XX	XXXXX	XXXXX	XXXXXX
Fund Type	Classification	Project	Task

Fund

"A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations" (p.13, Governmental Accounting and Financial Reporting Standards as of November 1, 1984, GASB). SFRPC uses the following fund types listed below for full and fair disclosure as required by GASB.

Fund 01, 02, 03, and 05: Indirect Cost Pool Funds

These funds are used to accumulate indirect salary (02), fringe (05), leave (03) and operating (01) expenses associated with the Council operation and distributed as indirect cost to all projects based on the cost allocation plan method and policy.

Fund 09: General Fixed Assets Account Group

The general fixed assets account group is used to record assets of a physical nature having a long period of usefulness such as leasehold improvements, equipment and furniture.

Fund 10: General Fund

The general fund is available for any legally authorized purpose and is therefore used to account for all revenues and expenditures for activity not allowed in other funds.

Fund 11, 12, 13, 54, 55, 56, 57, 58, 59, 64, 65, 66, 67, 69, XX: Special Revenue Funds

The special revenue funds are used to account for the proceeds and related financial activity of specific revenue sources that are legally restricted for a specific purpose. Generally speaking, activities that are projects in nature and not considered to be part of the Council regular operation are budgeted and

controlled through the special revenue funds.

Chart of Accounts

A chart of accounts provides a framework for the delineation of assets, liabilities, revenue, and expenses. The chart of accounts is composed of a sequence of numbers that categorize the information relating to the subject area in a multi-level format. Chart of accounts structures delineate different levels of function. These structures can be unique. After the establishment of a project structure, the chart of accounts should be developed. In the following example, five digits are used to define the account number structure. The numbering system is as follows:

10000 =	Assets
20000 =	Liabilities
30000 =	Equity and Fund Balances
40000 =	Revenue
50000 =	Expenses
60000 =	Depreciation and Write-off Expenses

Projects / Tasks

Project structures have been set up for the control of finances for various areas of operation. Projects are created to reflect the Council's funded activities, and are composed of a sequence of numbers that categorize the information relating to that subject area in a multilevel format. Project structures denote several levels of function. These structures can be unique to individual projects or tasks. The third set of five numbers in the BUCS (Budgetary Control System) and CHIPS (Comprehensive Integrated Payroll System) chart of accounts denotes the project or activity undertaken by SFRPC. The fourth set of six numbers identifies the specific tasks associated with the project.

Budgets

Budgets are developed to provide a roadmap showing where the SFRPC stands financially, compared to desired goals. This roadmap begins with the mission and programmatic planning, which all naturally flow into the budget. The goal of the budget is to support the Council's mission.

Budgeting Process

The first step in preparing the Council budget each year is to estimate membership dues and other revenues for the General Fund. Today, the General Fund represents approximately one quarter of the Council's core budget. In order to correctly forecast the budget for the coming year(s), Finance shall assess each project. Finance shall begin with the current annual budget and a view of the year-to-date figures. The figures for the coming year can then be forecasted, keeping in mind the goals and objectives (taken from the long-term strategic plan) of the subject project. Additionally, justification by each line item is necessary to assist with the planning for the coming year, and with ascertaining that the projected budget reflects the necessary elements delineated in SFRPC's

strategic plan. Aside from individual project budgets, a master budget will be prepared to provide an overall financial picture of SFRPC. The budget will include all areas of anticipated revenues and expenses. By projecting annual operating budgets on a long-term basis, SFRPC's Finance can take a proactive approach to providing support for the Agency's strategic plan. The budgets are zero-based, which means that every item is justified and not simply carried over from one year to the next, except for multi-year grants, where the balances are carried forward at year-end. Standard accounting procedures mandate that the revenue in a budget equals the expenses. If deficits are present, they are shown as shortfalls, and budgets are developed for the funding sources to cover those expenses. Budgets will be revised during the fiscal year, with proper justification. Ultimately, the annual budget is reviewed and approved by the Council.

Budget Structure

The Council's budget is presented in fund format. Revenues are identified for individual components of the General Fund (membership dues from member counties and other general revenue sources) and for each of the Special Revenue Fund sources, organized into groups for the Federal (11), State (12) and Local (13) funds. Expenditures are presented by line item for the aggregate of all funds.

SFRPC shall list individual budget line items. Some examples of common line items in budgets expenditures are:

Revenues, Expenses, Contributions, Salary (include annual salary increases), Operations Income, Program Income, Interest Income, Grant Income, Overhead, Fringe Benefits (Note: A fringe benefit rate is calculated to include Social Security, Medicare, Workers' Compensation costs, any unemployment tax, any health care costs, any insurance costs, any pension costs. Fringe benefit costs are calculated separately for full-time and part-time staff, as different benefits apply to each group.)

Grants and Contracts

Grants or contracts often have project years that do not coincide with the SFRPC fiscal year. Therefore, Finance will track the grant/contract's project year budget and provide program managers with monthly reports on project activity. This will monitor project expenditures in the fiscal years and ensure that expenses do not exceed revenues. If a grant or contract does not allow indirect cost recovery, Finance must be notified of such requirement.

Cost Recovery Policies

SFRPC will attempt to recover 100% of the costs of their services from grantors/contracts and Institutes. The Institute for Community Collaboration will be notified on a monthly basis of its expenses, as well as where the funds come from to meet those expenses. SFRPC shall negotiate cost-sharing on grants and contracts, if applicable, and establish indirect cost rates for grants and contracts, to provide relief from overhead costs.

Financial Reports

Financial reports provide periodic updates on the financial position of individual projects as well as the overall financial condition of SFRPC. Financial reports will be submitted to project managers on a monthly basis, to review and compare budgeted income and expense to the year-to-date actual income and expense. This report is referred to as an income and expense statement. In order for these statements to be meaningful, Finance shall accurately record the income and expenses as they arise.

Income and Expense Statements

Income and expense statements will be prepared monthly and should note the year-to date income and expenses, the annual budget, and the percentage of actual funds as compared to budget. Any large percentage deviations (anything more than 10%) will be carefully scrutinized. Most frequently, a deviation represents a timing issue within the fiscal year. Additionally, consolidated income and expense statements can be developed. These statements will provide an overview of the related project. While the detail of each individual account number within each project is important, the bottom line number can often be the most critical figure. At the end of each income and expense statement is a line item showing the net surplus/net deficit (providing a budget was set up). Finance intends to set the budget at the project level in BUCS and to assist the project manager with determining available fund balances. This will ultimately show the manager how much they have left to spend, or if they have overspent on the project.

Balance Sheet

Each fund shall have an individual balance sheet to prevent the commingling or combining of separate funds from the general funds. The balance sheet tracks SFRPC assets and liabilities as well as individual funds/projects. The capability to track assets and liabilities, using the BUCS project and chart of accounts, is essential to produce accurate balance sheet reports by fund. These reports will show the overall financial status of SFRPC assets by fund.

Financial Policies

SFRPC Financial policies allow management to monitor operations, identify and control risks, and generate pertinent information, both financial and non financial, for guiding actions dictated by the organization goals and objectives. The policies are based upon a number of factors, including the complexity, organizational structure and management philosophy of the SFRPC.

Internal Controls

Internal controls provide for the validation, accuracy, and completeness of financial operations. All financial transactions shall be reviewed by Finance, and a determination will be made as to their validity. All financial documents will be part of a controlled system of numbering and filing. Financial documents will be

rigorously checked for accuracy and completeness.

Segregation of Duties

Where possible, SFRPC will establish a system of checks and balances. In order to ensure proper internal controls when performing financial transactions, a separation of fiscal duties must be established. The inability to segregate specific financial duties will subject SFRPC to audit criticism or findings.

Authorized Signatures

Expenditures related to each project shall be authorized by the project manager and submitted to Finance for review and subsequent approval by the Executive Director. Dollar limits are not applicable since the Treasurer is required to sign off on all checks after the Executive Director signs off. The exception to this requirement is on EDA revolving loan funds, where the Executive Director may sign off on checks of \$100,000 or less.

Cash Management

Finance will maintain an effective system of cash management that anticipates cash needs and plans adequately to satisfy them. Therefore, projects must be billed in a timely manner to prevent the lack of cash flow needed for SFRPC operational needs. Cash is required to pay for all assets, services and purchases as well as to meet future obligations as they come due.

Cash Receipts

Finance shall establish control over all cash and checks received, and they shall be deposited promptly into the proper bank account. Cash receipts will be protected from misappropriation. When cash or checks are received by mail, the individual receiving and opening the mail shall prepare a list of receipts, to include the name, amount, any invoice number, date and total. Finance shall be responsible for the recording and deposit of these receipts.

Bank Accounts

Financial accounts shall be opened with the approval of the appropriate designated individuals and the Council Treasurer. All bank signature cards should include their signatures. The Executive Director shall also be a signatory on the general checking account and any payroll accounts.

Purchasing

The determination of needs for goods and services shall be made by appropriate personnel and according to guidelines set forth by SFRPC's Executive Director. Purchase requisition forms shall be obtained from Finance and completed before approval is obtained from the Executive Director. Prior to submitting purchase orders, employees must check with Finance on the availability of funds for the purchase.

Purchase Orders

Purchase orders shall be produced based on the purchase requisitions and are available in Finance.

Receipt of Goods

The physical receipt of all purchased goods shall be the responsibility of either the person who placed the order or designated receiving staff. The receiving function shall involve inspection of goods for conformity with specifications on purchase orders. Receipt and acceptance of a shipment shall be documented on a receiving report or on the packing slip, which shall then be routed to the person who produced the purchase order, so that he/she may record this receipt and forward to Finance for payment.

Accounts Payable

An employee independent of the ordering and receiving functions shall perform the recording of assets or expenses. The amounts recorded shall be based on vendor invoices for the related goods or services. The vendor invoices shall be in agreement with an approved purchase order. Additionally, evidence of receipts must be available before a vendor is paid.

Payroll

Files shall be maintained in which employee pay history is documented and withholding authorizations are kept. Payment for wages and salaries shall be made only to employees at the authorized rate of pay. Weekly timesheets shall be kept with detail on time devoted to various tasks for various projects. SFRPC shall comply with federal and state wage and labor laws as they apply to exempt and non-exempt personnel.

Funds and Reserves

An operating fund shall be maintained for daily expenses that meet most projected routine expenses. An operating reserve fund shall be established to cover three to six months of operating expenses without additional revenue. Additionally, accounts will be established to hold funds for specific projects or purposes that must be spent in specific time and or locations, or for known upcoming projects for which matching funds must be accumulated.

Property, Physical Plant and Equipment

All additions to property shall be properly recorded at cost in the BUCS financial system. These items include the following broad asset types:

- a. Leasehold improvements
- b. Machinery and equipment
- c. Furniture, fixtures, and office equipment
- d. Computer equipment

Accurate records shall be maintained on the cost and depreciation on a straight-

line method for Property / Leasehold Improvement and equipment. Repair expense shall be distinguished from expenditures for improvements, additions, renovations, alterations and replacements. Expenditures are repair expenses if they do not materially add to the value of the property and do not materially prolong the life of the property. Capital expenditures are repair costs that increase the value of property, prolong its life, or adapt it to a new or different use.

Depreciation

The generally accepted method of straight-line depreciation is used to allocate SFRPC's asset cost (less salvage value) over its useful life.

Inventory Identification

At the time of acquisition, all assets shall be identified, tagged, and entered into the detailed fixed asset ledger. The tag shall be placed in a visible area. The tags provide a clear method of tracing the asset to the fixed asset ledger. A physical inventory shall be performed on an annual basis to match the tagged assets to the fixed asset ledger. The records are kept in BUCS's fixed asset module.

Disposal

No item of property or equipment shall be removed from the premises of SFRPC without recording the disposal in a written format. The item shall be removed from the appropriate asset account, and the related accumulated depreciation (including depreciation to the date of disposal) shall be removed from the allowance for depreciation account. Additionally, the profit or loss, adjusted for the cost of removal, shall be recorded as an income (gain) or expense (loss).

External Audits

An external audit shall provide an independent opinion as to the condition of the finances of SFRPC. The retention of an external auditor shall provide a valuable resource of information during the fiscal year. An external auditor shall address issues relating to accounting application or to the management of accounting procedures. Additionally, when submitting proposals for funds to various agencies, it is recommended to have a report of an independent auditor to accompany the grant proposal. This report provides the potential funding agency or foundation assurance that the funds they provide will be properly managed. External audits may be conducted by local CPA firms or by larger regional/national firms.

Investment

The Council participates in the State's pooled cash programs administered by the Florida State Board of Administration. The Council's investment practices are governed by Chapters 125 and 280 of the Florida Statutes.

Funding Sources

A variety of funding sources and strategies are employed by SFRPC, consisting of general revenue, grants, contracts, and service fees (local, regional, state and federal agencies).

Contracts

Funds obtained under contracts are sometime tightly restricted and designated for the accomplishment of specific tasks. Contract funding is frequently obtained from local, regional, state or federal entities. There are several considerations in relationship to contract funding, such as possible limitations on the duration of the contract. In this instance, it is recommended that the project manager meet with the finance director to determine the best course of action and reporting requirements.