

MASCOMA COMMUNITY HEALTHCARE, INC.

FINANCIAL POLICIES AND PROCEDURES MANUAL

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1.0 INTRODUCTION

1.1 OBJECTIVES OF THE FINANCIAL AND ACCOUNTING SYSTEM

This manual contains financial and accounting policies and procedures that have been established as a guide to the management and fiscal operations of Mascoma Community Healthcare, Inc., hereafter referred to as MCHC. The manual should serve as a common instrument of understanding and communication between all levels of the organization, thus avoiding conflicts and potential disputes.

A financial system consists of policies and procedures by which the assets of the organization are managed, controlled, and safeguarded. An accounting system consists of a series of operations whose aim is to record, classify, summarize, and report the financial transactions of an organization. In addition, an accounting system must be designed to maintain adequate internal control. Principle objectives of MCHC's financial and accounting system are:

- * To effectively manage the resources available to MCHC for the purpose of providing quality medical and allied services to the community it serves.

- * To ascertain the financial position and condition of MCHC.

- * To operate in accordance with Generally Accepted Accounting Principles (GAAP) and standards.

- * To operate in accordance with general and specific principles and requirements established by federal, state, and local funding and other administering agencies.

- * To operate in accordance with the specific needs and requirements of individual programs and regulatory agencies.

* To provide accountability and control of MCHC's assets and liabilities, and to monitor the effectiveness of internal policies and procedures in providing this accountability and control.

* To gather and provide reliable data for the dissemination and general use of management, and governmental and funding agencies. With respect to management, to also provide information to be used for long range planning, preparing budget requests and to control expenditures of funds in accordance with approved budgets.

To better facilitate ease of understanding of how these objectives are met by MCHC's financial and accounting staff, this manual is organized in a manner that describes the department's responsibility and personnel structure, the method or flow of transactions within the organization, and policies and procedures that are in place to ensure that the above objectives are being satisfied.

2.0 RESPONSIBILITY STRUCTURE AND POLICY MAKING/CHANGING

2.1 DECISION MAKING AUTHORITY

Within MCHC, ultimate decision making authority rests with the Board of Directors. Any unusual and significant changes in the financial position and condition of MCHC should be communicated by the Finance Department, to the Board of Directors, through the Clinical Director and Finance Committee.

2.2 SUPERVISORY STRUCTURE

It is the responsibility of all individuals in the Finance Department to conform to the tenants of Generally Accepted Accounting Principles (GAAP) and the requirements of relevant governing agencies. It is also the responsibility of supervisory individuals to ensure that individuals who are selected to perform certain job duties are qualified to perform those duties. Appendix # 1 shows the current organizational structure of MCHC.

2.3 CHANGES IN FINANCIAL/ACCOUNTING POLICIES AND PROCEDURES

Individuals should recognize that changes occur in an organization which require changes in policies and/or procedures. Any changes in financial or accounting policies should be clearly stated in the form of a Board resolution prepared by the Finance Department and submitted, through the Clinical Director and the Finance Committee, to the Board of Directors for approval. Any changes in financial or accounting policies and/or procedures should be clearly communicated to the relevant staff members and the Finance Committee.

3.0 FINANCIAL AND GRANT REPORTING REQUIREMENTS

3.1 REPORT FORMATS

For ease of understanding and consistency, standard report formats will be as approved by the Board of Directors.

3.2 YEAR-END CLOSING INSTRUCTIONS AND REQUIRED SCHEDULES

Appendix # 4 outlines the process for conducting a calendar year-end and fiscal year end closing.

3.3 MONTH-END CLOSING INSTRUCTIONS AND REQUIRED SCHEDULES

Appendix # 5 outlines the process for conducting a month-end closing.

3.4 PERIODIC REPORTING REQUIREMENTS FOR GRANTS

Because grant requirements and grant sources vary, there is no standard procedure that can be associated with managing individual grants. To ensure that grants are properly and promptly managed, however, a continuously updated schedule of grant sources and the special reporting and accounting requirements relevant to each grant will be prepared and maintained by the Finance department. The Finance department shall review the schedule of grant requirements at least quarterly.

4.0 THE ACCOUNTING SYSTEM

4.1 THE ACCOUNTING CYCLE

MCHC's fiscal accounting cycle runs from April 1st through March 31st. The general ledger will be closed once a month, requiring all entries for cash and non-cash transactions to be posted monthly. Revenue and expense accounts will be closed annually at the end of the fiscal year. The annual audit of MCHC will be done annually in conjunction with fiscal year-end closing. Any adjustments determined appropriate through the process of the annual audit will be reflected in the year-end financial report.

4.2 METHOD AND BASIS FOR ACCOUNTING

MCHC utilizes the double-entry accounting method. The accrual basis of accounting will be maintained in conjunction with the principle of materiality and will be applied consistently from period to period in conformity with Generally Accepted Accounting Principles (GAAP).

4.3 SEGREGATION OF DUTIES AND INTERNAL CONTROL

If employees are to work effectively, their responsibilities must be clearly defined. Additionally, an adequate internal control system should be in place that contains the following features:

- a. No person should have complete control over all phases of any significant financial transaction.

b. The flow of work should be from one person to another so that the work of the second person, without duplicating that of the first, provides an internal control check.

c. Physical and mechanical facilities such as security vaults, safe cabinets, postage meters, etc., should be used to their full capacity to ensure security and accuracy.

4.4 TRANSACTION FLOW

Transactions should be processed in a systematic manner. Each transaction type has an associated series of actions and steps to ensure proper processing and control. The series of actions involved in processing transactions is referred to as transaction flow. Transaction flow is best presented in an illustrated format and flow-charts to be developed and maintained.

4.5 CHART OF ACCOUNTS

4.5.1 ACCOUNTS STRUCTURE

The account classification structure has been designed to provide an efficient method of accumulating and organizing information about a series of related transactions. This accomplishes a method by which the assets, liabilities, fund balance, revenues, and expenses associated with MCHC's various operations and departments can be tracked, monitored, and controlled. Additionally, reporting needs are met by this system. The Chart of Accounts should be presented annually to the Board of Directions for review and subsequent changes should be reviewed by the Finance Committee.

4.5.2 ADDING, DELETING, AND RECLASSIFYING ACCOUNTS

AND SUBACCOUNTS

Occasions may arise where it is necessary or prudent to add, delete, or reclassify accounts and sub-accounts in the Chart of Accounts. Changes in the structure of the chart of accounts requires the approval of the Finance Director, and the new procedure for using this account should be communicated to all relevant parties.

4.6 THE GENERAL LEDGER AND ENTRIES TO THE LEDGER

The general ledger provides a summary record, by account, of all transactions affecting assets, liabilities, fund balances, revenues, and expenditures. These accounts are generally referred to as control accounts. If necessary, detail information supporting these control accounts may be recorded in appropriate subsidiary ledgers. General journal entries are prepared under the direction and supervision of the Finance Director. Entries to the general ledger are posted at the end of each month.

4.6.1 STANDARD OR RECURRING ENTRIES

There are certain standard or recurring entries that must be posted to the general ledger every month. Generally, these entries are expensed by a predetermined pattern throughout the year, and without the presence of traditional documents such as invoices or vouchers. Because such documents do not exist, a continually updated and current schedule of standard entries should be kept on file in the accounting department. A schedule

of standard entries made for each respective period should be made part of month-end closing procedures. The amounts of these standard entries should be periodically reviewed and re-evaluated at least annually. Typical standard entries include, but are not limited to:

- a. Allocated fringe benefits costs to cost centers (monthly)
- b. Revised allowances for uncollectible accounts (quarterly)
- c. Adjust base fixed asset inventory to the physical count (annually)
- d. Amortization of prepaid expenses (monthly)
- e. Recording of depreciation (monthly)

4.6.2 ACCRUED REVENUES AND EXPENSES

In conformity with the accrual basis of accounting, revenues earned but not yet received, and expenses incurred but not yet paid, must be considered at the end of every month. A reasonable estimate, based on historical experience, of the amounts of these revenues or expenses should be made and properly recorded to the general ledger. All accounting based estimates require the approval of the Finance Director and Clinical Director. A schedule of accrual entries should be made part of the month-end procedures. For the purpose of organization, accrual entries should be reversed as part of the following month's entries. Typical accrual entries include, but are not limited to:

- a. Accrued payroll costs
- b. Accrual of accounts payable.

- c. Other accrued revenues
- d. Other accrued expenses

4.6.3 CORRECTING ENTRIES

Errors may occur in the recording of entries to the general ledger. To minimize confusion and to provide a clear audit trail, a side note should be made to accompany the entry explaining why the correction was made and what distribution was made to correct the entry. All correcting entries require the approval of the Finance Director.

4.6.4 SUMMARY ENTRIES FROM SUBSIDIARY LEDGERS

Because the general ledger is not directly integrated with all of the various computerized patient record systems of MCHC, it is necessary to make a summarized entry to the general ledger from the supporting journals. These entries should be supported by accompanying schedules, which provide specific transaction detail.

4.7 FIXED ASSETS AND INVENTORIES

4.7.1 DEPRECIATION METHOD FOR FIXED ASSETS

MCHC depreciates the cost of depreciable fixed assets over their estimated useful lives using the straight line method, without regard to salvage value. The determination of an asset's useful life will be based upon IRS useful lives or other third party guidelines. A half-a-year depreciation will be charged to expense in the year of acquisition and the year of retirement or

disposal.

4.7.2 CAPITALIZATION POLICY

Capitalization of assets is based on the principal of materiality. Generally, an asset will be considered "material" if its initial cost is \$5000 or higher and an expected life of 5 years. If the cost is less than \$5000, the item will be expensed. The cost of an asset includes all costs to obtain, ready, and position the asset for its intended purpose and use.

4.7.3 MAINTENANCE OF RECORDS

Fixed assets are recorded in the Fixed Asset Register and/or ledger system. This register should be maintained on a continuous basis, with any addition or disposal of fixed assets being recorded at the time they occur. Required information for each fixed asset should include the item description, date purchased, cost, estimated useful life, and location.

4.7.4 BI-ANNUAL PHYSICAL INVENTORY

A physical inventory of fixed assets should be conducted at least every two years. The inventory should be conducted by the Finance Director and other staff designated by the Finance Director. Any item that has a value when new of \$1000 or more should be counted.

Other items may be included at the discretion of the Clinical Director. Items may be aggregated in a classes of equipment and

the class may be inventoried.

Any staff member performing the inventory should sign the inventory count sheets used during the physical inventory. The inventory should be conducted no more than 30 days prior to, or subsequent to, the end of a fiscal year.

4.7.5 RETIREMENT OR DISPOSAL OF FIXED ASSETS

The Finance Director will be responsible for identifying property for disposal. Upon disposal or retirement, the property should be appropriately removed from the general ledger and detail subsidiary records. If applicable, retirement and disposal should be in conformance with relevant funding source guidelines. If an asset has a cash or market value, the cost-benefit of selling the asset should be considered. If a material net gain can be realized, the asset should be sold at a fair and reasonable price; otherwise, property will be disposed of. Written confirmation of final disposition of the asset is required.

4.7.6 OVERVIEW OF INVENTORY CONTROL AND COSTING

Although inventories are not usually a major asset of a health center, there is a need for control over supplies inventory to ensure that an adequate supply is on hand to maintain efficient operations of the clinic's facilities, and that supplies are used expressly for clinic operations. Supplies should be used on a first-in first-out basis.

4.7.6.1 CONTROLLING SUPPLIES INVENTORY

It should be recognized that there is a cost-benefit to maintaining control of supplies inventory. With this in mind and given the resources of MCHC, the individual responsible for ordering supplies must also be responsible for supplies inventories. Clinical Director or his/her delegate should

observe the consumption of supplies within each department and investigate unusual patterns in supply consumption. Clinical Director should also watch for any unusual behavior that might indicate misuse of the clinic's supplies.

4.7.6.2 REPLENISHMENT CYCLES

Careful attention should be paid on the part of the ordering party to ensure that an adequate supply of necessary items is on-hand. To avoid waste and ensure that adequate supplies are on-hand, the following factors should be considered when replenishing supplies:

- a. Reorder point/level
- b. Shelf life
- c. Possible delays in the receipt of materials
- d. Quantity discounts

4.8 RESERVE AND CONTINGENCY ACCOUNTS

Reserve and contingent liabilities should be created in cases where there is a reasonable expectation that a significant, out-of-the-ordinary expense has been incurred, or will probably be incurred, but the timing of its payment or its amount is not determinable until some point in the future. The principle of materiality applies to the creation of these accounts. An estimate of the potential liability should be determined, if possible, and recorded. Generally, if the potential liability is in excess of \$5,000, a reserve should be created with the approval of the Board of Directors. Careful attention should be given to the relationship between accumulating a reserve and grant/program requirements related to the establishment of reserve and contingency accounts.

4.9 PAYROLL ACCOUNTING

4.9.1 OVERVIEW

Only those issues pertaining to the processing and/or fiscal control of payroll and other personnel areas having impact on accounting and/or finance will be covered in this section. MCHC has a separate employee manual which governs the management of the personnel function. A Human Resources Committee comprised of both staff and Board members serves as the steering vehicle for all such policies and procedures. Every effort has been made to avoid conflict between the Employee manual and the Financial policies and procedures manual, however, in the event of any differences, the Employee Manual policy shall supercede.

Personnel represents the majority of expense for most health care provider organizations. Strong internal controls are necessary to avoid improper payroll disbursements and/or personnel and cost accounting records. MCHC outsources the processing of payroll checks, direct deposits, registers, and all associated reports and records. Manual payroll checks are controlled and signed under the same guidelines used for accounts payable checks. All other payroll activities are managed centrally, with the Finance Director coordinating the efforts of the other directors, who are ultimately responsible for the timekeeping efforts of their staff.

4.9.2 ACCURACY AND TIMING

Valid employees of MCHC should be paid on a timely and accurate basis. Paychecks shall be issued every two weeks. This entails working in cooperation with the payroll processing/administration staff to provide them with accurate information and within a reasonable time frame. Because employee information often changes (e.g., addresses, rate changes, insurance status) this information should also be kept current.

4.9.3 PERSONNEL ACTIONS

Except for wage garnishments, all changes in the status of employees (new employees, terminations, changes in address, changes in pay rate, etc.) must be supported by a properly completed and approved Payroll Status Change Form. A Payroll Status Change Form is attached. The Payroll Status Change Form must be completed and signed by the Clinical Director and the appropriate Program Director and/or Department Head.

4.9.3.1 NEW EMPLOYEES

Upon determination of a new employee, the Finance Director and/or Human Resource Manager completes a Payroll Status Change Form. Copies of the W-4, I9, and direct deposit forms and benefit papers should be attached to the Payroll Status Change Form and forwarded to the Finance Department for entry into the payroll processing system. The Payroll Status Change Form and the benefit papers should then be filed in the personnel file maintained in the Finance and/or Human Resource Department. The W-4 form should be filed in the payroll files in the Finance Department. Benefit information is communicated to the appropriate carriers by the Finance and/or Human Resource Manager.

4.9.3.2 RESIGNATIONS AND TERMINATIONS

All resignations and terminations must be accompanied by a Payroll Status Change Form containing appropriate signatures. Program Directors should verify with the employee that all petty cash and travel vouchers have been submitted. The Finance Director should make appropriate changes in the payroll system

to remove the employee from the active employee register. The Human Resource Manager should communicate with the former employee regarding continuation of insurance under COBRA and send a notice of the discontinuation, as applicable, of the employee to the insurance company and/or pension plan.

4.9.4 WAGE GARNISHMENTS

Receipt of relevant legal documents are required before an individual's wages can be garnished. The legal documents should be delivered to the Finance Director. The Finance Director or designate will make the required adjustments to the payroll processing system to reduce the new amount of the employee's check by an amount equal to that indicated on the summons. The legal documents are then filed in the employee's personnel file. The Finance Director should take steps to issue a check for the garnishment to the relevant party as required by law.

4.9.5 UNEMPLOYMENT COMPENSATION CLAIMS

Unemployment compensation claims are directed to the Finance Department and or Human Resource Manager, for completion of the form with the correct payroll data. The Finance Director then submits the forms to the State of New Hampshire. This entire process must be completed in accordance with State law. Copies of the claim and any subsequent information requests and determinations should be filed in the employee personnel file.

4.9.6 CHECK ADVANCES

It is the policy of MCHC not to grant advancements of payroll funds to employees.

4.9.7 STANDARD PROCEDURES FOR PROCESSING PAYROLL

The procedures utilized to process payroll are best documented in flow-chart form that illustrates the procedures used to process payroll transactions. Payroll records for individual employees shall be entered into a uniform time clock system or on uniform payroll sheets. These records shall be compiled and/or reviewed by operational Directors and reviewed again by the Clinical Director prior to processing of payroll. The normal pay period is two weeks of work starting at 00:01 AM Monday and ending at 24:00 PM on Sunday

4.9.8 CONTROL PROCEDURES FOR DISTRIBUTING CHECKS

Special considerations must be in place to ensure adequate control of the payroll processing. Time sheets are completed by each individual employee indicating the numbers of actual hours worked, and paid time off (PTO) hours, along with a breakdown of hours worked in specific programs if needed. The time sheet must be signed and dated by the employee, and subsequently reviewed, signed and dated by the appropriate Department Head. A payroll edit list which summarizes payroll for the period is prepared by the Accountant and compared to the time sheets for accuracy prior to submission Finance Director for approval. Once approved, the Accountant submits the payroll for processing. Checks and direct deposit slips are distributed on Thursday.

4.9.9 PERIODIC PAYROLL FILINGS AND DEPOSITS

MCHC may contract for payroll services, and as such, all state and federal filings and payroll tax deposits are completed by the contracted service.

4.9.10 PAYROLL BANK ACCOUNT

Section 10.1 of this manual, entitled "Bank Account Structure and Purpose", contains information describing the management of the payroll bank account.

4.10 ACCOUNTS PAYABLE

4.10.1 AUTHORIZATION AND DOCUMENTATION REQUIRED FOR GENERAL OPERATING DISBURSEMENTS

Appropriate documentation consisting of properly approved invoices, purchase orders (if required), and receiving documents is required before a check will be disbursed. MCHC issues payment on invoices only after delivery of the goods or services has been made but exceptions may be made if approved by the Clinical Director. MCHC has the option of not disbursing a check if a problem exists with the product or service. Appropriate supporting documentation should be verified before the check is prepared and presented for signature. General operating disbursements require dual signatures on the checks in \$5,000 or greater. Checks less than \$5,000 or under require one signature must be the either the Clinical Director or Finance Director, and the other must be any of the following:

- a. Board Chairman
- b. Vice Chairman
- c. Board Treasurer
- d. Clinical Director
- e. Finance Director

4.10.2 ACCOUNTS PAYABLE PROCESSING FREQUENCY

Accounts payable should be processed at least once a week. Immediate efforts should be made to have the checks signed. Checks will be maintained in a secure location until they can be delivered and/or mailed. The checks should be delivered and/or mailed by at least the day after the checks have been signed.

4.10.3 TERMS OF PAYMENT

Generally, payments should be processed in accordance with the terms required by the vendor. If a vendor offers a discount for prompt payment of an invoice, and if practical, efforts should be made to take advantage of the purchase discount.

4.10.4 VOIDING AND SECURITY OF CHECKS

If a check is to be voided, "VOID" should be clearly written across the face of the check and the signature area of the check should be cut away. The voided check should be filed in numerical sequence in the same cabinet holding the blank checks. Blank checks will always be kept in a secured area and access to the checks will be restricted to only designated individuals. When removed from the secured area, the checks should never be left unattended.

4.10.5 PROCEDURES FOR PROCESSING ACCOUNTS PAYABLE

The procedures used for processing accounts payable transactions is best documented in flow-chart form to be developed by the Finance Director. On-going repeat transactions from the same vendor may be authorized without use of a purchase order or with use of an open purchase order in documented and authorized by the Finance Director.

4.10.6 MANUAL CHECKS

Manual checks can be issued in situations where it is not practical to use computer generated checks. Manual checks should be processed using the same procedures as those used for issuance of all automated checks and consistent with Sections 4.10 through 4.10.4 of this manual. Manual checks should be taken from existing check stock. If out-of-sequence checks are used, the blank check with the lowest check number should be used first.

4.11 CASH TRANSACTIONS

4.11.1 INDIVIDUAL ACCOUNTABILITY FOR CASH

The term "cash", as used herein, is defined to include any valid forms of checks, voucher coupons, and all forms of United States coins and currency. Normally, only small amounts of cash are received or disbursed by MCHC. Such is the case when patients pay for medical services, or cash is added to, or taken from, the petty cash fund. The principle of individual accountability applies to all cash transactions at MCHC. To enforce this accountability, MCHC requires that individuals be accountable for clinic monies in their possession. In practice, this means that only designated individuals will work with the monies in a cash register or cash drawer and sign in and out as they use the drawer. There should be no exceptions to this policy.

4.11.2 SUPERVISOR'S RESPONSIBILITY

It is the supervisor's responsibility to monitor individuals handling cash funds to ensure that proper cash handling

procedures are being followed. Supervisors will track cash overages/shortages to evaluate the efficiency of the individual in handling cash funds. Should an employee be found to be perpetually inefficient in handling cash transactions, that individual should be relieved of their cash handling duties. It is also the responsibility of the supervisor to perform unannounced audits of the cash funds, if the supervisor notices an employee is having difficulty with cash overages/shortages, or when the supervisor is justifiably concerned about the integrity of the employee with respect to handling cash funds.

4.11.3 PETTY CASH FUNDS

4.11.3.1 FUND USES, BALANCES, AND REPLENISHMENT

A small petty cash fund has been established. Generally, it is used for non-recurring, low-dollar expenditures. The fund is replenished at the month-end and/or when its balance falls below \$50. The maximum held in petty cash should be \$500 and any amount in excess of \$500 should be deposited in the bank account of MCHC. Petty cash funds should be established by a check and should always be replenished by writing a check from the general operating bank account. The replenishment check should be written in the amount equal to the amount of the vouchered petty cash expenditures. The petty cash box should always contain cash and/or vouchers totaling the exact amount of the fund. Vouchers equaling the amount of the replenishment check will be voided to prevent their reuse and should be filed in support of the replenishment check.

4.11.3.2 RESPONSIBILITY FOR, AND SECURITY OF, PETTY CASH FUNDS

The petty cash fund should be maintained by the Clinic Director.

All cash should be kept in a secure place. Periodic and random counts of the fund should be made by the Finance Director.

4.11.3.3 DISBURSEMENT OF PETTY CASH FUNDS

A petty cash voucher must be completed by the petty cash custodian and must contain the following information:

- a. Amount
- b. Purpose of Expenditure
- c. Date
- d. Signature of Person Receiving the Money
- e. Program to be charged

4.11.3.4 PETTY CASH VARIANCES

Variances should be posted to the cash short/over account. The Finance Director should be notified of any variance.

4.11.4 CASH REGISTERS

MCHC does not utilize cash registers at this time, however, in the event that they are installed in the future, policies and procedures for sections 4.11.4.1 through 4.11.4.4 shall be developed at that time.

4.11.4.1 USE OF CASH REGISTERS

4.11.4.2 INDIVIDUAL ACCOUNTABILITY AND SECURITY
OF CASH REGISTER FUNDS

4.11.4.3 CASH DRAWER BALANCES

4.11.4.4 END-OF-DAY PROCEDURES FOR CASH DRAWERS

4.12 ACCOUNTS RECEIVABLE AND COLLECTIONS

4.12.1 OVERVIEW

As a convenience to clients, and to speed up the receivable process, MCHC accepts third party payor assignments and processes claim forms for clients. MCHC processes accounts receivable using an automated data processing system which will print insurance claims and/or transmit electronic bills for clients.

4.12.2 PROCEDURES FOR PROCESSING ACCOUNTS

RECEIVABLE TRANSACTIONS

Procedures for processing accounts receivable transactions can be found in flow chart to be developed by the Finance Director.

4.12.3 EXTENSION OF CREDIT

4.12.3.1 FORMS OF CREDIT TO BE EXTENDED

MCHC's policy is to collect payment at the time of service, unless the charges are to be billed to an insurance carrier. Self pay and sliding fee patients must pay at the time of service. Insured patients with a co-pay amount will be asked to pay the co-pay at check-in, prior to being seen by their provider. Every effort will be made to enter charges during the visit so that the amount due from the patient can be collected at checkout. If the amount due from a patient can not be determined at the completion of their visit, the patient will be told that we will send them a statement that is due upon receipt. Insured patients with a co-insurance amount that is the patient's responsibility will be sent a statement after payment or denial has been received from their insurance carrier, and that amount will be due upon receipt. Although it is the policy of MCHC that no credit will be extended to self pay patients, MCHC will not refuse service to family planning patients due to non-payment. At the time of service, every effort will be made by staff to inform the patient of their obligation to pay, to collect the amount due for services and to offer payment plans to patients with delinquent balances over \$100.

4.12.3.2 RESPONSIBILITY FOR MONITORING AND

ADHERENCE TO CREDIT POLICY

All employees of MCHC are responsible for adherence to the extension of the credit policy. The implementation of these policies is the responsibility of the Finance Director and Clinical Director.

4.12.3.3 DEVIATIONS FROM CREDIT POLICY

Any deviation from the extension of credit policy must be authorized by the Finance Director and/or the Clinical Director. This authorization should be noted in the client's file.

4.12.4 HEALTH INSURANCE ASSIGNMENT AND PARTICIPATION

MCHC will accept assignment of benefits and will participate in the following programs:

- a. Medicare
- b. Medicaid
- c. Commercial insurance companies

4.12.5 MINIMUM FEES

MCHC has a minimum fee of \$10.00 for primary care patients who are unable to pay for services based on the sliding fee scale.

4.12.6 PATIENT RESPONSIBILITY FOR BILLS NOT COVERED

BY INSURANCE, SPECIFIC GRANT FUNDING, OR SLIDING FEE SCALE

The client is responsible for any balances remaining after the assignment of insurance benefits and/or specific grant funding. The amount for which the client is responsible depends upon the client's eligibility for a sliding fee discount. This sliding fee discount is determined by the financial status of the client and those persons living in the same household. The amount covered by a sliding fee discount is expressed as a flat fee. For example, an uninsured client's \$100 balance may be covered at as a \$10 flat fee. This would mean that MCHC would write-off \$90 as a sliding fee discount, and the client is responsible for the remaining \$10. The formula for determining client responsibility is as follows:

		TOTAL BILL
(less)	-	AMOUNT COVERED BY SPECIFIC GRANT FUNDING
(less)	-	INSURANCE REIMBURSEMENT
(less)	-	AMOUNT COVERED BY SLIDING FEE DISCOUNT
(equals)	=	AMOUNT TO BE PAID BY CLIENT

Any balances remaining after insurance, specific grant funding, and the sliding fee discount are the responsibility of the client. A receipt should always be provided to clients who make direct payments in the form of cash, or to any other patient requesting a receipt. Patients with commercial insurance that do not qualify for the sliding fee scale will be responsible for the lower of the full MCHC charges or the amount allowed by their insurance carrier, less the amount paid by the insurance carrier.

4.12.7 SLIDING FEE DISCOUNTS

4.12.7.1 ELIGIBILITY FOR SLIDING FEE DISCOUNTS

Eligibility for sliding fee discounts is based upon household income and family size. Poverty levels based on the current Federal Register will be followed in order to determine a client's eligibility for discounts. All MCHC patients who meet income and household size guidelines are eligible for sliding fee discounts. For patients that have insurance, sliding fee discounts apply to the portion of charges that are the patient's responsibility and are not covered or not paid by the insurance carrier. A current Sliding Fee Schedule is attached. (HAVE IT)

4.12.7.2 PROOF OF INCOME AND DOCUMENTATION REQUIREMENTS

A Patient Registration Form is completed for every patient that uses the MCHC facilities. A sample Patient Registration Form is included. (GET FROM KAREN) New patients will be asked to provide identification at the initial intake/registration. A picture ID that includes a home address, such as a driver's license, will be considered sufficient identification. If a picture ID is not presented, clients will be asked for at least two documents containing their name and address.

To be eligible for a sliding fee discount, the client must present appropriate proof of income for all individuals living in the household occupied by the client. Income will be verified every six months for all patients. Charges for family planning minors (under 18) requesting confidential services will be based on the minor's income alone. Acceptable proof of income includes, but is not limited to:

- a. The federal tax returns for all income receiving individuals in the client's household.
- b. The last three paycheck stubs received by working clients and members of their household.
- c. Notices or other official documents indicating retirement, social security, or federal or state assistance benefits.

d. Any other form of official document indicating income received by the client.

Those clients who do not wish to divulge financial information (clients are not required or obligated to participate in the sliding fee scale discount program) will be charged without discount.

The sliding fee application form will be used to determine the number of household members. Applicants must list all household members by full name, including birth date, employment status and relationship to applicant.

4.12.7.3 PATIENTS LACKING ACCEPTABLE DOCUMENTATION

Not all clients who wish to receive a discount bring proof of income with them at the time of initial registration. In these instances, the financial information section should be filled out based on what information the client can provide (i.e. "I work 10 hours per week and am paid \$5.75 per hour"). The client must sign the document attesting that the information provided is accurate. The intake/registration staff member will determine the appropriate discount based on this information and collect payment for the amount due after tentative discount. Until documentation is received, the client will be considered ineligible for sliding fee discounts, and no discounts will be applied to their account. The client will be asked to submit the supporting documentation within seven days. It will be explained to the client that services will be charged at 100% until the MCHC documentation of income policy has been satisfied and filed into the client's records. If documentation is not received within fourteen days of the visit, client will be ineligible for sliding fee discounts for the visit and will be responsible for full charges.

Based upon any information attested to above, a client will be informed of their sliding fee status on the same day that they

register with MCHC. If documentation is received later, and is different than that which was verbally communicated, the appropriate discount (supported by documentation) should be calculated and applied. The client will be informed of their status at this time (if documentation delivered in person) or at their next appointment (if documentation is mailed).

4.12.7.4 UPDATING PATIENT INFORMATION

Every time a client seeks the services of MCHC, they will be asked if there have been any changes in address, telephone number, or insurance. Sliding fee patients will be asked if there has been any change in income or the number of household members. These changes will be entered in the billing system. If the client has had a change in income, the patient must present appropriate proof of financial status as indicated in Section 4.12.6.2 (Proof of income and documentation requirements) of this manual. If the sliding fee eligibility changes, the client will be informed of the new sliding fee discount at the time of registration.

4.12.8 SUBROGATION

When an MCHC client is injured as the result of the negligence of a third party or while engaged in his or her employment, medical services will be provided to that person on the same basis as to any other patient. However, the patient shall agree that where a legal claim may be instituted against either a liable party or any employer, MCHC shall be named as the party to reimburse for the medical services provided which were not covered by any public or private source of insurance, unless payment in full has been made to MCHC.

For worker's compensation claims, the client must provide evidence that a claim has been filed with their employer and provide the name and address of their employer and the insurance carrier or party to be billed. Clients lacking sufficient documentation of worker's compensation claims will be

responsible for and pay charges until acceptable documentation has been received by MCHC. An Accident/Injury Intake form must be completed in all situations involving workers' compensation.

In third party liability cases, the client will be responsible for and pay any charges incurred. MCHC will supply any medical records and billing information needed, upon request and with the clients signed release form, to representatives of the client.

4.12.9 BILLING CYCLE, TERMS OF PAYMENT, AND COLLECTIONS

Claim forms to third party reimbursement organizations will be printed and mailed or transmitted electronically as soon as possible, and within 10 working days of the client's visit. If a client is insured and reimbursement for the client's visit has not been made within 30 days of the claim, a Statement of Account as approved by the Finance Committee, will be sent to the client indicating the balance due MCHC. If a client is uninsured and has a balance, a Statement of Account will be sent within 30 days of the visit. A Statement of Account will only be sent if client has an outstanding balance.

For insured clients, every cooperative effort will be made to collect payment from the insurance carrier prior to further billing of the client.

Clients will be sent monthly statements as an attempt to collect payment of the balance.

All collection efforts, including dates and time called, person contacted, and dates referred to collections, should be documented in the notes section on the patient's account on the computer system.

4.12.9.1 PROCEDURES FOR WRITING-OFF UNCOLLECTIBLE ACCOUNTS

If it is determined that an account is uncollectible, the account should be written-off and charged to the appropriate allowance for uncollectible accounts. If any account is determined to be uncollectible due to bankruptcy or any other factor, it will be written off immediately.

At least once per quarter, the Finance Director will submit a list of suggested write-offs to the Finance Committee in the last month of the fiscal year. The Finance Committee will review the accounts submitted and return an authorized list to the Finance Director or designate for entry into the accounts receivable system. The Finance Director will make the appropriate entries to the general ledger.

Unless due to bankruptcy, once an account has been written off to bad debt, the client will be discharged from the practice, they will be notified in writing of this action, and the discharge will be noted in the client's account in the billing and appointment systems. Clients may be considered for reinstatement upon payment in full of all charges written off or an agreement for future payment in full that is honored by the client.

4.12.9.2 REVERSING A WRITE-OFF DUE TO PAYMENT

In the event that a client pays on a balance that has been previously written off to bad debt, the following procedures should be followed. If an item was written off in the current fiscal year, reverse the write off entries and post the receipt as an adjustment to the general ledger. If the item was written off in a prior fiscal year, the item must be established as a revenue item in the current period before the cash can be properly posted since the receivable was already written off.

4.12.9.3 REFUNDING OF CREDIT BALANCES

All accounts which have credit balances are eligible for a refund, at the discretion of the client. Should the client wish the credit balance to be refunded, a check should be issued to the client. The Finance Director, after verifying the credit balance on the Accounts Receivable Aging Report, should give a notice of the credit balance to the Clinical Director. The check is then processed in conjunction with Accounts Payable, as authorized for payment by the Clinical Director. This process should be complete within 7 business days of the client's request for a refund.

4.12.9.4 CONTROLLING THE AGING OF ACCOUNTS RECEIVABLE

Controlling accounts receivable is the responsibility of all front desk staff, Office Managers and the billing department staff. All MCHC employees are responsible for adherence to the credit policy of MCHC and for the collection of all amounts due at the time of service. The billing department is responsible for collections from third party payors and self pay patients with outstanding balances. All past due balances are sent a series of collection letters asking the patient to contact MCHC to make payment arrangements.

Once the account reaches 90 days past due, the patient will be sent a letter and/or statement of account, stating that their account will be placed with a collection agency within 10 days, and that in order to continue to receive services at MCHC, they will have to pay for each visit at the time of service. At that time, a note is placed on their account in the billing system, indicating the patient is "NO CREDIT" status.

4.12.9.5 DISCHARGE OF CLIENTS DUE TO NON-COMPLIANCE WITH

PAYMENT POLICIES

In order to remain a financially viable organization, MCHC must collect amounts due for services. Every effort will be made to work with clients to collect amounts from third party insurers and/or establish payment plans for amounts due from patients. If it is determined after all collection efforts have been exhausted that a client is not making an effort in good faith to pay amounts due, the client will be considered for discharge from the practice. Any client being considered for discharge will be submitted to the Clinical Director who will notify the client's provider of the pending discharge and will ask for the provider's input.

The Clinical Director will then decide based on all input received whether or not the client will be discharged. If the client is not discharged, arrangements must be made for payment or write off of amounts due. If the client is discharged, they will receive a written discharge notice and the discharge shall be noted in the client's intake file.

4.13 RESTRICTIONS ON USE OF FINANCIAL AND ACCOUNTING INFORMATION

4.13.1 RELEASE OF INFORMATION

Generally, all finance, accounting, and management personnel should have access to financial and accounting information. Additionally, all Executive staff, and Audit staff, may access this information by direct request to the Finance Director. All other requests for financial and accounting information should come in the form of a written request, stating the purpose of the request, and indication of who will be using the information. The Clinical Director will review and authorize the release of information provided in response to written requests and if required by law or authorized by Board Policy.

Adverse decisions regarding release may be appealed to the Board of Directors. Normal processing of payroll information in the preparation of checks shall not be required to have specific approval per transaction. (Fin. Comm. To review & approve on 3-14)

4.13.2 PRIVACY OF PAYROLL INFORMATION

The Clinical Director, the Finance Director, the Human Resource Director and auditors may have access to payroll related information. Any other request for payroll information, either inside of or outside of MCHC, must be approved by the Clinical Director. (Fin. Comm. To review & approve on 3-14)

4.14 RECORDS SECURITY AND RETENTION

4.14.1 OVERVIEW

Records need to be filed, sorted, stored, and retrieved for a variety of reasons, including historical reviews, audits, litigation, and vendor and employee claims. This function falls under the responsibility of the Finance Department. Except for client billing records, all accounting records must be kept in a secure and central location within the Finance Department. Adequate measures must be taken to prevent possible physical damage to the records. If an individual needs an accounting report or file, the individual should return the report or file immediately after use. All filing should be done in a systematic, logical, and organized manner. Central files should be revolved yearly, with transfers being made to permanent files, to allow for the current year's filings. Working files usually include the records of the current fiscal year. MCHC records are not to leave the immediate premises of MCHC, except

for off-site permanent storage, unless approved by the Clinical Director.

4.14.2 HOLDING PERIODS OF RECORDS

The retention of business records are often mandated by Federal, State or Local Government or other business related requirements. As such, it is important for all individuals who deal with business records within MCHC to be aware of retention periods when dealing with such records. A table published by the Granite State Association of Non-Profit Organizations (GSAN) lists the minimum requirements for the most common types of records. This table, entitled TABLE I - RECORDS RETENTION SCHEDULE, may be found in this manual in the Tables section.

4.15 DATA PROCESSING

4.15.1 SAFETY AND ACCESS OF DATA OF COMPUTERS

Information and data on computers should be restricted to individuals who have a specific need or purpose to use the information. A personal computer can be a highly individualized tool. As such, and because MCHC utilizes many personal computers, respect for the integrity of the individual personal computers should be maintained.

4.15.2 ELECTRONIC DATA RETENTION

For a multitude of reasons, data stored on computers can be

corrupted. To minimize possible damage to data, the computer system and personal computers and data should be backed up to an external location if possible on a continuous schedule.

Multi-user systems which are frequently updated and contain data which is vital to the efficient operation and management of MCHC should be backed up daily.

5.0 PURCHASING AND RECEIVING

5.1 OBJECTIVES OF PURCHASING

The following objectives apply to the purchasing of goods and services at MCHC:

- a. To ensure procurement procedures are in accordance with Federal Procurement Standards.
- b. To ensure management defines and communicates the criteria for selecting vendors.
- c. To ensure management defines and communicates the criteria for determining the types, estimated quantities, prices, and terms of goods and services to be purchased.
- d. To ensure adjustments to vendor accounts and changes to vendor files are made in accordance with management's guidelines.
- e. To ensure that all, and only, requested goods and services are accepted.
- f. To ensure purchasing transactions are properly recorded in a timely, accurate manner.
- g. To ensure access to purchasing and receiving records and related critical documents be limited to personnel

authorized by management with such authorization providing adequate segregation of duties.

5.2 OVERVIEW OF THE PURCHASING FUNCTION

The purchasing function involves all the decisions, policies, and activities involved in procuring goods and services from outside vendors. The Finance Director serves as the coordinator of the purchasing function. Individual departments, who designate an individual as responsible for ordering supplies, typically order their own supplies. The respective Department Heads must approve the requisition of goods and services by Purchase Order (PO). The Finance Director or Clinical Director must approve the Purchase Order after the Department Head signs the PO.

5.3 PROCESSING A PURCHASING TRANSACTION

The method used to process a purchase requisition is best shown in flow chart form. The process includes; Department Head prepares PO and signs the PO. Finance Director countersigns the PO as appropriate. Finance Director sends out PO. A flow chart of the entire purchasing cycle can be found in Appendix # 9.

5.4 PURCHASE REQUISITIONS

5.4.1 WHEN TO USE A PURCHASE REQUISITION

A purchase requisition must be completed for all purchases over

\$500 where the items or services being purchased are not considered previously approved through the budgeting process. Examples of pre-approved purchases are office and clinical supplies. An example of a purchase requisition is attached. Purchase Orders will be used under the \$500 limit above when required by vendors.

5.4.2 DOCUMENTATION REQUIRED

Purchase Order (PO) forms are not to be signed until all relevant information about the purchase requisition is completed. The following information must be documented on a PO form:

- a. Date
- b. Vendor/Source
- c. PO Number
- d. Ship To Address
- e. Quantity
- f. # of Units
- g. Description
- h. Unit Price
- i. Total Price
- j. Authorized Signature

5.4.3 MAINTENANCE REQUISITIONS

A Maintenance Requisition may be requested by PO and should be approved by the Clinical Director when a problem exists with MCHC property or non-medical equipment so that the problem will

be corrected. All PO's must be approved by the Department Head (if appropriate) and the Finance Director in addition to the Clinical Director.

5.5 LIMITS OF PURCHASING AUTHORITY

Staff members are limited in the amounts they can approve for making purchasing decisions. Many on-going and ordinary operating expenses are considered pre-approved via the passing of annual budgets and/or budget revisions. These budget approvals may also cover expenditures for anticipated and planned purchases. Other unanticipated and out-of-the-ordinary expenditures, however, must be controlled through limiting dollar authorities. The following dollar thresholds apply in such cases:

- a. Finance Director - \$0 to \$4,999
- b. Clinical Director - \$5,000 to \$20,000
- c. Board of Directors - \$20,001 & over

All expenditures over \$5,000 must be communicated to the Finance Committee and the Executive Committee.

5.6 DOCUMENTATION OF EFFORTS TO OBTAIN BEST PRICES

The following serves as a guideline for determining where to purchase a product or service:

- a. \$4,999 and under- judgment best price based on personal

b. \$5,000 & over - three written or on-line quotations obtained and documented. These must be communicated to Executive Committee and Finance Committee.

5.7 PURCHASE ORDERS

5.7.1 DOCUMENTATION REQUIREMENTS

The purchase order number should be entered on the appropriate line in the Purchase Order when approved by the Finance Director. The arithmetic of the purchase order should be verified as being correct by the Finance Department.

5.7.2 PROCESSING THE PURCHASE ORDER

Purchase orders shall be on forms approved by the Clinical Director. Completed and approved Purchase Orders are kept as back up for the expenditure by the Finance Department.

5.7.3 BLANKET PURCHASE ORDERS

Blanket purchase orders may be used when numerous orders for a specific product, group of products, or services are needed over a length of time from the same vendor. The establishment of a blanket order covering large quantities of goods may result in increased quantity discounts.

5.7.3.1 INITIATING A BLANKET PURCHASE ORDER

Requisitions for blanket purchase orders usually flow from the Department Head, through the Finance Director, and require the approval of the Clinical Director. To initiate a blanket purchase order, the person requesting a blanket purchase order must prepare a description of the purchasing terms and time period covered. Upon approval by the Clinical Director, copies of the blanket purchase orders are retained by the Finance Department.

5.7.3.2 REQUISITIONING GOODS/SERVICES COVERED BY A BLANKET PURCHASE ORDER

The Finance Department shall be notified by memo whenever a purchase or acquisition is made pursuant to a blanket PO. The notification should include the date, amount purchased, cost and vendor name. Any delivery receipts should be given to the Finance Department. The Finance Department shall keep track of all purchases in the blanket purchase order file.

5.7.3.3 MONTHLY CONTRACTS

Regular, monthly invoices can be paid on service contracts by reference to a blanket purchase order number. Such invoices are approved by the person responsible to ensure that the service has been satisfactorily performed.

5.8 RECEIVING AND INSPECTING GOODS

5.8.1 AUTHORIZATION TO RECEIVE GOODS

Department Heads or designates are authorized to receive goods for MCHC.

5.8.2 INSPECTION OF GOODS AND DOCUMENTING FULL AND PARTIAL DELIVERIES

The receiving individual will verify that all items listed on packing slips were received. Any discrepancies should be noted on the packing slip and the Finance Director notified. The receiving individual should sign or initial the packing slip and deliver the goods to the appropriate party. Any relevant documents (e.g. receiving documents or invoices) should then be forwarded to the Finance Department for processing.

5.8.3 DEFECTIVE GOODS

Damaged goods may not be readily apparent to the receiving individual. If such is the case, it is the responsibility of the end-user of the goods to report any defect or inefficiency with products to the Finance Director, who will then follow-up to correct the problem.

6.0 TRAVEL AND EXPENSE

6.1 AUTHORIZATION REQUIREMENTS

All travel by MCHC staff or consultants must be approved in

advance by the appropriate authority. MCHC classifies travel as "ordinary" if such travel is to one-day meetings or seminars, etc. Travel is classified as "out-of-the-ordinary", however, if it involves overnight lodging, airline reservations, etc. A Staff Travel Request Form (sample attached) must be fully completed by the traveling individual for any travel which is classified as "out-of-the-ordinary". Verbal approval for "ordinary" travel is acceptable.

6.2 OUT-OF-TOWN TRAVEL

6.2.1 PURPOSES FOR AND RESTRICTIONS

The purposes for which out-of-the-ordinary travel may be authorized include, but are not limited to: meetings with funding source staff; receiving technical advice or assistance; the training or development of staff/Board members; the earning of continuing education credits required of professional staff to maintain their professional standing; meeting with representatives of other similar agencies or programs to share information or solve common problems; other purposes which help meet the objectives and obligations of MCHC.

6.2.2 REIMBURSEMENT ALLOWANCES AND LIMITATIONS

Only reasonable and justifiable travel expenses are reimbursable. It is the responsibility of the traveler to be familiar with the maximum allowable reimbursement rates and the procedures for documenting expenses. Maximum allowable reimbursement will be established for each event by the Finance Director and/or Clinical Director. MCHC will not reimburse inadequately documented costs. Allowable costs include, but are not necessarily limited to:

- a. Actual lodging, plus meals and incidental expenses.

- b. Air, or auto mileage to destination.
- c. Bus, taxi, or auto rental necessary within the destination city.
- d. Workshop, conference, or other participating fees.

6.2.2.1 MILEAGE REIMBURSEMENT RATES FOR PERSONAL VEHICLES

Reimbursement for mileage for travel will be paid at the published Federal IRS rate per mile. The reimbursement rate will be adjusted annually on January 1st.

6.2.2.2 LODGING, MEALS, EXTENSION OF STAY

A reimbursement check will only be issued with the presence of a properly prepared and authorized Travel and Expense voucher as discussed earlier. Reimbursement of expenses will not be made for any period of time that an officially authorized traveler chooses to extend the length of stay beyond that reasonable required to complete the official business. Any plan to extend travel should be approved by the Clinical Director. Staff will not receive salary for time away from work that is not authorized. Family members will travel at their own expense.

6.2.2.3 AIR, RAIL, AND/OR LONG DISTANCE BUS FARES

Full cost of the fare shall be reimbursed by the agency, with

the limitation that the most economical fare shall be selected. In most cases, direct billing of the agency for fares is to be arranged for the purpose of minimizing cost. First Class travel will not be approved unless the difference in cost is paid by the employee.

6.2.2.4 LONG DISTANCE AUTO MILEAGE

The Finance Director may approve a request by a staff or consultant traveler to use a private vehicle for out-of-town travel. In such cases actual mileage shall be reimbursed at the approved rate. Approvals of private automobile use for out-of-town travel shall be granted where the associated mileage reimbursement is less than the cost of that would be incurred on available public air carriers or in those instances where no public carrier exists which can meet the specific time and location needs of the traveler.

6.2.2.5 LOCAL MILEAGE AND PARKING

Local mileage at the approved rate to and from the airport, bus or train station and related parking fees shall be reimbursed to the traveler as cost of the out-of-town travel. Such mileage shall be calculated from the office, or from the traveler's home, whichever is the least.

6.2.2.6 TAXI, BUS, AND OTHER TRANSPORTATION

Necessary travel within the locality visited will be reimbursed to the traveler, including the cost of taxi, airport van or limousine service, local bus or other transportation to and from lodging, meals, the places of meetings or workshops or offices visited as part of the business conducted.

6.2.2.7 VEHICLE RENTAL

The rental of a vehicle for staff or consultant use during an approved trip may be allowed, but only with advance approval of the Clinical Director. The Finance Director may approve such expense when it appears reasonable and cost-effective.

6.2.2.8 WORKSHOP AND/OR CONFERENCE FEES

Fees charged for registration to conferences, workshops, or meetings will be paid directly by MCHC or reimbursed to the traveler. Participants are encouraged to determine in advance what fees are required so that MCHC can directly pay these expenses.

6.2.4 TRAVEL ADVANCES

Advances for travel expenses are not normally granted, however, may be granted if such travel expense may not be met or create undue hardship to the traveler.

6.2.5 TRAVEL EXPENSE REPORTS

It is the responsibility of the traveler to submit a Travel and Miscellaneous Expense voucher itemizing expenses incurred during the trip. Itemized reports must be submitted on the official agency travel voucher form and shall identify the business purpose of the travel, detailed costs, and the type of expense. The report must be signed by the traveler, attesting to its accuracy and include, as attached, the following forms of documentation as applicable:

- a. Copies of airline, train, or bus tickets.
- b. Hotel bills and/or receipts.
- c. Receipts for any fees paid.
- d. Meal receipts.
- e. Receipts for taxis, airport vans, parking, etc..
- f. Other receipts as may be applicable.

6.2.6 ALLOCATION OF TRAVEL COSTS TO FUND SOURCES

It shall be the responsibility of the Clinical Director along with the Finance Director, to determine the appropriate funding source(s) to which travel costs will be allocated.

6.3 BUSINESS MEALS

In some instances, business is conducted during luncheons or other meals. Such business meal costs will be met if one of the following criterion are met:

- a. The business meal meeting has been formally scheduled by the Clinical Director and/or the Board of Directors.
- b. When the meal is approved as a scheduled part of training, workshop, conference, or meeting, it may be paid for directly by MCHC.

c. Staff and/or Board events which have been previously approved by the Board of Directors.

No meal expenses will be reimbursed without the standard expense documentation, or without approval of the Clinical Director.

7.0 AUDITS

7.1 PURPOSE OF THE AUDIT

An annual audit of MCHC must be conducted by independent and qualified auditors. The audit is performed primarily for the Board of Directors of MCHC. In arranging for the audit and receiving the auditor's report, the Board is exercising its primary responsibility for assuring the fiscal integrity of the organization. The Board and MCHC's staff should use the audited statement as a tool to review the financial position and activity of MCHC. The audit opinion and report on internal control (which is called the management letter) provide the Board with an outside, independent evaluation of the adequacy of MCHC's accounting policies, financial records, and system of internal control for safeguarding its assets and preparation of reliable financial information. The Board and staff should use these reports to correct any weaknesses noted by auditors in these areas.

Second, the audit is performed to meet the requirements of outside agencies, including funding sources, agencies providing financial support, and other organizations which have a fiscal or legal interest in MCHC.

Third, it should be noted that the audit is not to detect or uncover fraud although the auditors have a responsibility to disclose any fraud which comes to their attention as part of their audit activities.

7.2 SCOPE OF THE AUDIT

As a nonprofit organization receiving over \$100,000 (CHECK) a year in Federal awards and Federal grants under Section 330 of the Public Health Service Act, MCHC is required to have an annual audit in accordance with the Office of Management and Budget Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Organizations" (OMB A-133). An OMB A-133 audit is an organization-wide audit and is in lieu of specific Federal award audits. OMB A-133 is often referred to as the Single Audit Act. OMB A-133 does not limit the authority of any Federal agency Inspector General or other Federal official to make or contract for audits and evaluations.

7.2.1 COGNIZANT AGENCIES

The Department of Health and Human Services/Public Health Service (DHHS/PHS) is MCHC's assigned cognizant agency for purposes of OMB A-133 compliance and reporting. The cognizant agency is responsible to:

- a. Ensure audits are made and reports are received timely and in accordance with A-133.
- b. Provide technical assistance and/or advice and liaison to organizations and independent auditors.
- c. Obtain or perform quality reviews of selected non-Federal audits and provide results, when appropriate, to other interested organizations.
- d. Inform other affected, Federal, State, and local agencies and legal authorities of any reported illegal acts or irregularities.
- e. Advise organizations when audits and reports are found not to meet the requirements. If the organization does not take corrective action, recommendations for follow-up action are made to the organization and Federal awarding agencies.

- f. Refer major inadequacies or repetitive substandard performance of independent auditors to appropriate professional bodies for disciplinary action.
- g. Coordinate additional audits to build upon the A-133 audit.
- h. Ensure resolution of audit findings that effect programs of more than one agency.
- i. Seek the views of interested agencies before completing a coordinated audit program.
- j. Help coordinate the audit work and reporting responsibilities among independent public accounts, State auditors, and Federal auditors to achieve to most cost effective audit.

7.2.2 THE AUDIT REPORT

According to OMB Circular A-133 summary bulletin issued by the Department of Health and Human Services in August 1991, audits must be performed on an organization-wide basis and include all funds, whether private, public, direct or pass-through Federal or State funds, unless a program audit is allowable. The Audit and Audit Report must be completed within 90 days of the close of the fiscal year. Eleven schedules and reports must be prepared, as required, plus a complete set of financial statements. These are:

- a. Schedule of Federal Financial Assistance.
- b. Report of the Schedule of Federal Financial Assistance.
- c. Report on the Internal Control Structure in Accordance with Government Auditing Standards. This report must individually identify each internal accounting control and each control established to ensure compliance with laws and regulations that has a material impact on the financial statements (often called administrative controls).

d. Report on Internal Controls (Accounting and Administrative); Based on a Study and Evaluation Made as a Part of an Audit of the General Purpose Financial or Basic Financial Statements and the Additional Tests Required by the Single Audit Act (or A-133). This report must individually identify each internal accounting control and each administrative control that has a material impact on Federal Financial Assistance.

e. Compliance Report Based on an Audit of General Purpose or Basic Financial Statements Performed in Accordance with Government Auditing Standards.

f. Single Audit Opinion on Compliance with Specific Requirements Applicable to Major Federal Financial Assistance Programs (where applicable).

g. Single Audit Report on Compliance with the General Requirements Applicable to Major Federal Financial Assistance Programs (where applicable).

h. Single Audit Report on Compliance With Requirements Applicable to Non-major Federal Financial Assistance Program Transactions (where applicable).

i. Separate Communication of Immaterial Instances of Noncompliance (where applicable).

j. Management Letter (where applicable).

k. Separate Report on Fraud or Illegal Acts (where applicable).

7.2.3 THE AUDITOR'S REPORT

The auditor's report is the mechanism through which the auditor expresses an opinion or, if circumstances require, disclaims an opinion on the fairness presented in the financial statements relating to MCHC's present financial position, results of operation, and changes in financial position, in conformity with generally accepted accounting principles and the specific accounting principles applicable to the program.

Auditors shall use their best efforts to complete their report within 60 days of the close of the fiscal year.

Although certain circumstances may result in a departure from the standard report, the opinion format is normally classified according to one of the following four types:

a. An Unqualified Opinion states that financial statement present fairly the financial position, results of operations, and changes in financial position.

b. A Qualified Opinion states that "except for" or "subject to" certain items, which are referenced and explained in a separate paragraph, the financial statements present fairly the financial position, results of operations, and changes in financial position.

c. A Disclaimer of Opinion states that the auditor does no express an opinion regarding the fair presentation of the financial statements and explains, in a separate paragraph(s), all the substantive reasons for the disclaimer and any other reservations the auditor may have regarding the financial statements.

d. An Adverse Opinion states that the financial statements do not present fairly the financial position, results of operations, and changes in financial position.

7.3 THE AUDIT ENGAGEMENT

The two key components of engaging an audit firm are the selection of an auditor and the engagement letter. The engagement letter is the formal contract between the auditor and MCHC. It should be developed by the auditor and signed and retained by both parties prior to the commencement of any audit work. The engagement letter should be signed for each audit performed, regardless of whether the same firm performed the

previous audit.

7.4 INTERNAL PREPARATION FOR THE AUDIT

The fee for an audit is based upon the amount of time required by the auditor to complete the examination of the financial statements. The auditor's time and effort can be reduced by appropriate MCHC staff assistance and preparation of materials for the audit. Such assistance could include:

- a. Compiling all requested documentation as early as possible for review by the auditors.
- b. Arranging sufficient workspace, which is convenient to records and files and the personnel responsible for the files.
- c. Introducing audit staff to appropriate employees of MCHC.
- d. Ensuring that key staff will be present during the field work.
- e. Assisting the auditors in the preparation of work papers where appropriate.

7.5 THE MANAGEMENT LETTER

The management letter describes in reasonable detail the objectives and limitations of internal control and the auditor's evaluation, followed by appropriate descriptions of material weaknesses. The descriptions should indicate whether the weaknesses relate to procedures or to compliance with those procedures, and may also include recommendations for improvements, comments concerning corrective action taken or in process, or other comments appropriate in the circumstances.

7.6 DISTRIBUTION OF THE AUDIT REPORT AND MANAGEMENT LETTER

The audit is performed primarily for the Board of Directors: therefore, the auditors should formally present the audit report and management letter to the Board or a formally designated committee of the Board, such as the Finance Committee. Sufficient time should be allowed for the auditor to clarify any items on the financial statements, explain all comments and recommend actions, and respond to any questions from Board or staff members.

A draft Audit Report and Management Letter shall be reviewed first by the Finance Committee and the Final Audit Report and Management Letter shall be distributed as follows:

- a. The Board of Directors
- b. The Finance Committee
- c. State and Federal agencies as required

8.0 GRANTS ADMINISTRATION

To be inclusive, the entire section of the Public Health Service (PHS) Grants Policy manual (DHHS Publication No. OASH 94-50,000; Revised April 1, 1994) involving grants administration has been photocopied and incorporated into this section. What follows is Section 8 of the PHS Manual, pages 8-1 through 8-26:

CHECK WITH KAREN & DONNA

9.0 FINANCIAL MANAGEMENT

9.1 OVERVIEW OF FINANCIAL MANAGEMENT

The objective of a good financial management system is to ensure that organization funds, and funds available to the organization, are used efficiently and to their full potential. In addition to soliciting support funds, and adequate means of controlling MCHC's operations and expenditures must be in place. This entails not only controlling the policies and procedures that govern daily business transactions, but also how MCHC's funds are used to provide services to the community in the short and long term. Essentially, there are three controls utilized to safeguard and monitor the efficient use of funds: 1) the budget; 2) the cash forecast; and, 3) quantitative analysis of operations.

9.2 THE BUDGET

9.2.1 FREQUENCY OF THE BUDGETING PROCESS

MCHC must undergo the budgeting process on a yearly basis, with the budget being revised every quarter, or as deemed to be necessary. In addition, the budget and actual expenses as well as projections shall be reviewed every quarter or more frequently if necessary by the Finance Committee and the Executive Committee. The Finance Committee shall receive monthly, and may request at any time, Budget to Actual, P&L and Balance Sheets from the Finance Department and they shall be provided as requested. This should allow flexibility to adapt to sudden changes that may occur as a result of grant activity, donations or other reasons.

9.2.2 REVENUE/EXPENSE BUDGETS AND GRANT BUDGETS

MCHC is responsible for preparing two kinds of budgets - revenue/expense budgets and grant budgets. Revenue/expense budgets are simply expectations of the organization's, or program's, revenues and expenses. Grant budgets, conversely, are budgets that define expectations about how funds from a particular source are to be used. It should be noted that revenue/expense budgets and grant budgets do not necessarily operate on the same fiscal year schedule; therefore, budgets should be prepared accordingly. Monthly financial statements should document grant activity as well as normal operating income and expenses.

9.2.3 AUTHORIZING AND INITIATING THE BUDGET

Generally, budgets are initiated and prepared by the Clinical Director, Finance Director, and Department Heads, who base budget expectations upon a variety of factors, including expected revenues and costs, changes in grant activity, expansion, etc.. All relevant staff members should have significant input into the development of the budget. All budgets must have the approval of the Board of Directors.

9.2.4 BUDGETING BY COST CENTER

Budgets must be oriented toward tracking the costs/revenues of individual programs or departments. By analyzing actual costs/revenues associated with individual programs or departments, the operating efficiency of each cost center can be evaluated and any problems can be readily located and resolved. The cost center budget also provides a control point by supplying a standard by which performance and operations can be compared.

9.2.5 ACCOUNTABILITY TO THE BUDGET

It is the responsibility of the Clinical Director to conform, on a line item basis, to the standards established by the budgets. It is the responsibility of the Finance Director, in consultation with Department Heads to monitor the effectiveness of the operating budgets, and to communicate potential significant variances from the budget to the Clinical Director, the Finance Committee, and other relevant parties.

"Significant" is determined to be actual spending that will result in an increase greater than 15% over the budgeted cost per line item. On a quarterly basis, the Finance Director and/or Clinical Director will report to the Finance Committee and explain any line items that are 15% or more over budget for the fiscal year to date. Any overspending of the total budget is "significant". Variances in the total budget should be communicated to the Board of Directors through the Finance Committee. The Board of Directors must authorize spending in excess of the original budget in cases where overspending of the total budget is "significant".

9.3 CASH MANAGEMENT

9.3.1 MAINTENANCE OF ADEQUATE CASH BALANCES

It is the responsibility of the Finance Director to ensure that adequate balances are maintained in bank accounts to meet the cash obligations of MCHC. This requires continuous evaluation of the agency's cash flows, and prompt attention to upcoming cash needs.

9.3.2 INVESTMENT OF IDLE CASH FUNDS

The Finance Director may, with approval of the Board of Directors, invest excess cash into interest bearing investment instruments. Because of the regulations governing investment of idle funds derived from grant monies, particular attention should be paid to ensure compliance with specific grant regulations. At no time should money be invested in investment instruments bearing a risk greater than that of United States Treasury Bills. Invested funds should be kept liquid, and investing activities should be short-term oriented. Generally, invested funds should not be committed for a time period greater than 90 days.

9.4 FINANCIAL ANALYSIS

Analysis is necessary to evaluate and track the financial status of the agency. Because MCHC is a dynamic entity, analysis should be conducted on a continual basis, with a formal analysis being conducted every month by the Finance Director. In addition to a cash flow analysis, this should include an objective analysis of financial information and ratios relevant to MCHC's financial status. The possible perceptions and interpretations of "financial status" of the Board of Directors, credit institutions, governing agencies, etc., should also be

considered and incorporated into the analysis. An appreciation for the future, upcoming changes in internal and external conditions (economic, regulatory, etc.) and their effects should also be recognized when analyzing MCHC's financial position.

Standards of comparison should be made part of the financial analysis process. Standards of comparison can include historical performance, or comparisons to other similar health centers or programs. Potential weaknesses and improvements/declines in MCHC's financial position should be promptly reported to the Clinical Director, Executive Committee, and Board of Directors.

10.0 BANKING POLICIES AND PROCEDURES

10.1 BANK ACCOUNT STRUCTURE AND PURPOSE

MCHC utilizes multiple bank accounts. The following describes each of the accounts:

a. The GENERAL OPERATING ACCOUNT is a checking account at Mascoma Savings Bank, Canaan, NH. This account is used for receiving electronic deposits from the State of NH and Medicare. This account also receives credit card deposits. Statements are generated on the last day of each month. The General Operating Account may be used as part of a Sweep Account system for overnight investment.

b. The PAYROLL ACCOUNT is an account at Mascoma Bank. This account is used to fund the payroll and tax withdraws for the bi-weekly payroll. Statements are generated on the last day of each month.

c. The BANK CARD ACCOUNT is an account at Mascoma Bank used to fund a debit card for use of MCHC. Statements are generated on the last day of each month.

d. The CAPITAL FUND ACCOUNT, if needed, is an account at Mascoma Bank. This account is used solely for the payment of mortgage payments to Rural Development. Funds are deposited into this account from the general account on a monthly basis. Funds are withdrawn from this account electronically by Rural Development. Statements are generated on the last day of each month.

e. The SAVINGS ACCOUNT is a savings account with Mascoma Bank, Canaan, NH. It is used to hold funds that are temporarily not to be used in operations or are designated for a particular purpose. Funds are deposited and withdrawn as approved. Statements are generated on a quarterly basis.

10.2 AUTHORIZATION TO PERFORM BANKING TRANSACTIONS

Only individuals with proper authorization may perform a banking transaction. Except for the signing of accounts payable and payroll checks, the following individuals are designated to perform any other banking transactions:

- a. Clinical Director
- b. Finance Director
- c. Chairman of the Board of Directors
- d. Vice Chairman of the Board of Directors
- e. Treasurer

- f. Bookkeeping - limited to making deposits

MCHC may utilize a "dual signature required" system for all checks, with the exception of payroll checks generated by the payroll service. Payroll through the payroll service shall be signed electronically by the Treasurer. Any changes in check-signing authority must be approved by the Board of Directors. The following individuals currently have check-signing authority:

- a. Checking Account - Board Chair, Vice Chair & Treasurer
- b. Payroll (Manual) - Treasurer and Clinical Director
- c. Bank Card Account - Treasurer and Clinical Director

Note that individuals may use the bankcard as authorized by policy.

- d. Savings Account - Board Chair, Vice Chair and Treasurer
- e. Capital Account - Board Chair, Vice Chair, Treasurer, or Clinical Director

10.3 AUTHORIZATION FOR, AND USE OF, CREDIT

MCHC may occasionally utilize a line-of-credit vehicle. The Clinical Director and Finance Director are authorized to draw on the line of credit as needed for daily operations as authorized by the Board.

10.3.1 AUTHORIZATION AND USE OF CREDIT CARDS

MCHC maintains an account that funds a secured debit/credit card

with a national credit card affiliation. The Clinical Director, Operations Director and Finance Director are authorized to charge expenses on this account subject to their normal purchasing authority. The credit card is to be used when normal methods of payment are unavailable or impractical such as:

a. Purchasing materials from a vendor that is unable to extend credit terms and the agency cash position is insufficient for prepayment or payment on delivery.

b. Travel and conference expenses for the Clinical Director, Board members, and MCHC staff. The Clinical Director may grant temporary credit card authorization to employees of MCHC on a case by case basis for travel expenses or other expenses as necessary if in the opinion of the Clinical Director, incurring these expenses and later being reimbursed, would present a financial hardship to the employee or if needed by MCHC because of exigency or ease of ordering. Proper documentation of expenses is required for all credit card purchases.

10.4 STOP PAYMENTS AND STALE DATING

Occasionally, the need may arise to stop payment on a check. The Accountant or Finance Director may call the bank to order the stop payment. The bank will request that a stop payment form be filled out. Upon receipt of the form, the Accountant or Finance Director will complete and sign the form and take steps to ensure that the form is returned to the bank. Appropriate documentation in the Accounts Payable system must be completed.

After six months, a check can be considered stale dated. At that time, appropriate documentation in the Accounts Payable system is completed. Any payroll checks issued prior to November 1st and not presented to MCHC's bank within 90 days of November 1st, or any checks to vendors not presented by the vendor within five years of issuance shall be reported to the State of New Hampshire as unclaimed property.

10.5 DEPOSITS

It is the policy of MCHC that any revenues derived from operations be deposited into the general operating account on at least a daily basis, unless the amount received is less than \$100.

11.0 FRAUD POLICY

11.1 SCOPE

This policy applies to any fraud or suspected fraud involving employees, officers or directors, as well as members, vendors, consultants, contractors, funding sources and/or any other parties with a business relationship with MCHC. Any investigative activity required will be conducted without regard to the suspected wrongdoer's length of service, position/title, or relationship with MCHC.

11.2 POLICY

Management is responsible for the detection and prevention of fraud, misappropriations, and other irregularities. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team will be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication or irregularity.

Any fraud that is detected or suspected must be reported immediately to the individual's supervisor, or alternatively, to the Clinical Director, Finance Committee or Executive Committee if more appropriate.

11.3 ACTIONS CONSTITUTING FRAUD

The terms fraud, misappropriation, and other financial irregularities refer to, but are not limited to:

1. Any dishonest or fraudulent act
2. Forgery or alteration of any document or account belonging to MCHC.
3. Forgery or alteration of a check, bank draft, or any other financial instrument
4. Misappropriation of funds, securities, supplies, equipment, or other assets of MCHC.
5. Impropriety in the handling or reporting of money, credit card use, or financial transactions
6. Disclosing confidential and proprietary information to outside parties
7. Accepting or seeking anything of material value from contractors, vendors, or persons providing goods or services to MCHC. Exception: gifts less than \$50.00 in value
8. Destruction, removal or inappropriate use of records, furniture, fixtures, and equipment
9. Any similar or related irregularity

11.4 OTHER IRREGULARITIES

Irregularities concerning an employee's moral, ethical or behavioral conduct should be resolved by the employee's supervisor. If there is a question as to whether an action constitutes fraud, contact the Clinical Director.

11.5 INVESTIGATION RESPONSIBILITIES

The Executive Committee has the primary responsibility for the investigation of all suspected fraudulent acts as defined in this policy. The Executive Committee may utilize whatever internal and/or external resources it considers necessary in conducting an investigation. If an investigation substantiates that fraudulent activities have occurred, the Executive Committee will issue reports to appropriate designated personnel and to the MCHC Board of Directors as appropriate. Decisions to prosecute or refer the examination results to the appropriate law enforcement and/or regulatory agencies for independent investigation will be made in conjunction with legal counsel, the Clinical Director and the Board of Directors who will decide the final disposition of the case.

If suspected fraud or other wrong doing involves programs funded in whole or in part with federal funds, additional responsibilities, such as special reporting and disclosure to the awarding agency, may apply to the organization. It is the policy of MCHC to fully comply with all additional reporting, disclosure and other requirements pertaining to suspected acts of fraud as described in award disclosures.

11.6 AUTHORITY FOR INVESTIGATION OF SUSPECTED FRAUD

Members of the Executive Committee will have:

1. Free and unrestricted access to all MCHC records and premises, whether owned or rented: and
2. The authority to examine, copy, and/or remove all or any portion of the contents of files, desks, cabinets, and other storage facilities on the premises without prior knowledge or consent of any individual who may use or have custody of any such items or facilities when it is within the scope of their investigations.

11.7 REPORTING PROCEDURES

Great care must be taken in the investigation of suspected improprieties or irregularities so as to avoid mistaken accusations or alerting suspected individuals that an investigation is under way.

An employee who discovers or suspects fraudulent activity will immediately contact his/her supervisor, or, in the alternative, to the Clinical Director or the Chair of the Executive Committee. The employee or other complainant may remain anonymous. All inquiries concerning the activity under investigation from the suspected individual(s), his or her attorney or representative(s), or any other inquirer should be directed to the Clinical Director or the Executive Committee. No information concerning the status of an investigation will be given out. The proper response to any inquiry is "I am not at liberty to discuss this matter," Under no circumstances should any reference be made to "the allegation", "the crime", "the fraud", "the forgery", "the misappropriation" or any other specific reference.

The reporting individual should be informed of the following:

1. Do not contact the suspected individual in an effort to determine facts or demand restitution.
2. Do not discuss the case, facts, suspicions, or allegations with anyone unless specifically asked to do so by the MCHC legal counsel, the Clinical Director, or the Executive Committee.