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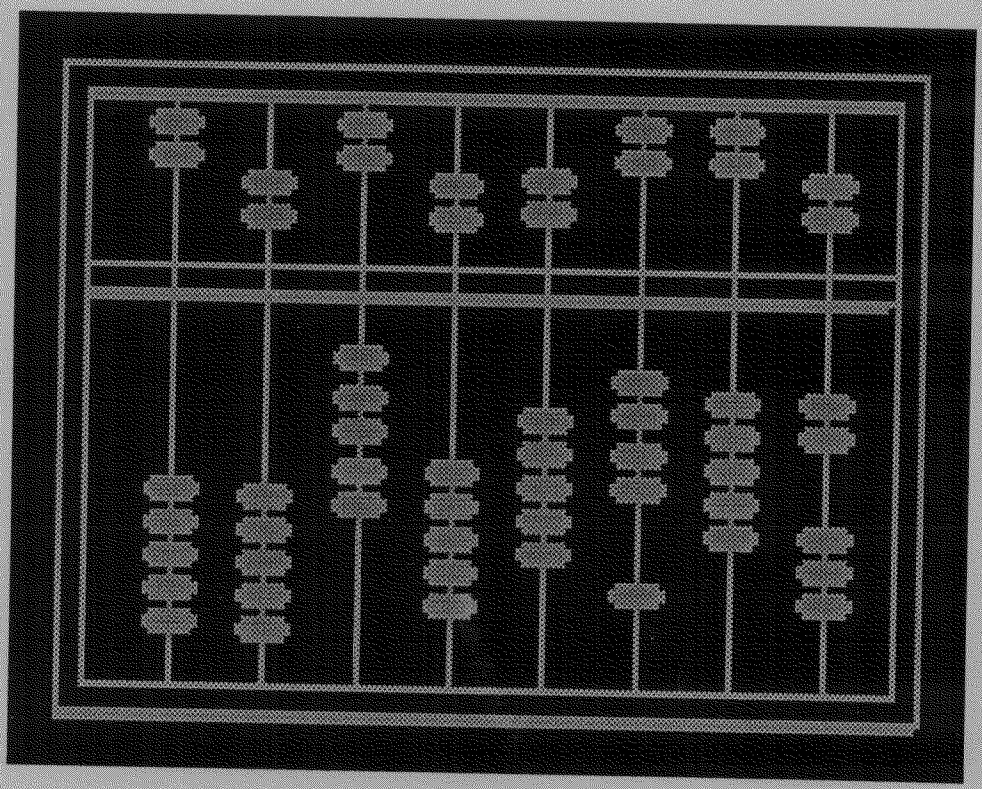
United States
Department of
Agriculture

Extension
Service

Cooperative
Management
Staff

Administrative Handbook for Cooperative Extension Work

Chapter III, FINANCIAL OPERATIONS



The Extension Service is an agency of the
United States Department of Agriculture and
the Federal Partner in the Cooperative Extension System.

CHAPTER III

FINANCIAL OPERATIONS

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Exhibits

1. 7 CFR 3015
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4. OMB Circular A-21
5. SMARTLINK II User's Guide
6. Form CFD 2103
7. Letter of Authorization
8. Standard Form 1199A

CHAPTER III

FINANCIAL OPERATIONS

SECTION A - INTRODUCTION AND DEFINITIONS

This chapter covers the financial regulations and requirements relating to Extension programs carried out by the State Cooperative Extension Service and the 1890 Land-Grant Institutions and Tuskegee University. Unless otherwise indicated, this chapter is consistent with relevant policy and principles stated in OMB Circulars A-110, "Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations," and A-21, "Cost Principles for Educational Institutions," as revised, 58 Fed. Reg. 39,996 (July 26, 1993), and 7 CFR Parts 3015, "Uniform Federal Assistance Regulations," 3017, "Governmentwide Debarment and Suspension (Nonprocurement) and Governmentwide Requirements for Drug-Free Workplace (Grants)," 3018, "New Restrictions on Lobbying," and 3051, "Audits of Higher Education and Other Nonprofit Institutions."

1. 1890 Administrator - Extension Administrator at the 1890 Land-Grant Institutions and Tuskegee University

2. 1890 State Extension Service - The Extension Service of the 16 designated 1890 Land-Grant Institutions and Tuskegee University.

3. Administrator - The Administrator for ES, USDA.

4. Agriculture and Food Act of 1981 - The Agriculture and Food Act of 1981, Public Law 97-98.

5. Carry-over Funds - Federal funds remaining unobligated by the Institution as of September 30 and available for expenditure in a subsequent fiscal year.

6. Cooperative Extension Funds - Funds available from all sources and expended by the States, Puerto Rico, the District of Columbia, Guam, Virgin Islands, American Samoa, Micronesia, and the Northern Mariana Islands for Extension programs.

7. Cost Share Funds - Funds available to the States from non-Federal sources to meet specific cost-share requirements of cooperative agreements and other projects of mutual interest.

8. County Funds - Funds appropriated by county, city, or other local governing bodies from tax sources for Extension work.

9. Department - The United States Department of Agriculture.

10. Director - The Extension Directors in the 50 States, Puerto Rico, District of Columbia, Guam, the Virgin Islands, American Samoa, Micronesia, and the Northern Mariana Islands.

11. District of Columbia Public Postsecondary Education Reorganization Act - Section 208(b) of Public Law 93-471 established the University of the District of Columbia as an 1862 Land-Grant University.

12. Extension Service - The Extension Service, (ES), USDA.

13. FACT Act - The Food, Agriculture, Conservation, and Trade Act of 1990, Public Law 101-624.

14. Federal Funds - Funds appropriated by Congress under provisions of the Smith-Lever Act, the District of Columbia Public Postsecondary Education Act, Title V of the Rural Development Act of 1972, the Food and Agriculture Act of 1977, the Agriculture and Food Act of 1981, and other Federal sources.

15. Fiscal Year - A period of 12 months from October 1 through September 30.

16. Food and Agriculture Act of 1977 - The Food and Agriculture Act of 1977, Public Law 95-113. Section 1444 of this Act authorizes appropriations for Extension programs at 1890 Land-Grant Institutions and Tuskegee University.

17. Food and Security Act of 1985 - The Food Security Act of 1985, Public Law 99-198.

18. Letter of Authorization - Mechanism used to make Federally allocated funds available to recipients through the Payment Management System.

19. Matching Funds - Funds available to the States from non-Federal sources to meet specific matching provisions of Section 3(d) of the Smith-Lever Act or any other Extension administered projects. Unlike "offset funds" defined herein, "matching funds" may be used only for the specific projects for which the matching Federal funds are provided.

20. Non-Offset Funds - Funds available and expended by States for Cooperative Extension work from any non-Federal source which are in excess of the offsetting requirements.

21. Non-Tax Funds - Funds contributed from non-government organizations, individuals, etc., for Extension work.

22. Offset Funds - Funds made available to the States from non-Federal sources to meet specific offset requirements of Section 3(b) & (c) of the Smith-Lever Act and Section 208 of the District of Columbia Public Postsecondary Education Reorganization Act. Unlike "matching funds" defined herein, these "offset" funds are not limited in application to a specific program, but may be used for any approved Extension project.

23. Payment Management System - U.S. Department of Health and Human Services system for disbursing funds authorized via the Letter of Authorization to recipient organizations.

24. Renewable Resources Extension Act - The Renewable Resources Extension Act of 1978, Public Law 95-306, as amended (16 U.S.C. 1671, et seq.).

25. Rural Development Act - The Rural Development Act of 1972, Public Law 92-419.

26. Smith-Lever Act - The Act of May 8, 1914, as amended (7 U.S.C. 341, et. seq.).

27. Special Project Funds - Funds made available to the States on the basis of approved project proposals from Smith-Lever 3(b) special need funds, Smith Lever 3(d) funds, or Extension Service Administrative funds.

28. State Cooperative Extension Service - The Cooperative Extension Service (CES) of the designated 1862 Land-Grant Institutions in the 50 States, Puerto Rico, Guam, the Virgin Islands, the District of Columbia, American Samoa, Micronesia, and the Northern Mariana Islands.

29. State Extension Service - Includes both the State Cooperative Extension Service and the 1890 State Extension Service.

30. State Funds - Funds appropriated by State legislatures, either to institutions for use in Extension work or direct to the State Extension Service.

SECTION B - AUTHORITY

The basic authorities for allocating Federal funds to the States are contained in the Smith-Lever Act, the Renewable Resources Extension Act, District of Columbia

Postsecondary Education Reorganization Act, the Food and Agriculture Act of 1977, the Agriculture and Food Act of 1981, the Food Security Act of 1985, and the FACT Act. In addition, the following documents have a direct bearing on the allocation and expenditure of Federal funds for Extension programs:

1. Memoranda of understanding between the Department and the 1862 Land-Grant Institutions.

2. Memoranda of understanding between the Department and the 1890 Land-Grant Institutions.

3. Single project agreements between the State Cooperative Extension Service and the Extension Service.

4. Plans of work submitted by the State Extension Services and approved by the Administrator for Extension Service.

5. Annual budgets prepared by the State Extension Services showing proposed use of funds available to the State.

6. Annual financial report showing funds expended for Extension work.

Chapters I and II of the Handbook also provide information on some of these documents.

SECTION C-RESPONSIBILITY

This section covers the general responsibilities of the Department and the States in the conduct of State Extension programs.

1. USDA

   The Department of Agriculture is responsible for the administration of the Federal Acts affecting State Extension Programs. Section 9 of the Smith-Lever Act provides authorization for the Secretary of Agriculture to make such rules and regulations as may be necessary for carrying out the provisions of the Act. The Secretary has delegated to the Administrator of the ES the responsibility for administration of the Smith-Lever Act and pertinent sections of other Federal Acts authorizing Extension work. ES receives such amounts as Congress determines for administration, technical, and other services, and for coordinating the work of the State Extension Services.

2. States

The Smith-Lever Act provides appropriations to institutions designated under the First Morrill Act, and such appropriations under the Act shall be administered by the Land-Grant college or colleges as the legislature of each State may direct. The First Morrill Act provided that each State shall, by action of its legislature, assent to the provisions of the Act. As a result, each of the States had by its legislative action, designated the college which will administer the Cooperative Extension program in cooperation with the Department, and the official in the State who is authorized to receive funds appropriated by Congress in furtherance of Cooperative Extension work. Any change in the designated payee should be initiated by the State.

The Memoranda of Understanding between the 1862 Land-Grant Institutions and the Department for Cooperative Extension work provide that the Land-Grant Institutions organize and maintain a definite and distinct administrative division for the management and conduct of all Cooperative Extension work with a Director selected by the institution and satisfactory to the Secretary of Agriculture and administer, through such offices, any and all funds received for such work from appropriations made by Congress or the State legislature. The 1862 Land-Grant Institution and the Department mutually agree that, subject to the approval of the president of the Land-Grant Institution and the Secretary of Agriculture (or their duly appointed representatives), Cooperative Extension work in the State involving the use of Federal funds shall be planned under the joint supervision of the Director of the State Cooperative Extension Service and the Administrator of the Extension Service; and that approved plans for such Cooperative Extension work in the State shall be carried out in accordance with the terms of a project agreement.

The Food and Agriculture Act of 1977 provides that appropriations under Section 1444 of the Act shall be administered in the 1890 Land-Grant Institutions. The Act (7 U.S.C. 3221, as amended) requires that the Institutions designate an officer who is authorized to receive funds appropriated by Congress in furtherance of Extension work.

The Memoranda of Understanding entered between the 1890 Land-Grant Institutions and the Department provide that the Land-Grant Institution will maintain a definite and distinct administrative office for the management and conduct of Extension work with an Administrator selected by the institution and satisfactory to the Secretary of Agriculture and administer through such offices any and all funds received to carry out the Extension work. The 1890 Land-Grant Institutions and the Department mutually agree that, subject to the approval of the President of the 1890 Land-Grant Institution and the Secretary of Agriculture (or their duly appointed representatives), Extension work in the State involving the use of Federal funds shall be planned under the joint supervision of the 1890

Administrator and the Administrator for Extension Service.

The 1862 and the 1890 Land-Grant Institutions mutually agree to develop a comprehensive program of State Extension work, and to mutually develop a 4-year plan of work and annual updates that will be submitted to ES for review and approval by the Administrator for ES. The 1862 and 1890 Institutions agree that approved plans for Extension work in the State shall be carried out in accordance with terms of their project agreement. The administrative responsibility of the State Extension Director and the 1890 Administrator includes authority to cooperate with the Department in formulating the Extension program of the State; supervise and authorize all expenditures under their respective approved budgets; select and maintain a competent staff; plan and make arrangements for carrying out their program components; and maintain conditions and relationships favorable to a productive Extension program.

SECTION D - DESCRIPTION OF PROGRAM FUNDS AND BASIS OF ALLOCATION

1. General

The Extension Service serves as the educational arm of USDA and is responsible for carrying out educational programs in cooperation with the State Extension Services. Federal funds are allocated to these institutions in accordance with provisions of various Federal Acts (including those of other Federal agencies) for Extension work in the Base Programs and National Initiatives.

2. Smith-Lever

These funds are allocated to the State Cooperative Extension Services in order to aid in diffusing among the people of the United States useful and practical information on subjects relating to Agriculture, Natural Resources, Food and Nutrition, Family Education, Rural Development, Energy, and 4-H Youth Development.

Funds appropriated under this Act are distributed primarily on the basis of farm and rural population, and to some extent on the basis of special problems and needs. Once the Department's appropriation bill for a fiscal year is signed by the President, each State is advised of the amount to which it is entitled under the provisions of the Act. Each State is also advised of the offsetting requirements and any other specific requirements applicable to the funds for the year. Specific sections of the Act are explained below:

a. Section 3(b)(1)

As a result of the amendment of October 5, 1962, Public Law 87-749, the base amount of authorized appropriations to which each State Cooperative Extension is entitled under formula distribution was frozen at the fiscal year 1962 allocation level. The offsetting requirements in existence in fiscal year 1962 remained in effect for the base amount. The special need funds remain available for allocation as determined by the Secretary (or a duly appointed representative).

Special needs funds are allocated to a State Cooperative Extension Service to fulfill a purpose or overcome a condition peculiar to the State, as compared to the country as a whole, or for a purpose not normally a part of the continuing extension program. These funds are restricted to meet the needs which cannot be met with funds provided under formula or from regularly appropriated State and County funds. Since it is necessary that ES be assured that the funds are allocated for a purpose or to meet a problem which cannot be met with regular formula funds, it is necessary that the use of all funds available to the State be closely examined to determine if they are in fact being used directly in support of Cooperative Extension work.

If it is apparent that the funds appropriated within the State, which logically could be used to meet the special need purpose are budgeted for purposes which would not qualify the expenditures as offset to the Federal funds, it can generally be assumed that no special need exists.

b. Section 3(b)(2)

Authorizes appropriations for the College of the Virgin Islands, the University of Guam, and the Northern Marianas College. Also, these schools share as States in the distribution of Section 3(c)(2) funds.

c. Section 3(c)

Provides for distribution of any funds appropriated in excess of the base amount established in Section 3(b)(1). Section (3)(c)(1) provides that 4 percent of any such additional appropriation shall be allotted to ES for administrative, technical, and other services, and for coordinating the Extension work of the Department and the States. Section 3(c)(2) provides that the balance of the funds be distributed on the basis of 20 percent to the States in equal proportion; 40 percent to the States on the basis of rural population; and 40 percent to the States on the basis of farm population.

d. Section 3(d)

Authorizes appropriations of funds in addition to those available under Section 3(b) and 3(c) of the Act. Funds appropriated under this section are earmarked for specific purposes and must be used for these purposes if accepted by the States. For each Smith-Lever 3(d) program, States are provided with policy guidelines which describe the purpose for which the funds can be used. The 3(d) funds are either allocated by formula or special projects (see Section D.5, Special Project Funds).

e. Section 4

Requires CES officials to submit annual plans of work to the Secretary for approval before the funds are to be paid to the States. This section also provides that the funds are to be paid to the States in equal quarterly payments and that annual financial reports shall be required on or about the first day of April of each year.

3. District of Columbia Public Postsecondary Education Reorganization Act

Authorizes appropriations for cooperative extension work at the University of the District of Columbia. Section 208(d) of the Act provides that 4 percent of the amount appropriated be allotted to ES for administrative, technical, and other services. The balance is available to the University of the District of Columbia and must be matched. The D.C. Extension Service is not eligible to receive Smith-Lever funds.

4. The Food and Agriculture Act of 1977

Section 1444 of the Food and Agriculture Act of 1977, as amended, authorizes appropriations to the 1890 Land-Grant Institutions and Tuskegee University to support continuing agricultural and forestry extension work. Funds shall be appropriated under Section 1444 each fiscal year in an amount equal to not less than 6 percent of all funds appropriated pursuant to the Smith-Lever Act and related acts pertaining to cooperative extension work to be carried out at the Land-Grant Institutions identified in the Smith-Lever Act. These funds are distributed as follows:

a. Section 1444(b)(1)

Provides that an amount equal to the funds allocated to the 1890 institutions in fiscal year 1978 under Section 3(d) of the Smith-Lever Act shall serve as the base amount for distribution of any funds appropriated under Section 1444 and shall be distributed to 1890 institutions in the same proportion as the 1978 funds were distributed. Funds appropriated in excess of the base amount are

subject to the provisions of Section 1444(b)(2).

b. Section 1444(b)(2)

Provides for distribution of any funds appropriated in excess of the base amount provided under Section 1444 (b)(1). Section 1444 (b)(2)(A) provides that four percent of any additional appropriation shall be allotted to the ES for administrative, technical, and other services, and for coordinating the Extension work of the Department and the States. Section 1444(b)(2)(B) provides that the remainder of any additional funds be distributed to 1890 institutions as follows: 20 percent in equal proportions; 40 percent on the basis of rural population; and 40 percent on the basis of farm population.

For purposes of this section, Alabama A&M University and Tuskegee University are treated as if they existed in separate States.

5. Special Project Funds

Based on approved proposals, funds are provided periodically to CES's under Section 3(b)(1) of the Smith-Lever Act to finance special projects. The projects are primarily aimed at solving specific problems of national concern or for developing new teaching methods that have multi-State significance.

Funds for special projects may also be provided under Section 3(c) of the Smith-Lever Act (out of the four percent designated for Federal administration), Section 3(d) of the Smith-Lever Act funds for special interest and national initiatives, Section 1444 (b)(2)(A) of the Food and Agriculture Act of 1977 (out of the 4 percent designated for Federal administration), from Congressional and other Federally authorized legislation, or as reimbursements from other government agencies.

The funding mechanism for special projects is the **Application Submission Package.** Applications should be submitted in response to program solicitation announcements which will include all programmatic and administrative requirements. The Package includes the following documents:

PROJECT APPLICATION TITLE PAGE which must accompany all applications and must be signed by the Director/Administrator. Note: signature by someone other than the Director/ Administrator may invalidate the proposal.

BUDGET FORM (including instructions). Amounts on this form should be itemized and should coincide with the amounts stipulated in the narrative part of the proposal.

CERTIFICATION REGARDING DEBARMENT, SUSPENSION AND OTHER RESPONSIBILITY MATTERS (PRIMARY) -- Form AD-1047. This forms certifies that the institution has not been debarred or suspended from doing business with the Federal government. It can be certified by the Director or Administrator of the program.

CERTIFICATION REGARDING DEBARMENT, SUSPENSION, INELIGIBILITY AND VOLUNTARY EXCLUSION (LOWER TIER TRANSACTIONS) -- Form AD-1048. This form certifies that any contractor you employ has not been debarred or suspended from doing work with the Federal government. This form must be certified by the contractor you use and maintained in the official files of the project. Note: this form should not be submitted to ES-USDA.

CERTIFICATION REGARDING DRUG-FREE WORKPLACE REQUIREMENTS (GRANTS)-ALTERNATIVE I FOR GRANTEES OTHER THAN INDIVIDUALS -- Form AD-1049. This form is used to certify that there is an official drug-free workplace program in place at the University.

CERTIFICATION/DISCLOSURE REQUIREMENT RELATED TO LOBBYING AND CERTIFICATION REGARDING LOBBYING. This form is required when the project award amount is at least $100,000. It certifies that Federal funds have not been used to lobby in support of the project. If other funds associated with the project will be used for lobbying in support of this project, a Form SF-LLL, Disclosure Form to Report Lobbying" must be completed.

CERTIFICATION OF OFFSET TO FEDERAL SMITH-LEVER FUNDS. This form is to be used with Special Needs Applications only. It certifies that the State has met the matching requirements of the project.

SPECIAL PROVISIONS. These provisions are used to supplement this chapter and include applicable provisions of Title 7 of the Code of Federal Regulations (CFR), Sections 3015, 3017, and 3018, as amended.

SECTION E - RESERVED

SECTION F - BUDGETS

1. General

A budget is required to support the allocation of Federal and other funds made available to the States to carry out Extension programs. It is a document which relates directly to plans of work and financial reports. This document serves as a basis for preparation of financial information needed to properly administer and

coordinate the Extension programs.

As soon as the appropriation act is passed, the States will be informed as to the fiscal year allocation and the specific date for submitting the budget. Ordinarily, congressional intent regarding the activities of the State Extension Services is reflected in the annual appropriation act for the Department of Agriculture. However, more specific expressions of congressional intent as to projects or activities may appear in the House, Senate, or conference reports; hearings before the Committee on Appropriations; or in debate presented in the Congressional Record. Any such expressions of intent should be carefully taken into consideration in the budgeting and use of Federal funds appropriated for the Extension program. Before budgeting or expending Federal or offset funds for any activity, the Land-Grant Institution should first determine that such activity is in furtherance of the plans of work approved by Extension and supported by annual updates to the plans of work.

2. Annual Budgets

The Cooperative Extension Budget Statement provides for the budgeting of all funds appropriated under the Smith-Lever Act. Funds are received from State, county, non-tax, and other Federal agencies for Cooperative Extension work should also be reported on this form. Any funds from other Federal agencies that are authorized under the ES letter of authorization also require a separate budget. These budgets should also be included as a part of the plan of work or project proposals.

The 1890 Budget Statement provides for the budgeting of Federal and non-Federal funds allocated to the 1890 Institutions for Extension work.

3. Revised Budgets

Each year, after April 1, there is an opportunity for each State to submit a revised budget reflecting adjustments based on expenditures up to the time of the revision and projecting estimated costs for the balance of the year. If Federal funds budgeted as "reserve" in the original budget are used or there is at least a variance of 10 percent of the total budget in any one object class, then a revised budget use should be submitted.

Preparation of the revised budget is essentially the same as for the original submission and includes distribution of any unobligated balances that remained on September 30 of the previous fiscal year. After approval, the revised budget supersedes the budget submitted at the beginning of the year. The revised budget is due on or about June 15, or as instructed by the ES.

In lieu of a budget revision, a letter of detailed explanation may be submitted. Upon approval the letter is made a part of the approved budget.

SECTION G - MATCHING OF FEDERAL FUNDS

1. Matching Requirement Provisions of the Acts

a. General

The Smith-Lever Act and the District of Columbia Public Postsecondary Education Reorganization Act require that the State Cooperative Extension Services provide from non-Federal funds a certain amount to match the Federal allocation. Section 1444 of the Food and Agriculture Act of 1977 does not require matching by the 1890 Institutions.

b. Smith-Lever

(1) Section 3(b)(1) - requires that the States continue to match funds in an amount equal to match requirements for FY 1962.

(2) Section 3(b)(2) - requires that Federal funds allocated to the Virgin Islands and Guam after FY 1972 must be matched on a dollar for dollar basis.

(Pursuant to Section 501(d) of Public Law 95-134, as amended, and Section 1361(c) of Public Law 96-374, as amended, Guam, the Virgin Islands, Micronesia, American Samoa, and Northern Marianas are entitled to have the first $200,000 of any matching requirement waived.)

(3) Section 3(c)(2) - provides that Congress may impose a matching requirement when appropriating funds authorized by this paragraph.

(Funds matched under Sections 3(b) and (c) are termed an "offset" to Smith- Lever funds and can be used for any approved Extension project. See Section A.)

(4) Section 3(e) - lifted the dollar matching requirement for the Virgin Islands and Guam for FY 1978 and FY 1979 only.

(5) Matching of Carry-over Funds - Smith-Lever funds must be matched the fiscal year in which they are appropriated in order to carry over unobligated balances into the next year.

(6) Section 3(d) - administrative matching requirements have been placed on

certain National initiatives.

c. District of Columbia (D.C.) Public Postsecondary Education Reorganization Act

Section 208(c) prohibits use of funds appropriated pursuant to this section for payment of greater than one half of the costs of D.C. Extension work. Thus, in effect, there is a dollar for dollar match required of the District of Columbia.

2. Certification of Availability of Funds

Each State must advise ES of the amount of offset/matching funds from non-Federal sources which will be made available for Extension work. The amount which each State will be required to offset for the year involved will be furnished to the State prior to submission of the certification. Certification must be submitted on Form CFD-2103 (Exhibit 6) which is provided by ES. The certification is due on or before September 30 in order for the State to receive its first quarter allocation.

SECTION H - PAYMENTS TO STATES

1. General

The Smith-Lever Act and Section 1444 of the Food and Agriculture Act of 1977 provide that payments to States shall be made on a quarterly basis: October, January, April, and July. Section 208(c) of the D.C. Public Postsecondary Education Reorganization Act adopts the payment procedures of the Smith-Lever Act. Even though funds are made available quarterly under these Acts, States are encouraged to comply with the U.S. Treasury Department's regulations to draw funds on an as needed basis. Any interest earned on grant funds received pursuant to these Acts must be returned to the U.S. Treasury. Funds provided under other authorizing legislation such as (the Renewable Resources Extension Act and Title V of the Rural Development Act), which do not contain a Congressional intent for a particular payment scheme in conflict with the Intergovernmental Cooperation Act, Public Law 90-577 are subject to that Act's provisions, including the procedures requiring States to draw down only as needed and the waiver of interest provision.

2. Custody of Funds

All Federal funds allotted to States by ES are made available by issuance of a Letter of Authorization and amendments thereto. The State Extension Director and the 1890 Administrator are responsible for the custody of all Federal funds and for compliance with the Letter of Authorization and the Payment Management

System procedures. Funds may be disbursed only as authorized by the Extension Director or 1890 Administrator or their designee. Funds should be deposited in accordance with requirements of 7 CFR 3015, Subpart B., Uniform Federal Assistance Regulations. However, wherever funds are deposited, the Director's and 1890 Administrator's custodianship is not terminated under any circumstances until funds are expended for the purpose specified in the Act(s) authorizing such funds. The State Extension Director or 1890 Administrator, or their designee, must approve all expenditures of funds made available for Cooperative Extension programs.

3. Letter of Authorization

a. General

A Letter of Authorization is a commitment of funds prepared and certified by the Cooperative Funds Division (CFD), ES-USDA. It is the equivalent of cash available to the extent that funds have been obligated in good faith in executing the program. Allocation of all Extension funds administered by the ES under the Smith-Lever Act, Public Law 95-113, Section 1444, and the Renewable Resources Extension Act, will be made available to the State Directors and Extension Administrators under Letter of Authorization, and amendments thereto. These funds will be made available on a quarterly basis: October, January, April, and July based on an approved program.

Payment on a Letter of Authorization under the Department of Health and Human Services' Payment Management System (DHHS-PMS) is based on advanced certification from CFD in the form of an appropriately certified Letter of Authorization. Drawdowns against such certifications are in the form of request for funds initiated by the Primary Contact Person at the recipient organization. This Primary Contact Person has been authorized by the Director/Administrator and certified to the DHHS by CFD.

b. The Payment Management System

The DHHS-PMS is an electronic funds transfer application of the Letter of Authorization payment method developed by the CFD, ES-USDA. DHHS developed the Payment Management System to create a central point within their department capable of paying grants and contracts of a Federal assistance type nature.

One of their objectives was to provide cross servicing capabilities for other government agencies. The primary purpose of the DHHS-PMS is to facilitate the flow of Federal funds from the Extension Service account at the U.S.

Treasury to recipient organizations. With the proper equipment, recipient organizations meeting the DHHS-PMS requirements are eligible for the Letter of Authorization payment method.

The DHHS has initiated an on-line payment system that processes funds requests directly from a recipient's personal computer (PC) or terminal into PMS. The recipient must receive authorization to enter the on-line system known as **PMS SMARTLINK II**. The necessary equipment includes a personal computer (or terminal), a modem, telecommunication software, a telephone line, the **SMARTLINK II** telephone number, and appropriate password. Detailed procedures can be found in Exhibit 5, **"SMARTLINK II USER'S GUIDE"**.

c. Issuing Letters of Authorization

Letters of Authorization will be issued without time limitations to the recipients of ES Funds. This form includes an itemization of these funds by program or project, where applicable (Exhibit 7). Amendments will be issued covering increases or decreases from the amount previously authorized to be drawn. Copies of each Letter of Authorization amendment will be forwarded to the State Director or Extension Administrator, as well as the Primary Contact Person.

If an Institution's Financial Report for the previous fiscal year and/or plan of work, Budget, or matching certification for the current fiscal year have not been received by the requested dates, the next quarter's Letter of Authorization for that institution will not be amended.

In the event ES receives its funds under a Continuing Resolution passed by the Congress, amendments for current year funds will be issued in amounts complying with the provisions of the Continuing Resolution.

(1) Amendment or Revocation of Letter of Authorization

(a) Any one of the following conditions will require an amendment of the Letter of Authorization:

A change in the recipient's name or the DHHS issued account number. If this information changes, the recipient's organization should notify CFD immediately.

Authorization for the recipient organization to draw amounts in excess of $5,000,000 is established or rescinded.

An increase or decrease in the "Amount Authorized." These amendments are issued by USDA-CFD based on receipt of revisions which significantly increase or decrease the total authorization on file at DHHS. A statement will be included in the amending Letter of Authorization to explain any amendment other than a change in the amount authorized.

(b) Revocation of a Letter of Authorization is a matter for administrative determination by the Federal program agency. The Federal program agency in this case is the ES, USDA. In the event a Letter of Authorization is revoked, an alternative payment method will be utilized, if appropriate. Any of the following conditions may result in the revocation of the Letter of Authorization.

1. Annual aggregate financing falls below $120,000. If the reduced level is only temporary, the Letter of Authorization may remain in force.

2. The business relationship between the Federal program agency and the recipient organization is completed or terminated except where follow-on awards are expected to be authorized.

3. The Federal program agency determines that progress is not satisfactory toward achievement of the cash management objective of the Letter of Authorization method of financing.

4. The recipient organization fails to complete any periodic reports that are required by the Federal program agency.

(c) Direct Deposit Sign-Up Form SF-1199A

1. In order to obtain a Letter of Authorization and participate in the Payment Management System, the recipient organization's financial institution must have on file a completed Form SF-1199A (Direct Deposit Sign-Up Form, Exhibit 8).

2. A completed SF-1199A should be forwarded to CFD for approval and forwarding to the DHHS. The form must be signed by the State Director/Administrator to request funds against the Letter of Authorization and be certified by a representative of the financial institution.

3. New SF-1199As must be submitted to CFD whenever there is a

change of financial institution, name of the payee, or change of depositor's account number. Directions for completing SF-1199As are on the back of Exhibit 8. (See Exhibit 8).

4. When submitting the initial SF-1199A, you should also give the name of the Primary Contact Person for this payment system. The Director or 1890 Administrator and the Legal Custodian at the University should, by mutual agreement, decide on the individual authorized to request funds.

5. CFD will send the Primary Contact Person a copy of the user's guide, a floppy disk containing the communication software and test procedures. Once the system has been tested, DHHS will issue an account number and password to the Primary Contact Person.

d. Requesting Funds

1. Funds may be requested between the hours of 08:15 and 17:00 eastern time, Monday through Friday, with the exception of Federal holidays.

2. Security precautions are very important. Please observe the following guidelines when using the PMS:

(a) **Maintain the physical security of your PC.** Keep your PC and software locked when authorized personnel are not present.

(b) **Memorize you PASSWORD; do not write it down.** You will receive your password in a certified letter. Lock this letter in a safe place. This password will not change.

(c) **Memorize your IDENTIFICATION NUMBER; do not write it down.** You will receive your "Old" Identification Number in the same certified letter as your password.

This number is related to your PMS Account Number and works only in combination with your correct PMS Account Number. You will be **required** to change your "Old" Identification Number the first time you use SMARTLINK II.

When selecting a new identification number, do not select words or numbers that could be easily guessed (e.g., your name, a family member's name, your birthday, etc.)

3. There are two screens for each payment request: (1) a Security Screen and (2) a Payment Request Screen. After the request for funds is entered, it is validated and the caller receives either a tentative approval message or an error message. When the payment request is complete you will have the option of making another payment request or logging off. Explicit payment instructions are found in Exhibit 5, **SMARTLINK II User's Manual.**

4. The **SMARTLINK II** "Help Desk" phone number is (301) 443-4854. It is available between the hours of 08:15 and 17:00 eastern time, Monday through Friday, with the exception of Federal holidays. If you are having difficulties that are **not** covered in the user's manual, please call the Help Desk. Have the details of your problem, including any error messages and error numbers encountered, ready before you call.

SECTION I - CARRY-OVER OF FUNDS

1. General

Regulations applicable to unobligated or unexpended balance of Federal funds as of September 30 of each fiscal year vary according to provisions or interpretations of the various acts.

2. Smith-Lever Act and D.C. Public Postsecondary Education Reorganization Act

These funds remain available to the State until spent in furtherance of approved Extension projects. Any balance unobligated as of September 30 is available for expenditure in the subsequent year however, a State may not carry over funds for a given fiscal year unless it has met that year's offset requirement for those funds.

3. Section 1444 - Food and Agriculture Act of 1977

No more than 20 percent of the funds received by an 1890 Institution, under Section 1444, may be carried forward to the succeeding fiscal year.

4. Carry-over Balances

State Cooperative Extension Service are not permitted to carry forward negative balances from one fiscal year to the next. If a program or programs incur costs in excess of the amount available in one fiscal year, the excess should be made up from Smith-Lever 3(b) and 3(c) funds, offset funds, State and county funds, or any combination thereof.

SECTION J - ACCOUNTING OPERATIONS

1. General

This section sets forth the guidelines pertaining to accounting and related fiscal operations of the State. It is the institutions' responsibility to maintain the integrity of the funds for which it is chargeable and assure that these funds are used only for the purpose for which they are made available.

The accounting and related fiscal operations, whether maintained by the institution or the State Extension Office or both, should provide:

- Full disclosure of the financial results of the State Extension Service activities.

- Adequate and current financial information to meet the needs of the Director, 1890 Administrator, and others concerned with administering the Extension program.

- Effective control over, and accountability for all funds, property, and other assets.

- Reliable accounting information to serve as a basis for budgetary preparation, execution, and control.

2. Deposit of Federal Funds

Federal funds must be available at all times for disbursement in payment of expenses authorized by the Extension Director or the 1890 Administrator. The deposit of these funds in the State Treasury for safe keeping as a depository may be made without legal objection. Such deposit, however, does not imply any control whatsoever by the State Treasurer nor relieve the Extension Director or the 1890 Extension Administrator of responsibility for the budgeting, expenditure and proper accounting for the funds.

Evidence of unauthorized use of Federal funds held in a consolidated deposit account may be considered sufficient justification for requiring modification of the accounting procedure to provide for their deposit in a separate account (see Exhibit 1, Section 3015.11).

3. Internal Controls

The system of internal control should be designed to fit the needs of the individual State. Basic elements for adequate internal control should include:

- A carefully planned organization structure.

- Well-defined operation policy and procedures.
- Clearly defined written authorizations, delegations, and limitations.
- Competent personnel.
- Appropriate mechanical and procedural accounting controls.

4. Assignment of Duties

To the extent possible, no employee should be responsible for all elements of a financial transaction. For example:

- Employees collecting revenues should not maintain, or be in a position to adjust records in connection with accounts receivable.
- Accounts receivable should be established by employees other than those rendering service or supplying the materials.
- Employees purchasing materials should not, under ordinary circumstances, receive or store such materials.
- Employees receiving property should not keep the related financial records or have the sole authority to approve the transfer, sale, or other disposition of materials or property.
- Wherever practicable, vendors' invoices and receiving reports should flow directly to the accounting office rather than through employees responsible for purchases.
- Employees who regularly handle materials or supplies should not be relied upon exclusively to take physical inventories for the purpose of reconciliation to the accounting records.

5. Control of Expenditures

Adequate control over expenditures should include factors such as: assurance that materials were actually received or that services were rendered and that quality, quantity, and price are in accordance with the provisions of purchase orders, contracts, or others authorizations consistent with applicable regulations. Such assurance can be achieved by providing, in addition to measures previously described, that expenditures are properly authorized and supported by the required documents, properly signed. Provisions for the effective voucher examination

prior to certification assure that the expenditures were in furtherance of State Extension programs and within any restrictions imposed by Congress and ES regulations.

6. Accounts

As a minimum, ES requires that a separate account be established for each fund source that is available to the State for extension work. For example, one account is required to record obligations of Smith-Lever 3(b) & (c) formula funds by the 1862 Institution and by the 1890 Institution to record obligations of Section 1444 funds. A State may incorporate as many sub-accounts as it determines necessary to manage the Extension program.

Although ES requires that funds received under the 3(b) & (c) allocations for the Small Farm program and the Expanded 4-H program be identified on the budget, ES does not require separate accounts to record obligations against these programs.

Separate accounts should be maintained for State and County funds. These accounts need not be separated between offset and non-offset. However, the States should be in a position to identify to the auditors or others specific vouchers or classes of expenditures (salaries, etc.) that are being used as offset/matching.

Separate accounts are required for all special projects awarded to the States on the basis of submitted proposals whether a cooperative agreement, grant, or approval letter is used as the awarding instrument.

When the special project requires matching, a separate account should be maintained for the matching portion of the project. If separate accounts are not maintained, then the State should be in a position to identify to the auditors or others specific vouchers or classes of expenditures (salaries, etc.) that are being used as matching. Funds for these accounts must be in addition to the amount certified for offset for the 3(b) & (c) allocation.

7. Classification of Expenditures

The proper classification of all expenditures is an aid in budgeting planning and control. The object classification becomes a basis for the preparation of reports and expense studies, and it is essential that there be conformity in the submissions of such information for the use of the Department.

a. Object Classification Codes

The object classification codes for reporting expenditures should be in accordance with the specific object classes. For internal purposes, additional subdivisions may be maintained. However, for Federal budgetary and financial reporting purposes, the four groupings prescribed below should be followed:

10 - Personal Services

20 - Travel

30 - Equipment

40 - All other expenses

b. Definition of Object Classes

10 - Personal Services

Includes compensation for services of individuals, including terminal leave payments, costs of living and quarters allowances, and other compensation for special services rendered by consultants or others employed on a per diem or fee basis.

20 - Travel

Includes transportation of persons, their per diem or lodging and subsistence while in authorized travel status, and other expenses incident to travel which are to be paid, either directly or by reimbursing the traveler. It includes rental of passenger-carrying vehicles, even though they may be used incidentally for transportation of things.

30 - Equipment

Includes personal property of a more or less durable nature which may be expected to have a period of service of 1 year or more and an acquisition cost of $5,000 or more without material impairment of its physical condition. It excludes commodities which are converted in the process of construction or manufacture (inventory) or which are used to form a minor part of equipment or fixed property.

40 - All Other Expenses

Includes such items as transportation of things, communications, services,

utility services and rents, printing and reproduction, repairs and replacements, employer's life and health insurance contributions, supplies and materials, employer retirement contributions, taxes and assessments. Employer retirement contributions, life and health insurance contributions, and any other fringe benefit costs may be included in personal services, if so desired.

8. Voucher Requirements for Federal and Offset Funds

a. Personal Service Vouchers

(1) Name of the individual paid.

(2) Period covered.

(3) Gross amount due.

(4) Amount of authorized deductions.

(5) Amount paid.

(6) Funds from which paid.

(7) Object classification.

(8) Approval of the Director or the 1890 Administrator or their authorized representative.

b. Travel Expense Vouchers

Travel vouchers should contain information as to the purpose of the trip and its duration, identification of all expenses for which the traveler claims reimbursement, and the funds to be charged. Travel vouchers must be signed by the traveler and an official authorized to approve travel.

c. Miscellaneous Vouchers

(1) Description and cost of good purchased or service rendered and the name of the vendor.

(2) Certification of receipt of goods or of service.

(3) Approval for payment by the Director, 1890 Administrator, or their

authorized representative.

(4) Object classification.

(5) Fund to be charged.

9. Uncashed Checks

Stop payment procedure should be instituted for any checks drawn against ES funds that have not been cashed at the end of 2 years. The amount of the uncashed check should be added to the beginning unexpended balance of the current year. However, consistent with institution policy, lower limits may be set.

10. Fiscal Year Determination

Expenditures should be charged to the fiscal year in which the obligation occurred and should be paid from the fiscal year funds available in that year. This may require that the account remain open for a period of time after September 30 to liquidate obligations incurred in the prior year.

11. Unobligated Balances

Any unobligated balances may be combined with the allocation from the current year's appropriation if they qualify as carry-over funds. See Section I.

12. Cancellations and Repayments

Cancellations and repayments of disbursements and other debit and credit transactions involving Federal funds should be accounted for and shown in full in the Extension accounts of the Institution. Repayment should always be made to the Federal fund from which the original expenditure was made.

13. County Offset Expenditures

Vouchers covering county offset expenditures paid at the county level should be approved by an authorized county agent, and signed by a county official to show that payments have been made. The original voucher or a certified copy should be on file in the State Office to support county offset expenditures.

14. Sale of Nonexpendable Property

The disposition of nonexpendable property shall be handled in accordance with 7 CFR 3015, Subpart R. Title to nonexpendable property acquired with Federal

funds shall be vested with the State Extension Service. When such equipment is no longer needed, the equipment shall be used on other approved Extension projects, if possible. Otherwise, the equipment must be used on other Federally sponsored projects.

Before the piece of equipment is ultimately disposed, the State Extension Service shall inform the ES that the equipment is no longer useful and they wish to dispose of it. ES shall reply within 120 days with instructions regarding final disposition.

In all cases property records shall be kept in accordance with 7 CFR 3015.169.

15. Sale of Publications

Publications paid with Federal or offset funds may be sold if State policy permits such sales and if the receipts are used in furtherance of approved Extension work.

The State Extension Service should have adequate internal control regarding the sale of publications. The internal control should cover such areas as inventories of publications to be sold, shipments to counties, and the billings and processing of receipts.

Each State Extension Service will determine its own pricing policy. It is anticipated, however, that each State will continue, to the extent feasible, to furnish the public with copies of available publications without charge. In most cases where States find it necessary to charge for publications, the price should include cost of printing, postage, and a charge for handling.

Publications offered for sale are not eligible for mailing under the penalty mail privilege to the general public. Publications for which a charge is made should be mailed under prepaid postage.

16. Users Fees

7 CFR 3015, Subpart F, allows for recipients of assistance to charge user fees that then will be counted toward program income. However, the imposition of user fees for core Extension educational programs is inconsistent with the statutory purposes of the Smith-Lever Act. Therefore, users fees may not be charged for educational services especially if the proceeds are to be used to augment the operational cost of the Cooperative Extension Services in substitution of State appropriations for that purpose. However, it is permissible to charge fees for incidental costs if the proceeds are used in furtherance of Extension work. For example, recovery of costs related to the printing, mailing, and handling of

Extension publications is permitted, provided fees received are returned to the Extension program. In addition, fees may be charged for services which are considered non-educational in nature such as soil and water testing, forage testing, and farm record analysis.

Registration fees may be charged for Extension-sponsored workshops for incremental costs associated with the cost of conducting the workshop. It is imperative that the fee charged cover only the cost incurred and that the Extension clientele understand the nature and purpose of fees charged.

17. Retention of Records

Subpart D of CFR 3015 sets forth record retention requirements. The financial records and supporting documents shall be retained for a period of 3 years with certain qualifications. The retention period starts from the date of the submission of the annual financial report (see Exhibit 1).

18. Audits

The Office of Management and Budget has established policies to coordinate audits of grants and contracts at educational institutions. These policies provide for the assignment of one Federal agency to audit all Federal funds at a single institution. This agency is known as the Cognizant Audit Agency. For Land-Grant Universities, this agency is usually the Department of Health and Human Services (HHS). The USDA Office of Inspector General (OIG), on occasion, will also conduct program reviews of the State's Extension Service operations. OMB Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions," as implemented by USDA in 7 CFR Part 3051 (58 Fed. Reg. 41,410 (August 3, 1993)), sets forth the applicable audit requirements.

Section 307 of the, Supplemental Appropriations and Rescission Act of 1980 Public Law 96-514, requires that all audits be resolved within 6 months after the final report is issued. An audit is considered resolved for purpose of meeting the legislatively mandated 6 months deadline when ES and the OIG have reached a management decision and agreed on the validity of the findings and the need for and nature of corrective action, and the State Extension Service is so informed by a Letter of Determination. In case of monetary findings, this Letter of Determination must contain a request for payment of the disallowance. In the case of management-type findings, this Letter of Determination must specify the action to be taken and the respective time frames action is to begin and/or end.

The implementation of Public Law 100-504, Inspector General Act Amendments of 1988, significantly changed the audit resolution, follow-up and reporting

process. As a result, the USDA Office of Finance and Management (OFM) is now responsible for reporting directly to the Congress on management decisions and final actions regarding audit recommendations.

This Act was designed to provide increased independence for Federal audit and investigative operations to make them more efficient and effective, and to provide incentive for corrective action by requiring the OIG to include additional information in their semiannual reports.

An audit is closed by the OIG when a management decision has been reached on all findings and non-monetary corrective action has been completed. In the case of monetary findings, claims must be established and recorded in the ES accounting records. Establishment of an accounts receivable satisfies the closing requirements, as far as the OIG is concerned. However, closure of an audit by the OIG/OFM does not relieve ES of follow-up responsibilities until final collection, compromise, or waiver have been achieved. These activities are subject to periodic monitoring by OFM.

In effecting audit resolution, the OIG deals with four specific dates.

1. Date of audit report - Date from which other dates are calculated.

2. 60 days from audit report date - Date that response showing corrective action taken or planned on audit recommendations is due.

3. 120 days from audit report date - Date that the audit file is referred to OFM for follow-up assistance when management decisions have not been reached.

4. 180 days from audit report date - Legislative mandate for reaching a management decision and fully resolving audit reports.

SECTION K - USE OF FEDERAL AND OFFSET FUNDS

1. General

Federal and offset fund expenditures must be in furtherance of the project agreement, covered by a plan of work, and provided for in the approved budget for the year.

Section 5 of the Smith-Lever Act provides that if any portion of the funds received by the State for the support and maintenance of Cooperative Extension work is, by any action or contingency, diminished, lost, or misapplied, no subsequent

appropriation may be paid to the State until such funds are replaced. Section 1444 of the Food an Agriculture Act of 1977 makes the same requirement for funds received by the 1890 institutions.

OMB Circular A-21 (see Exhibit 4), also provides information on the allowability of certain costs. For a cost to be allowable it must meet the following tests:

a. It must be reasonable.

b. It must be allocable.

c. It must be consistent with generally accepted accounting principles.

d. It must conform to any limitations or exclusions set forth in the cost principles or the enabling legislation (Smith-Lever Act, Food and Agriculture Act of 1977, etc.).

2. Allowable Items of Expenditures

The following costs are allowable charges to Federal and offset funds as long as they are allowable under State law and cost principles.

a. Advertising Costs - Federal or offset funds may be used to pay advertising costs if the costs are for:

(1) recruitment of personnel required for the program,

(2) procurement of goods and services,

(3) The disposal of scrap or surplus materials acquired in the performance of the Extension work; and

(4) other specific purposes necessary to carry out Extension work.

b. Compensation for Personal Services - The Department requested a clarification from OMB on payroll certification for those Extension employees whose entire (100 percent) salary comes from Federal Extension funds. OMB concurred with the Department's interpretation that these employees are exempt from the payroll certification provisions of Circular A-21. These employees may continue to use their current payroll system, provided there is proper documentation of their salary charges. A revision to OMB Circular A-21 changed the procedures for allocating and documenting salary costs for those employees who hold joint appointments, or whose salary is paid from at least

two different fund sources.

This revision gives universities more flexibility in selecting the method to be used in accounting for salary costs, but still provides strict accountability for Federal funds.

The previous methods for documenting salary costs--Monitored Workload and Personnel Activity Reports--have been deleted. Examples of three methods that meet the more flexible criteria are:

(1) Plan - Confirmation Method: Involves the distribution of salaries and wages based upon a projection or plan of work activity which will be updated to reflect any significant changes in time allocation.

(2) After-the-Fact Activity Report: Involves a percentage distribution of activity of employees, signed by the appropriate project and institutional officials. For professorial and professional staff, the reports must be prepared no less frequently than every 6 months; for other employees, the reports must be generated at least monthly.

(3) Multiple Confirmation Record Method: The distribution of salaries and wages of professorial and professional staff is documented separately as to direct and indirect cost activities of the employees.

Implementation of any of the three methods may involve the use of estimated charges identified before service is actually performed provided that the charges are promptly adjusted to reflect actual activity if significant changes occur. Other methods which meet the criteria specified in Section J8b(2) of the revised Circular may also be acceptable if a mutually satisfactory alternative agreement is reached between the institution and the cognizant audit agency.

Basically, these revised procedures reflect actual practices followed by State Extension Services before A-21 was extended to education institutions.

The revision does not change the requirement that State Extension Directors maintain separate financial accountability for each source of funding. These systems are not required for full-time (100 percent) ES or Experiment Station employees, but there must be some method to certify that these employees are, in fact, working 100 percent on these programs. The practice has been to review the workload of these full-time employees at least annually to make any necessary adjustments to their salary changes.

c. Equipment - Equipment acquired for $500 or more per unit and having useful life for more than 2 years must be capitalized. However, consistent with University policy, lower limits may be set.

d. Fringe Benefits

(1) Employer Contributions to Retirement Systems - Federal funds may be used for making employer contributions to State retirement systems under certain conditions. This policy does not apply to employees eligible to participate or participating in the U.S. Civil Service Retirement Act.

The following conditions govern the use of Federal funds for this purpose:

(a) Only those employees receiving salary payments from Federal funds are eligible for employer contributions from these funds, and then only in proportion to Federal funds received.

(b) The use of Federal funds for employer contributions to a state retirement system is limited to an amount not exceeding 5 percent of the salary paid from these funds to individual employees who participate in the retirement system.

(c) Employer contributions from Federal funds to a state retirement system must be at least equaled by the total contributions to that system on the part of the individuals concerned and/or the State, either separately or in combination.

(d) Employer contributions from Federal funds toward a state retirement system for Federal employees are prohibited. Employees holding a Federal appointment may belong to a state retirement system providing all employer contributions come from non-offset funds, the employee, or both.

(2) Unemployment Compensation - State Extension employees who hold Federal appointments are covered for unemployment compensation purposes as Federal employees. Compensation paid for this program is provided by appropriation to the Department of Labor. Therefore, no charge should be made against Federal funds or any other funds available to the State Extension Service for unemployment compensation coverage for these employees. The employer cost to cover State Extension employees who do not hold Federal appointment, including secretarial, clerical, and program aides, is a proper charge to Federal or State funds in proportion to the salaries paid employees from such funds.

(3) Employer Contribution to Health Insurance Program - A Federal Health Insurance Program is available to State ES employees who hold Federal appointments provided the State has entered into an agreement to participate in the program. The employer contribution to a State Health Insurance program is an appropriate charge to Federal and State offset funds in States that are not participating in the Federal Health Insurance program.

(4) Workmen's Compensation - For State Extension employees who hold Federal appointment, the annual appropriation for Injury/Illness Compensation is paid directly from the annual retirement appropriation using a formula based on the prior year's injury/illness claims. For further details see Chapter VII of the Handbook, "Federal Employees Occupational Injury/Illness Compensation."

e. Pre-Agreement Costs - Extension does not ordinarily allow pre-agreement costs.

Requests for exception must be submitted in writing to Extension. For pre-agreement costs to be allowable, they must meet each of the following tests:

(1) A program must already exist or have been approved.

(2) Funds must have been appropriated.

(3) The costs must be program related.

ES will rule on allowability of pre-agreement costs on a case by case basis in a manner which ensures a continuing effective system of administration and control of funds.

f. Workshops or Work Conferences - Federal or offset funds may be used to pay travel and subsistence expenses for State Extension employees to attend in-service training workshops on conferences that are in furtherance of Extension programs. Registration fees required of Extension employees at the workshops or conferences may also be paid from these funds.

g. Study Leave (Sabbatical) - Federal or offset funds may be used to pay salaries of Extension employees for study leave in accredited course selected primarily to improve efficiency in Extension work and supervised by recognized institutions of higher learning. Payment may also be for tuition costs for courses attended by employees to better equip them to perform their assigned responsibilities. For additional information on this subject, see Section I,

Study Leave, in the Personnel chapter of the Administrative Handbook.

h. Taxes

(1) Federal Excise Taxes - The Revenue Act of 1943 exempts from excise taxes, purchases and other expenditures by the States, territories of the United States or political subdivisions thereof.

(2) Social Security Taxes - Old Age and Survivor Insurance (OASI) - Taxes imposed upon the employer to match the contribution of Extension employees who are subject to OASI may be paid from Federal or offset funds in proportion to the salary received from such sources.

(3) Medicare Insurance Tax - Section 278 of Public Law 92-248 subjects Federal employees (including appointees) to the hospital insurance portion of the FICA tax. Payment of funds for Medicare Insurance Tax withheld and matching contribution should be deposited in the same manner as deposits for Federal income tax withholdings. Form 941E, Quarterly Return of Withheld Federal Income Tax, should be used for reporting purposes.

(4) State and Local Taxes - Federal funds may be used to pay State and Local taxes if State funds are not exempt from State sales tax.

i. Moving Costs of Extension Workers - Federal or offset funds can be used to pay for moving costs of Extension workers, subject to the following conditions:

(1) If a Director or 1890 Administrator wishes to transfer a cooperative employee to headquarters in another county or to the State office; or if the employee's services are requested by the Director of another State, involving a change in headquarters and transfer of official station for permanent duty, the employee may be reimbursed from Federal funds for:

(a) Transportation of household goods and personal effects.

(b) Travel expenses for himself and his immediate family.

(2) Relocation costs for a new employee may be paid from Federal or offset funds providing the new employee remains within the State Extension Service for at least 12 months. If the employee leaves within 12 months after hire, the State Extension Service will be required to restore such fund to the Federal or offset account.

j. Honorariums - Extension employees already on Cooperative Extension payrolls are often brought in from other States to attend annual conferences or other Extension activities. It is not proper to approve payment of honorariums that are in addition to necessary travel and subsistencies expenses to Extension employees.

k. Exhibits at Fairs - Exhibits are prepared for fairs, and charged to Federal or offset Extension funds, should be confined to those illustrating definite phases of Extension work.

l. Heat, Light, Power and Janitor Service - Charges for heat, light, power, and janitor services should be on a basis consistent with the service rendered to extension. Note: Charges not metered or directly identifiable to the Extension Program are unallowable. Also, if these costs are charged directly to the Extension Program, they cannot be used in the University's indirect cost pool.

m. Travel Expenses

(1) Travel in or out of State should be reimbursed to the extent that such travel is in furtherance of an approved Extension project. If only partially in furtherance of an Extension project, the expenses should be prorated accordingly.

Other allowable travel costs include:

(2) Travel of Extension employees taking participants to 4-H camps or other meetings, only if the employee remains to participate in the program.

(3) Travel by other university employees to assist in a demonstration or conducting an Extension sponsored meeting when there is no Extension specialist available, provided that:

(a) The purpose is in furtherance of an approved Extension project and to extend practical information to farmers and others.

(b) The travel is at the request of the State Director or 1890 Administrator.

(4) Travel of prospective employees to the State office or other location for the purpose of a job interview.

(5) Travel expenses of non-staff members serving as lay advisers who are performing services at the invitation of the State Extension Service.

(6) Each instance of foreign travel requires the prior written approval of Extension Service. The exception to this is travel to Canada or Mexico if the travel is directly in connection with work being performed on an approved project.

n. Joint Employment - Federal funds may not be used to pay salaries or wages for activities other than those specified in the acts authorizing Extension programs. When a person is employed jointly by the State Extension Service and a division of the University, Federal funds will be charged only for Extension's fair share of the salary cost.

The percentage used to compute the actual payroll charge to Federal funds for each individual should be reviewed prior to the end of each fiscal year to assure that it coincides with the percentage of time actually spent by the employee on Extension programs and adjustments made accordingly.

o. Purchase of Uniforms - Purchase of uniforms for aides or other Extension employees if the Director or the 1890 Administrator determines that the uniforms are essential to carry out the Extension program.

3. Unallowable Expenditures

Federal and offset funds may not be used for any of the following purposes:

a. Purchase, erection, preservation or repair of any buildings.

b. Rental of college-owned buildings.

c. Purchase or rental of land.

d. Salaries or expenses relating to the offering or conducting of college courses of instruction for credit.

e. Correspondence courses, unless such courses definitely are to further an approved Extension project.

f. Printing or distributing announcement of courses offered by the colleges, programs of colleges meetings, or other college announcements.

g. Extension programs funded in accordance with a formula or other administrative distribution procedures are exempt from imposition of a negotiated overhead or indirect cost rate. Such overhead or indirect costs are not budgeted against these funds as the costs are construed to be part of the

State's contribution to these cooperative programs. NOTE: Indirect costs are also an unallowable charge to required matching/offset funds.

h. Any equipment or services for which the State Director or 1890 Administrator agrees that the cost seems unreasonably high or unnecessary in relation to the utility value to Extension work.

i. An individual's membership fee to the Association of Land-Grant Colleges or other professional organizations.

j. Payment of any portion of the salary of college or university staff, unless they regularly perform duties pertaining to Extension work under approved Extension project agreements or plans of work that set forth the nature and extent to these duties, and the portion of their time involved in Extension work.

k. Printing and distributing reports of proceedings of farm and other organizations, even though the subject matter of these proceedings relates wholly to Extension programs.

l. Purchase of seeds, fertilizers, food, or other materials for distribution to clientele, participants, or others or for use in field demonstrations, except when it can be clearly shown that such demonstration could not be made in any other way.

m. Travel, subsistence, tuition, or other expenses of members of 4-H clubs, farm organizations, or other organizations or individuals in attending Club Camps or courses of instruction in schools or colleges, or making tours of observation or purchasing livestock or other materials. However, funds may be used to pay necessary expenses relating to the National 4-H conference or other assemblages of 4-H members called by the Secretary of Agriculture.

n. Costs associated with volunteer expenses are unallowable charges to Federal funds and cannot be used to satisfy a cost-share, matching or offset requirement. Note: Volunteer costs for training in furtherance of an approved project is allowed.

o. Feeding and caring for animals belonging to 4-h club members, even when such animals are used as exhibits at fairs.

p. Expenses of musical entertainment given in connection with demonstrations, meetings, or conferences.

q. Printing announcements of contests that carry the names of commercial firms

offering prizes. Listing the names of commercial firms could be construed as advertising.

r. The Federal Employees Group Life Insurance (FEGLI) is available to State Extension Service employees holding Federal appointments with the USDA. Federal funds may not be used in payment of the employer's share of a State employees' group insurance program for cooperative employees who are eligible for coverage under the FEGLI Act of 1954. Therefore, even though the employees are not enrolled in the Federal plan, Federal funds may not be charged with the employer's cost of the State plan.

s. Any losses, whether actual or estimated, arising from uncollectible accounts and other claims, related collection costs and related legal costs.

t. Contributions to a contingency reserve or any similar provision made for events whose occurrence cannot be foretold with certainty as to time, intensity, or with an assurance of them happening.

u. Any excess of costs over income.

v. Costs incurred for patenting or copyrighting materials.

w. Tuition remission, including tuition incorporated as a part of a fringe benefits program.

x. Subcontracting of programmatic matters to State agencies. This includes redelegation of Extension program duties to State agencies.

y. Costs affiliated with donor solicitations for Extension programs.

SECTION L - ANNUAL FINANCIAL REPORT

1. General

The ES requested and received a deviation from the financial reporting requirements of OMB Circular A-110 and 7 CFR Part 3015 (Uniformed Federal Assistance Regulations). The State Extension Services will use the financial report forms as prescribed by ES.

These reports should include all receipts and expenditures of Federal, State, and County appropriations and contributions from non-tax sources, for furtherance of Extension work. Expenditures are considered to be cash disbursements and valid unliquidated obligations chargeable to the reporting fiscal year.

2. Submission

The Smith-Lever Act provides that the annual Financial Report for the Cooperative Extension Service be submitted no later than April 1. Section 1444(d) of the Food and Agriculture Act of 1977 provides that the Financial report for the 1890 Land-Grant Institutions be submitted by December 1.

However, to secure proper payment of the next installment of the Letter of Authorization, it is suggested that the report be submitted earlier. Two copies of the report should be submitted to the CFD, CMS. Upon review by CFD, one copy will be returned to the applicable institution.

SECTION M - 7 CFR, Part 3015, Uniform Federal Assistance Regulation (See Exhibit 1)

Many of the guidelines published in 7 CFR, Part 3015 are applicable to the financial and accounting operations associated with Extension programs. Unless otherwise indicated in this section, the Subparts of the Regulation are applicable to Extension programs.

1. Program Income (Subpart F)

As specified in Section J above, income from the sale of publications and user fees is to be used to further approved Extension programs in accordance with 7 CFR 3015.41 (c).

2. Cost Sharing and Matching (Subpart G)

Subpart G applies to offset requirements for Smith-Lever funds subject to the following limitations. Offset funds for Section 3(b)(1) of the Smith-Lever Act must come from non-Federal sources. Offset funds for Section 3(b)(2) of the Act must be made available by the government of the covered Territories. Offset funds for Section 3(c) of the Act must be met from public funds from non-Federal sources.

The source of funding for the District of Columbia share of D.C. Extension costs is not specified by law and thus Subpart G applies in its entirety.

3. Standards for Financial Management System (Subpart H)

Section J supplements specific standards and requirements of Subpart H.

4. Audits (Subpart I)

Audit procedures for Extension Service recipients are described in Section J, 18 of this chapter.

Subpart I (3015.77 -- Higher Education Audits) has been superseded by 7 CFR 3051.

5. Financial Reporting Requirements (Subpart J)

ES requested and received a deviation from the financial reporting requirements of Attachment G of OMB Circular A-110 (Financial Reporting) via a letter received from OMB on September 19, 1979. Financial reporting requirements for Extension programs are stated in Section L of this chapter.

6. Monitoring and Reporting Program Performance (Subpart K)

The Director and 1890 Administrator are responsible for monitoring and reporting the performance of State Extension programs as called for in Section 3015.90 of Subpart K.

Section 3015.92 of Subpart K also requires recipients to submit a performance report (technical report) that briefly presents information for each program, functions, or activity involved as prescribed by the Federal sponsoring agency.

ES requires that a report designed to provide information on work accomplishments in the program area of agriculture and natural resources, home economics, community resource development and 4-H youth be submitted annually. This report is considered to meet the requirements of Section 3015.92 of Subpart K. The report includes two parts:

- Expended staff years by program area and program components and national ethnic contacts by program area.

- Narrative report of accomplishments.

ES conducts program and administrative reviews at State Extension offices and provides on-site technical assistance as may be necessary in accordance with Section 3015.94.

7. Payment Requirements (Subpart L)
This Subpart is inapplicable to Extension funds because State Extension Services receive payments by Letter of Authorization in the DHHS Payment Management System. State Extension Services receive payments by Letter of Authorization.

See Section H of this chapter for applicable instructions.

8. Programmatic Changes and Budget Revisions (Subpart M)

Extension's formula funded programs are exempted from this subpart pursuant to 7 CFR 3015.110 (b). Budget revisions are addressed in Section F.3 of this chapter.

9. Grant/Subgrant Closeout, Suspension and Termination (Subpart N)

The conditions for termination of Extension's formula funded programs are defined by the relevant statutes and this Subpart is inapplicable.

10. Application for Federal Assistance (Subpart Q)

Extension formula funded programs are exempt from this Subpart (7 CFR 3015.150(a)). Special Projects (see Section D.5 above) funded under Section 3(d) of the Smith-Lever Act, however, are subject to this Subpart (7 CFR 3015.150(b)).

11. Procurement (Subpart S)

Institutional policies should be followed but as a minimum the standards established in Subpart S should be met.

12. Cost Principles (Subpart T)

Section K of this chapter describes the allowable and unallowable use of Extension funds in accordance with OMB Circular A-21 (as required by 7 CFR 3015.192) and applicable statutes.

13. Miscellaneous (Subpart U)

Institution policies should be followed where applicable. As a minimum, the standards established in Subpart U should be met.

14. Intergovernmental Review of Department of Agriculture Programs and Activities (Subpart V)

Subpart V is not applicable to Extension's mandatory formula funds.