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Chapter 1 – Introduction

The State of Delaware, in its commitment to its citizens, strives to provide the highest levels of professionalism and performance in its management of the State’s finances and resources. The State has created this Budget and Accounting Policy Manual (the Manual) to consolidate into one repository the policies and best practices the State follows to maintain integrity and efficiency as it conducts its business on behalf of the public interest.

1.1 The Budget and Accounting Policy Manual

The State of Delaware’s Budget and Accounting Policy Manual sets forth the general budgeting and accounting policies, rules, regulations, and guidelines for use by State Organizations in the planning, budgeting, managing, and reporting of the State’s financial processes. The Manual is to be used as a tool to ensure that the State’s budgetary, accounting, and financial information remains timely, integrated, easily accessible, and accurate.

The Manual is an essential element used to achieve the State’s goals to gather data and to produce reports with the financial information needed to effectively plan activities and control operations for the services provided to the citizens of Delaware.

The goals of the State’s budget and accounting policies are to:

- Comply with all legislation, rules, and regulations;
- Establish accountability;
- Safeguard State assets;
- Recognize and record all transactions;
- Expend resources only for authorized purposes;
- Provide financial management information; and
- Ensure all financial processes are executed consistently, accurately, transparently, completely, economically, efficiently, effectively, responsibly, and in a timely manner.

The purpose of the Manual is to document and prescribe the policies and processing necessary to execute the budgets and report on the operations of the State. Exceptions may apply to certain policies within the manual. All exceptions must be approved, in writing, by OMB and DOA.

1.2 Constituents and Users of the Manual

The Manual provides budgeting and accounting guidance and instruction to citizens, appointed and elected officials, State employees, internal and external auditors, managers, financial decision makers, and administrative support personnel. It is a point of reference for State employees and users of the State's finance and accounting system.

1.3 Policy Manual Authority

The portions of **Title 29 of the Delaware Code** applicable to a system of accounting for and the recording and control of the fiscal practices and policies of the State are the authorities for the issuance of this Manual.

This Manual is published by the Director of the Office of Management and Budget, according to the position's statutory power to prescribe the manner, methods, and forms to be used by Organizations to ensure appropriate control of the fiscal affairs of the State (**29 Del. C. §6303A(3)**).

This power has been affirmed in opinions of the Attorney General, dated July 7, 1965, and February 22, 1980, which state:

“The accounting practices of the Accounting Manual are not simply recommendations of the [Budget Director] – they are the law of this State with which there must be total compliance by all agencies.”

1.4 The State's Fiduciary Responsibilities

The State collects revenues and fees and in turn provides vital services to citizens, students, employees, employers, customers, vendors, investors, and others. The budget and accounting practices of the State are in place to protect the use of these monies and ensure fiscal accountability.

The State has a responsibility to demonstrate compliance in its use of these resources, in a budgetary context, and must continue to take into account the long-term interests of the government and its citizens.

In addition to using State funds lawfully and in compliance with their intended use, the State is committed to a culture of personal integrity and ethics for all employees. Employees are expected to exercise diligence, objectivity, and honesty in their professional activities and avoid situations that constitute, or appear to constitute, a conflict of interest. Employees must execute good judgment and common sense to avoid negligent, fraudulent, inappropriate, or unlawful expenditures.

1.5 The Role of Responsible Accounting

According to the American Accounting Association, accounting is “*the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information.*”

In order for the State’s financial reports to be useful and accurate, government must present its financial data fairly and with full disclosure, and it must demonstrate compliance with financially related legal and contractual provisions.

Financial data and reports are used by managers and business units for day-to-day and long-term decision making, including the formation of annual budgets.

Widely accessible accounting policies provide colleagues with tools needed to effectively move decision-making to appropriate levels, streamline administrative processes, and provide a basis for individual and departmental accountability.

Accounting also provides reports that are needed by individuals outside the Organization who invest in business units, lend money to them, or extend credit to them.

1.5.1 Accountability

Governments are held accountable for the efficient and economic operation of their programs and services. Governments are also accountable for the results of their activities, as evidenced in accomplishments, benefits, and effectiveness. Governmental accountability extends to citizens and taxpayers; legislative and oversight bodies; and to investors, creditors, and others who are involved in the lending process.

Governments have a responsibility to many stakeholders, and this accountability is a primary force and focus for governmental financial reporting:

- Citizens and taxpayers want justification for the taxes that have been collected from them -- to know their government is using the revenue wisely, responsibly, and in accordance with intended objectives.
- Legislative and oversight bodies want to know the government is carrying out its programs in compliance with the rules, laws, regulations, and within the budgets that were appropriated for the various programs and services.
- Investors, creditors, and lenders want to determine that the State is able to meet its financial obligations in repaying both short and long term debt.

1.5.2 Reporting Requirements

The accurate gathering of the State's financial information and activities is required in order for the State to meet its annual reporting requirements. Each year, the State produces a Comprehensive Annual Financial Report (CAFR), based on Generally Accepted Accounting Principles (GAAP) standards and guidelines. GAAP establishes financial reporting criteria for state and local governments, so the governments' financial performances can be reasonably compared to one another.

The Office of Management and Budget and the Department of Finance have identified the GAAP statements as presented in the CAFR to be the official record of the financial activities of the State.

1.6 State's Financial Actors

The supervision, management, and oversight of the State's budgeting, accounting, and fiscal activities are dispersed among a number of State Organizations. These responsibilities include:

- The development and ongoing maintenance of the State's finance and accounting system;
- The annual compilation and execution of the State's operating and capital budgets; and
- Ensuring proper approvals over the State's daily transactions.

Transaction approvals are entered into the State's finance and accounting system at both the State and Organization levels. At the Organization level, department heads grant approval authority to designated employees for the proper oversight of individual transactions.

The Division of Accounting gives approvals in the finance and accounting system on behalf of the Secretary of Finance. The Office of Management and Budget, the Office of the Controller General, and the Office of the State Treasurer also apply State level approvals for various transactions.

1.6.1 The Office of Management and Budget (OMB)

The Director of OMB is responsible for prescribing the records and accounts of the State's system of accounting and the manner and method by which they will be maintained.

OMB's Financial Integration Section acts as Statewide controller, ensuring Organizations live within their budgets. The Budget Development Planning and Administration Section is the steward of the budgetary process, coordinating fiscal planning and policy development. This Section also supports the Delaware State Clearinghouse Committee for federal grant applications, as well as federal fiscal proposals and guidelines.

1.6.2 The Department of Finance (DOF) and Division of Accounting (DOA)

The Secretary of DOF is the State's Chief Financial Officer and is the central source for economic and fiscal policy and for the management of financial resources. The Secretary is also responsible for the maintenance and operation of the State's finance and accounting system.

DOA delivers central support to State Organizations and provides consistent and reliable information to the public. The Division is responsible for establishing and implementing procedures and regulations pertaining to the Statewide accounting and payroll systems.

1.6.3 The Office of the State Treasurer (OST)

The Office of the State Treasurer signs all of the State checks and oversees the management of the State's bank accounts. The State Treasurer is responsible for reconciling the State's bank accounts and payroll; handling stale-dated checks and check re-issues; and producing checks and electronic payments for vendors, payroll, and revenue refunds.

1.6.4 The Controller General's Office (CGO)

CGO performs year-round fiscal and policy duties with State Organizations on behalf of the Legislature. It also has shared responsibility for the oversight of General Fund transfers and changes in spending authority.

1.6.5 Department Heads

Department or Organization Heads are responsible for establishing and maintaining an effective system of internal controls. Such departmental policies and procedures must be in writing and reasonably ensure:

- All assets can be accounted for and safeguarded against waste, loss, unauthorized use, and misappropriation;
- Revenues and expenditures are recorded properly, so reliable financial reports may be prepared; and
- Transactions are clearly documented, and documentation is available for examination, in compliance with the State's record retention policy.

At the Organization level, only Department Heads can confer approval authority, by designating certain employees as approvers in the State's finance management and accounting system.

1.6.6 Designated Approvers

Business Managers are entrusted with the authority to commit an Organization to a purchase and approve transactions at the Organizational level. Designated Approvers are only allowed to approve transactions that originate in, and are on behalf of, their own Organization.

Designated Approvers are required to process transactions according to the policies and procedures disseminated in this Manual and, from time to time, by DOA and are responsible for correctly recognizing and directing transactions for proper processing as part of the transaction review process.

Designated Approvers are also expected to follow individual Organization practices with the understanding all federal and State legal and regulatory requirements must be met. The authority of the State's policies and procedures supersedes the authority of Organization directives.

1.7 How to use this Manual

Numerous references to the Delaware Code are made in this Manual. For the full text online version of the Delaware Code, see <http://delcode.delaware.gov>.

For the purpose of this Manual, the term Organization is used to identify State of Delaware agencies (both merit and non-merit), school districts, charter schools, and higher education.

For the sake of clarity and conciseness, the pronouns used in this Manual are gender neutral.

This Manual consists of 14 chapters. Pages are numbered consecutively within each chapter.

State forms are referenced throughout the Manual. All State forms can be found at <http://extranet.fsf.state.de.us/forms.shtml>. Forms are revised periodically. Organizations should access and complete forms from the website, as needed, to ensure the current form is used.

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Chapter 2 – Internal Control

State policymakers and program managers are continually seeking ways to improve accountability in achieving an Organization’s mission. A key factor in achieving that goal is to implement an effective internal control system.

An effective internal control system helps an Organization adapt to changing environments, evolving demands, and new priorities. As programs change and Organizations strive to improve operation processes and implement new technology, everyone involved must continually evaluate the control system to ensure that it is effective and updated when necessary.

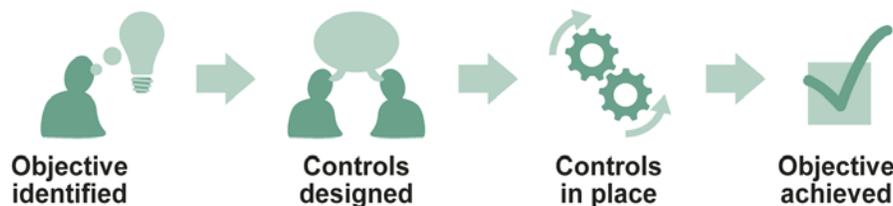
The State has adopted the Committee of Sponsoring Organizations (COSO) of the Treadway Commission Internal Control Integrated Framework (COSO Framework) for Organizations to use in the assessment of internal control as adapted by the Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* issued September 2014.

2.1 Establishing an Effective Internal Control System

Internal control is a process affected by an Organization’s oversight body, management and other personnel that provide reasonable assurance the objectives of an Organization will be achieved. These objectives and related risks can be broadly classified into one or more of the following three categories:

- Operations – Effectiveness and efficiency of operations
- Reporting – Reliability of reporting of internal and external use
- Compliance - Compliance with applicable laws and regulations

These are distinct, but overlapping categories. A particular objective can fall under more than one category, can address different needs and may be the direct responsibility of different individuals.



Source: GAO. | GAO-14-704G

The Organization determines its mission (within the approved limits of Delaware Code Title 29), sets a strategic plan, establishes Organization objectives and formulates plans to achieve its objectives. Management, with oversight from the Organization’s oversight body or Organization

Head, may set objectives as a whole or target activity within the Organization. Management uses internal control to help the Organization achieve those objectives.

Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the Organization. Internal control serves as the first line of defense in safeguarding assets. Internal control assists managers with providing results through effective stewardship of public resources, promoting accuracy and reliability of the Organization's accounting data, and encouraging compliance with all the policies and procedures of the State.

An internal control system is a continuous built-in component of operations, effected by people, that provides reasonable assurance, not absolute assurance, that an Organization's objectives will be achieved.

Within the Plan/System, the five components of internal control must be present. They are described as follows:

- **Control Environment** - The foundation for an internal control system. It provides the discipline and structure to help an Organization achieve its objectives.
- **Risk Assessment** - Assesses the risks facing the Organization as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.
- **Control Activities** - The actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the Organization's information system.
- **Information and Communication** - The quality information management and personnel communicate and use to support the internal control system.
- **Monitoring** - Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

In addition to the five components in an internal control system, management must also assess the design, implementation, and operating effectiveness of those components with 17 principles (see chart below.) All components and principles are required for an effective internal control system.

Organizations need to implement relevant principles as shown in the following table:

COMPONENT	PRINCIPLE
Control Environment	Demonstrate commitment to integrity and ethical values
	Ensure that board exercises oversight responsibility
	Establish structures, reporting lines, authorities and responsibilities
	Demonstrate commitment to a competent workforce
	Hold people accountable
Risk Assessment	Specify appropriate objectives
	Identify and analyze risks
	Evaluate fraud risks
	Identify and analyze changes that could significantly affect internal controls
Control Activities	Select and develop control activities that mitigate risks
	Select and develop technology controls
	Deploy control activities through policies and procedures
Information and Communication	Use relevant, quality information to support the internal control function
	Communicate internal control information internally
	Communicate internal control information externally
Monitoring	Perform ongoing or periodic evaluations of internal controls (or a combination of the two)
	Remedy internal control deficiencies on a timely basis

Documentation is also a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the Organization and the complexity of the operational processes the Organization performs. Management uses judgment in determining the extent of documentation needed. Documentation is required to demonstrate the design, implementation, and operational effectiveness of an Organization’s internal control system. Minimum documentation requirements are as follows:

- If management determines that a principle is not relevant, management supports that determination with documentation that includes the rationale of how, in the absence of that principle, the associated component could be designed, implemented, and operated effectively.
- Management develops and maintains documentation of its internal control system.
- Management documents in policies the internal control responsibilities of the Organization.
- Management evaluates and documents results of ongoing monitoring and separate evaluation to identify internal control issues.
- Management evaluates and documents internal control issues and determines appropriate corrective actions for internal control deficiencies on a timely basis.
- Management completes and documents corrective actions to remediate internal control deficiencies on a timely basis.

2.1.1 Sample Internal Control Plan Elements

- The control environment is the foundation for an internal control system. It provides the discipline and structure which affect the overall quality of internal control. It influences how objectives are defined and how control activities are structured. The oversight body and management establish and maintain an environment throughout the Organization that sets a positive attitude toward internal control.
- After establishing an effective control environment, management assesses the risks facing the Organization as it seeks to achieve its objectives. The assessment provides the basis for developing appropriate risk responses. Management assesses the risk the Organization faces from external and internal sources.
- Control activities occur throughout the Organization, at all levels and in all functions. Internal control systems vary from one Organization to another. The control objectives and features are dependent on the organizational complexity of an Organization and the management objectives for that Organization.

Some of the basic objectives of control procedures are as follows:

- Authorization
 - Transactions are properly authorized. A properly authorized document must have the correct number of approvals (hardcopy or electronic signature(s)) as required by the Organization's internal policy and this Manual.
- Review and approval
 - Proper supporting documentation for all financial documents is required. Supporting documentation is defined as invoices, logs, worksheets, memos, or additional documentation that provides support for both the purpose and amount of a transaction.
 - Recording and approving transactions timely in the accounting system to ensure transactions are recorded in the appropriate accounting period.
- Reconciliations
 - Monthly reconciliations of financial data in the accounting system are properly recorded on month-end reports.
- Physical security over assets
 - Assets are guarded and protected from loss or damage due to accident, natural disaster, negligence or intentional acts of fraud, theft or abuse.

- Segregation of duties
 - A comparison or check of recorded assets against existing assets is performed regularly by staff that is independent of the financial area responsible for recording the assets.
 - The division of responsibility for accounts receivable records and cash receipts.
 - The preparation of monthly bank reconciliations by an employee not responsible for disbursing cash or depositing cash.
 - Access to the State's finance and accounting system, First State Financials (FSF), is structured so that Organizations may segregate authorized duties. **Users are not permitted to share logon IDs or passwords under any circumstances. Sharing this information is a direct violation of the State's security policy (See Section 2.6 below).** Violation of security measures weakens the overall internal control structure of an Organization. **Security personnel will promptly disable a user's access if the sharing of IDs and/or passwords is discovered.**
 - State Organizations are required to have procedures in place to ensure that the individual who generates a payment is not the same individual who approves the same payment.
 - When segregation of duties is impossible or impractical, management should look for other methods of ensuring internal control, such as regular periodic supervisory reviews, rotation of duties, edits built into automated systems, unannounced verification of assets, etc.
- Reviews of operating performance
 - A structural plan of the Organization that provides the framework for the appropriate division of authority, responsibility, and duties among employees.
 - An accounting system designed to measure the results of operations and financial position.
- Education, training, and coaching
 - Personnel policies designed to employ, train, evaluate, and compensate employees.

Managers should continuously monitor and improve the effectiveness of internal control associated with their respective internal programs. This continuous monitoring and other periodic evaluations provide the basis for management's verification that existing controls are sufficient to safeguard the Organization's assets.

Management is responsible for maintaining and communicating written policies and procedures to ensure that an effective system of internal control exists within each Organization. Effective

policies and procedures help ensure management directives are carried out and that necessary actions are taken to address risks to the achievement of the Organization's objectives.

2.1.2 Limitations of Internal Control

Internal control is not foolproof. Management's monitoring of and attitude towards the adherence to control procedures are critical to making controls work. The objective of internal control is to provide reasonable assurance that management's defined control objectives are being met.

The concept of reasonable assurance recognizes that the cost of the system of internal accounting control should not exceed the benefits expected to be derived, and also recognizes that the evaluation of the cost-benefit relationship requires estimates and judgments by management.

2.2 Approvals Internal Control

See Chapter 6 for controls related to the approval of business transacted on behalf of the State.

2.3 PCard Internal Control

See Chapter 12 for controls related to the State's Purchasing Card (PCard).

2.4 Payroll Internal Control

See Chapter 14 for controls in payroll processes monitored by the State's Payroll Compliance Group.

2.5 Reconciliation and Certification Requirements for First State Financials

State Organizations are required to comply with the following reconciliation and certification requirements:

- State Organizations' management must establish and maintain an internal control plan process. **The Division of Accounting will utilize the written policies to conduct annual internal control plan reviews.**

- State Organizations' management must establish a process in-house to determine outstanding transactions and resolve them internally. Contact the FSF Service Desk for assistance with transactions that cannot be resolved internally.
- Management is required to certify that they have reviewed FSF reports for balance verification as part of each Organization's regular monthly reconciliation process by signing and submitting the FSF Monthly Reconciliation Certification (Form [DOA001](#)). **The Certification is to be submitted to the Division of Accounting (DOA) in accordance with the FSF Monthly Close-Out Schedule disseminated by DOA at the start of the fiscal year.**

The FSF Monthly Reconciliation Certification acknowledges that:

- There were no deficiencies that arose which could adversely affect the Organization's ability to record, process, summarize, and report financial data;
- No material weaknesses in the Organization's internal control were identified;
- Transactions have been properly reviewed and authorized prior to and during processing to ensure the proper delivery, receipt, and payment for goods/services; and,
- Appropriations reflect accurate charges and all discrepancies identified have been corrected.

Any identified exceptions need to be acknowledged on the Monthly Reconciliation Exception Report (Form [DOA002](#)) and submitted with the monthly reconciliation form.

- Responsible officers are required to make annual representations to attest that they have complied with monthly certifications, conducted an annual review of their Organization's finance and accounting system Internal Control Plan, and analyzed the Organization's operations to ensure compliance with the plan.

2.6 Records Retention

2.6.1 General

Certain documents are retained and reviewed to determine the accuracy of the State's financial records, including the Budgetary Status Reports received from DOA. These documents are also used by the Department of Finance (DOF), the Office of Management and Budget (OMB), and the Office of the Auditor of Accounts (AOA) to determine the validity of financial data and the propriety of transactions. The methods and retention guidelines described in this Manual are the minimum requirements placed on Organizations that generate financial documents for central processing.

Each agency is required to maintain transactional receipts and supporting documents in the manner established by the Director of OMB. All invoices, bills, statements, letters, vouchers, and other documents pertaining to receipts and disbursements must be systematically preserved by each agency. **(29 Del. C. §6504)** Organizations may electronically attach (scan) supporting documentation to transactions in FSF, or Organizations may maintain and file hardcopy (paper) documents for this purpose.

The Secretary of Finance is responsible for keeping a distinct account, under appropriate headings, of all:

- Receipts and expenditures of State monies;
- State property; and
- Debts and obligations due to and from the State.

For this purpose, the Secretary of Finance is granted free and unfettered access to all the books, papers, documents, and records of State agencies receiving or expending any State money. **(29 Del. C. §6523)**

Records retention requirements are established by the Delaware Public Archives (DPA), an office of the Department of State. The most current State Agency General Records Retention Schedule is available at <http://archives.delaware.gov>. DPA has issued “Model Guidelines for Electronic Records” for use by all Organizations in State and local government in Delaware. The purpose of these guidelines is to assist Organizations to maintain records to meet the accepted standards for a variety of criteria, including ensuring that records are readily available, adequately protected, legally acceptable, auditable, and evidential.

DPA also establishes General Records Retention Schedules for electronic and paper-based records in an effort to ensure only necessary records are retained and the records are retained for the proper time periods. **Organizations are responsible for adhering to all DPA records retention requirements.** Organizations should consult with DPA and DOA to determine specific record retention requirements as part of each Organization’s Internal Control Plan. DPA is also available to discuss Organizations’ records storage requirements. For additional information about records retention schedules, Organizations should refer to <http://archives.delaware.gov/govsvcs/retention/index.shtml>.

Documents supporting financial transactions must be retained until the completion of a successful audit. A successful audit is one in which all general, special, and federal findings and recommendations have been completely resolved. Financial reports must be retained for five years and until the completion of a successful audit. Organizations may set higher standards or criteria for internal records retention and filing.

Organizations should contact their Federal agent for the record retention requirements of a Federal grant. At a minimum, Organizations must follow the State’s record retention policy, but

must also adhere to any additional requirements that may be imposed by the Federal agency as it relates to grants.

2.6.2 Electronic Filing

Electronically processed transaction records, such as purchase orders and invoices, are automatically stored in FSF for reporting, auditing, and document retention purposes. These electronic files must be maintained to show the budget on an individual appropriation basis. Organizations remain responsible for maintaining any necessary documents and records for all manually processed transactions (where the hard copy signature for a transaction serves as the approval record), as well as any hard copy documents used to support processing for both electronic and manual transactions.

Any supporting paper documents may be scanned into FSF electronically and attached to a specific transaction that reflects activity for a particular appropriation. These documents may not be commingled with any other appropriation. For further information on this record retention option, the Organization should contact DOA.

2.7 Security (General and Information Technology)

All State employees are required to abide by the State's policies for the safeguarding of proprietary and personal information, and the Department of Technology and Information's computer usage security policies. Employees are expected to safeguard and secure, and are prohibited from sharing, information, such as employee identification numbers, social security numbers, computer and software passwords, State credit card account and PIN numbers (e.g., fleet services card, Procurement Card), building access badges, and other identifiers and access instruments distributed as State issued security measures. Any questions regarding this policy should be directed to <http://dti.delaware.gov/default.shtml>.

2.7.1 First State Financials User Roles

A complete listing of FSF User Roles can be found at the following link:
http://extranet.fsf.state.de.us/documents/training/job_role_handbook.pdf.

2.8 Audit and Compliance

State Organizations and programs are subject to periodic audits of their activities to ensure they are in compliance with State law, regulatory requirements, and the Organization's own internal control plan. These audits may be conducted by internal or external auditors.

Internal audits are management oriented. These audits gather information that is reported back to Department managers and Organization heads to assure these individuals are in a position to make informed decisions. These audits can also detect areas in need of further internal control; activities and practices that may require process changes to bring them into alignment with required policies; and identify opportunities for Organizations to improve the way services are delivered.

External audits are oversight oriented. These independent audits contribute to the transparency and reliability of public sector financial reports. External auditors report to other branches and levels of government and to the public to assure effective legislative and public oversight of government activities.

Internal Control processes must also be evaluated on a regular basis by internal or external parties to satisfy managers and elected officials that activity and system controls are adequately designed for their intended purposes, have been properly implemented, and continue to function. Regular audit and compliance checks enable the State to identify changes, modifications, and corrective measures needed for continued prudence in the management of public funds.

2.9 Policy Maintenance Requirements

The Budget and Accounting Policy Manual is maintained by OMB and DOF, through DOA.

2.10 Penalties

Failure to adhere to State policies and practices as outlined in the Delaware Budget and Accounting Policy Manual, or as disseminated from time to time by DOA, may result in restricted or limited access to FSF or any applicable State information technology systems, disciplinary action, dismissal, and/or legal action.

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Chapter 3 – Delaware's Accounting Framework

Delaware's accounting framework is structured based on Generally Accepted Accounting Principles (GAAP) using appropriations and funds to track and manage anticipated revenues and expenditures. GAAP standards are used to establish measurement and classification criteria for meaningful financial reporting. Each year, Delaware prepares the Comprehensive Annual Financial Report (CAFR) as its official record of financial activities for the State, based on national GAAP standards and guidelines.

Delaware uses the budgetary/cash basis of accounting to manage its day-to-day operations. Following is a brief explanation of appropriations and funds, as used to segregate and manage the State's operating and capital monies.

3.1 Appropriations

- An **Appropriation** is a budgetary tool used in governmental accounting to control spending. The term may also refer to an allocation or set aside of monies for specific purposes, or a specific account used to segregate funds (e.g. a spending line).

A budgetary Appropriation is an authorization granted by the State's General Assembly to make expenditures and incur obligations for specific purposes. A legislative appropriation is usually limited in the amount and time during which it may be expended.

- The **Annual Appropriation Bill** is the means by which appropriations are given legal effect. Upon approval by the Legislature, the Appropriation Bill is enacted into law as the annual operating budget for the State. Any further or special appropriation authorized after final action is taken on the Budget Appropriation Bill is referred to as a **Supplementary Appropriation**.

After the annual budget is enacted into law, budgetary accounts are established by OMB in the State's finance and accounting system, to record the specific spending authorizations granted by the Legislature. The accounts are credited with the original and any supplementary appropriations and are charged throughout the year with any expenditures and encumbrances. The smallest agency unit for which a formal appropriation is authorized by the Legislature is called a **Budget Unit**.

- The State tracks expenditures by appropriation using a number of different appropriation types. Each appropriation type is identified in the State's finance and accounting system by a unique code. The State's appropriations represent spending authority granted by the Legislature. State agencies are not permitted to spend beyond their annual appropriated amounts.

Appropriation Type	Code
Regular Appropriations	01
Supplemental Appropriations	02
Continuing Appropriations	03
Carry-Over Encumbrances	04
Special Fund – NSF	20
Special Fund – ASF	30
Federal Grants	40
Capital/Bond	50

NOTE: Appropriations do not necessarily represent actual cash available for expenditure. Agencies are not permitted to encumber against anticipated revenues; encumbrances may only be made against available cash. For General Fund (GF), appropriations are available for immediate encumbrances. For Appropriated Special Fund (ASF) appropriations, available cash is the lesser of the appropriation or received revenues. For more information, agencies should refer to **Section 3.2**.

The State also uses encumbrances as a means of budgetary control. Encumbrances are reservations of available appropriations or cash; an encumbrance is recognized when a purchase order transaction is recorded in the State's finance and accounting system. (29 Del. C. §6512 (a))

3.2 State Budgetary Funds

Fund accounting is a method of segregating resources into categories (funds) to identify both the source and the use of monies. For budgetary purposes, the financial activities of the State are segregated into two individual funds based upon the various operating, financial, and budgeting controls needed to successfully account for and safeguard the State's receipts and expenditures. The State's budgetary funds are known as the **General Fund** and the **Special Fund**.

NOTE: These State budgetary funds are not to be confused with the generic fund types used for governmental accounting and GAAP reporting.

General Fund (GF) – General Fund monies are used to finance and account for the ordinary operations of governmental agencies. The GF is appropriated by the Legislature for any legally authorized purpose, and it is used to account for all revenues and disbursements not provided for in other funds. All GF monies are considered State monies and may be encumbered and expended upon establishment of the appropriation in the State's finance and accounting system.

The GF includes all monies derived from taxes, fees, permits, licenses, fines, forfeitures, or from any other sources or receipts, unless specifically exempted or provided by law. For

more information about the composition of the GF, agencies should refer to **29 Del. C. §6102(a)**.

Special Fund (SF) – Special Funds refer to all monies other than General Funds. SF is any fund that must be devoted to some special use in accordance with specific regulations and restrictions. Special Funds are usually created through statutory provisions to provide certain activities with specific and continuing revenues and are used for the general operation of these restricted and specified government services.

The State of Delaware uses four Special Fund category types: **Appropriated Special Funds, Non-appropriated Special Funds, Federal Funds, and Bond Funds:**

1. **Appropriated Special Funds (ASF)** – A special fund type that the Legislature has chosen to place under the same type of budgetary and financial controls as the State's General Fund. Annual budget requests must be submitted to the OMB, and must be approved by the Legislature.

ASF is considered State monies. Annual expenditures against ASF monies may not exceed the appropriation limit authorized by the Legislature. ASF encumbrances may only be made against actual cash receipts and may not be made against unfunded ASF appropriation balances.

2. **Non-appropriated Special Funds (NSF)** – A special fund type that has no legislative spending limits. Generally, any monies on hand may be expended, yet encumbrances may only be made against actual cash receipts. Donations, gifts, local school funds, and various trust funds are examples of NSF monies. NSF is not considered State monies.
3. **Federal Funds** – Spending authority for federal grant funds is based on grant awards. Agencies receiving federal funds may encumber and expend up to the full amount of allotted federal funds, regardless of whether or not the funds have been received.

Any spending rules or restrictions for federal grant funds depend on the guidelines of the awarded grant. Federal funds are not considered State monies and are subject to individual grant program rules and restrictions.

State-appropriated matching funds are State monies and are subject to State spending rules and restrictions. Cash must be available before encumbering any State-appropriated matching funds.

Recipients of subgrants or pass-through grants must wait for the receipt of funds prior to encumbering or expending any federal funds.

4. **Bond Funds** – Bond Funds are authorized annually by the Legislature in the Bond Bill, also known as the Bond and Capital Improvement Act. Once authorized and appropriated, Bond Fund monies are immediately available for encumbrances and

expenditures.

The SF includes, but is not limited to, the following funds and accounts:

1. Accounts established by agencies for the collection of receipts for items, such as:
 - (a) State Park fees;
 - (b) Professional Regulation fees; and
 - (c) Lottery receipts.

(29 Del. C. §6102 (b));
2. Revenue Refund Accounts **(29 Del. C. §6533(e));**
3. Federal Aid Funds, which consist of accounts established to record the receipt and expenditure of grants received from the federal government **(29 Del. C. §2711 & 6102 (a));**
4. Capital Improvement Projects Fund, which consists of all monies received from the sale of bonds and notes issued for the capital improvement program **(29 Del. C. §7414);**
5. First State Improvement Fund **(29 Del. C. §5080);**
6. Advanced Planning and Real Property Acquisition Fund **(29 Del. C. §6343);**
7. Accounts established for minor capital improvements by local school districts **(29 Del.C. §7528);**
8. Accounts established for the rental, repair and lease purchase of portable classrooms by the State Board of Education **(29 Del. C. §6102 (d));**
9. Accounts established for the Business Enterprise Program, operated by the Division for the Visually Impaired within the Department of Health and Social Services **(29 Del. C. §6102 (l));**
10. Accounts established for the improvement of statewide, department, and divisional indirect cost recoveries from programs financed in whole or in part with Federal funds **(29 Del. C. §6102 (k));**
11. Accounts established for the Division of Emergency Planning Radiological Program **(29 Del. C. §6102(i));**
12. Division of Corporations Corporate Revolving Fund **(29 Del. C. §2311);**
13. Emergency Housing Assistance Fund **(29 Del. C. §7953);**
14. State Lottery Fund **(29 Del. C. §4815);**

15. Delaware Higher Education Loan Program Fund (29 Del. C. §6102 (e));
16. University of Delaware Funds (29 Del. C. §6102 (b));
17. Delaware State University Funds (29 Del. C. §6102 (b));
18. Delaware Technical and Community College Funds (29 Del. C. §6102 (b));
19. Delaware Child Support Enforcement and Paternity Program Funds (29 Del. C. §6102 (g));
20. Delaware State Housing Authority Funds (29 Del. C. §6102 (h));
21. Housing Development Fund (31 Del. C. §4030);
22. Local School District Funds (29 Del. C. §6102 (j)); and
23. Delaware Housing Insurance Fund (31 Del. C. §4050).

3.3 State Financial Reporting

In addition to the budgetary considerations of governmental accounting, the State is also required to report its financial activities on a yearly basis. This reporting is achieved through the yearly submission of the CAFR. The information in the CAFR is segregated according to GAAP Funds and covers the complete array of the State's financial activities.

3.3.1. What is the State Financial Reporting Entity?

The financial reporting entity of the State consists of:

1. **The primary government.** The primary government consists of all funds, departments, and agencies that make up the legal entity of the State.
2. **Agencies for which the primary government is financially accountable.** Financial accountability exists if a primary government appoints a voting majority of the agency's governing body **and** either:
 - a. Is able to impose its will on that agency; or
 - b. Has the potential for the agency to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental agencies with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the primary government.

An agency is fiscally dependent if it is unable to determine its budget without another government having the substantive authority to approve or modify that budget, to levy taxes or set rates or changes without substantive approval by another government, or to issue bonded debt without substantive approval by another government.

3. **Other agencies** (including component units, joint ventures, jointly governed agencies, and other stand-alone governments) for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

3.3.2. Measurement Focus of Accounting for CAFR Reporting

Measurement focus is concerned with *what* financial transactions and events will be recognized in the accounting records and reported in the financial statements. Measurement focus is concerned with the inflow and outflow of resources - what is being measured. While a number of measurement focuses exist, the following two are fundamental to current governmental accounting principles:

1. **Flow of economic resources** considers all of the assets available to the governmental unit for the purpose of providing goods and services. Under this focus, all assets and liabilities, both current and long-term, are recorded within the fund and depreciation is recorded as a charge to operations.
2. **Flow of current financial resources** measures the extent to which financial resources obtained during a period are sufficient to cover claims incurred during that period. The emphasis of this focus is on cash and assets that will become cash during or shortly after the current period. Long-term capital assets and long-term obligations are not recorded within a fund under this measurement focus.

3.4 Basis of Accounting

Basis of accounting refers to when transactions and events will be recognized in the accounting records and presented in the financial statements. The State maintains and reports financial data on two different bases:

1. The Budgetary/Cash Basis of Accounting, in order to demonstrate compliance with the State's legally binding budget or the annual Appropriation Act. Financial records are kept on a basis consistent with the format of that Act.
2. The GAAP Basis, in order to present the financial community with statements which are consistent with the common basis of governmental reporting.

The GAAP statements as presented in the CAFR to be the official record of the financial activities of the State. Both of these bases are further described in this Chapter.

3.4.1. The Budgetary/Cash Basis of Accounting

Under the cash basis of accounting, revenues are recognized when cash is received by the State; expenditures or expenses are recognized when cash is disbursed. The accounts of the GF and the SF are reported for budgetary purposes using the cash basis of accounting.

3.4.2. The GAAP Basis of Accounting

GAAP for government agencies are established and communicated by the Governmental Accounting Standards Board (GASB). This board sets forth the statements that are to be followed by governments in reporting their financial activities on a common basis across the United States. To comply with GASB in its financial reporting, the State produces the CAFR on the basis of GAAP.

The financial activities of the State for GAAP accounting purposes are also organized on the basis of individual funds and account groups, each of which is treated as a separate accounting entity segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

For additional details regarding the GAAP fund types, agencies should refer to **Table 3.1** at the end of this chapter.

For GAAP and CAFR purposes, governmental accounting transactions and events are recognized on either the accrual basis or the modified accrual basis.

1. **Accrual basis** of accounting records revenues in the period in which they are earned and become measurable; expenses are recorded in the period incurred, if measurable.
2. **Modified accrual basis** of accounting recognizes revenues in the period in which they become available and measurable. Revenues are considered available when they will be collected either during the current period or soon enough after the end of the period to pay current year liabilities. Revenues are considered measurable when they are reasonably estimable. Expenditures are generally recognized when the fund liability is incurred, if measurable.

The following bases of accounting are used for the various GAAP fund types:

a. Governmental Fund Types and Agency Funds

The accounts of the general and special revenue, debt service, capital projects and agency funds are reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues and assets are recognized when measurable and available to finance operations during the year. Expenditures and liabilities are recognized upon receipt of goods and services. Modifications to the accrual basis of accounting include:

1. Self assessed taxes, principally income, excise and franchise taxes, are recognized as receivables and revenues in the period to which they apply subject to their availability. Measurable and collectable amounts that do not meet the availability criteria are reported as deferred revenues.
2. Fines, penalties, licenses and other miscellaneous revenues are recognized when received since they normally are only measurable at that time.
3. Interest on long-term obligations is recognized in the debt service funds when it becomes payable.

b. Proprietary Fund Types, Pension Trust Funds and Component Units

The accounts of the enterprise, pension trust, and OPEB trust fund, and component units are reported using the accrual basis of accounting.

Table 3.1

GAAP Fund Type	Definition	Examples	Series	Basis of Accounting	Individual Funds
General Fund	Fund used to finance the ordinary operations of governmental agencies. The Fund is used to account for all revenues and disbursements (not provided for in other funds) that are obtained and used for services traditionally provided by a state government, such as social assistance, education, and health and social services.	<ul style="list-style-type: none"> ○ Legislature ○ Judiciary ○ Executive Departments ○ Other Elective Offices ○ Fire Prevention Commission ○ Delaware National Guard ○ Higher Education ○ School Districts ○ Advisory Council for Exceptional Citizens 	100	Modified Accrual	100 – General Fund (except TTF) 101 – Transportation Trust Fund Operations 103 – Indian River Marina Operations
Special Revenue Funds	Funds are to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditure for specific purposes.	<ul style="list-style-type: none"> ○ Federal funds for specific grant projects (except federal highway construction and Delaware State University funds) ○ Local school district tax revenues 	200	Modified Accrual	225 – Federal Funds 270 – Local School Funds
Capital Projects Funds	Funds account for resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary, special assessment, and trust funds). Resources are principally derived from proceeds of general obligation bond issues and Federal highway Administration grants.	<ul style="list-style-type: none"> ○ Political subdivisions ○ Public agencies 	300	Modified Accrual	300 – Capital Projects except TTF 301 – Transportation Trust Fund Capital 302 – Federal DelDOT Capital
Debt Service	Funds account for the	<ul style="list-style-type: none"> ○ State's portion of general 	400	Modified	425 – State

GAAP Fund Type	Definition	Examples	Series	Basis of Accounting	Individual Funds
Funds	accumulation and payment of general long-term debt principal and interest (excluding capital leases and unfunded retirement costs).	<ul style="list-style-type: none"> ○ obligation and capital improvement bonded indebtedness ○ Local school districts' portions of long-term debt for local school district capital projects 		Accrual	426 – Debt Service for TTF 450 – Local
Proprietary Funds	Funds account for operations whose records are maintained on a proprietary basis to allow the State to measure net income and changes to financial position. Enterprise Funds are used to let the State match the revenues and expenses of an activity so user fees and other revenue sources can be equitably and accurately set. Used for capital management, public policy, management control, accountability, and other purposes.		600 – Enterprise Funds 700 – Internal Service Funds	Accrual Accrual	650 – Delaware State Housing Authority 660 – Delaware State Lottery 665 – Riverfront 670 – Unemployment Trust 675 – Diamond State Port Corporation 680 – DTCC Educational Foundation
Fiduciary Funds	Funds account for assets held by a governmental unit in a trustee or agent capacity. Expendable Trusts are funds in which principal and income may be expended in the course of operations. Non-Expendable Trusts are funds in which only income derived from principal may be expended in the course of	<ul style="list-style-type: none"> ○ Permanent Funds ○ Pension Trust Funds ○ External Investment Trust Funds ○ Agency Funds ○ Parks Endowment Account ○ Land & Water Endowment Account ○ Mather Library Account ○ Tallman Scholarship Fund 	800-839 – Expendable Trust Funds 840-849 – Non-Expendable Trust Funds 850-899 – Agency Funds	Modified Accrual Accrual Modified Accrual	840 – Land and Water Conservation Trust Fund 844 – Other Post Employee Benefits Trust Funds 845 – Pension Trust Funds 855 – Child Support Collections 880 – Custodial – Pass-Through 890 – Other Expendable Trust

GAAP Fund Type	Definition	Examples	Series	Basis of Accounting	Individual Funds
	<p>operations. Agency Funds are used to account for monies and properties collected by the State for distribution to other governmental units or designated beneficiaries. The monies arise from various taxes, deposits, payroll withholdings and other sources. Agency Funds are purely custodial, and do not involve the measurement of the results of operations.</p>				
Component Units	Funds account for the financial position and operations of State colleges and universities in accordance with GAAP guidelines established by the National Association of College and University Business Officers (NACUBO).			Accrual	910 – Delaware State University 675 – Diamond State Port Corporation 680 – DTCC Educational Foundation 665 – Riverfront 650 – Delaware State Housing Authority ALL CHARTER SCHOOLS

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Chapter 4 – Budgeting

4.1 General

Each year, State Organizations and others submit their proposed budgets and funding requests to the Office of Management and Budget (OMB). After review and approval by OMB and the Governor, the annual operating budget, reflecting the State’s anticipated revenues and expenditures for the coming year, is presented to the Delaware General Assembly in the annual Appropriation Bill.

The State’s **Budget** is the complete financial plan of the State as evidenced by all appropriations and allowances made by and estimates of revenue approved by the General Assembly, including:

- The general budget of appropriations adopted by the General Assembly and approved by the Governor;
- All other appropriations and allowances authorized by law, which have been or shall be made to any agency of the State which is supported in whole or in part out of the revenues, taxes, licenses, fees, permits, fines, or other sources;
- The appropriations, allowances, and revenue estimates for any agency, which is empowered by statute to collect and expend revenues by the use of special funds by whatever name known whether or not specifically appropriated by the General Assembly; and
- The budgets and the revenues and expenditures of all agencies to which monies are appropriated by supplementary appropriations or otherwise.

(29 Del. C. §6301(3))

The State prepares and approves three (3) types of budgets each year:

- The Operating Budget (Section 4.2)
- The Capital Budget (Section 4.3)
- The Grants-in-Aid Budget (Section 4.4)

This chapter will review the various processes associated with each of these budgets, as well as the policies and procedures governing:

- Grant Funds (Section 4.5)
- Budget Transfers (Section 4.6)
- Fund Transfers (Section 4.7)
- Project Costing (Section 4.8)

4.2 The Operating Budget Process

The OMB Director prepares the proposed budget plan in a format that can be readily analyzed and is comprehensive in nature (**29 Del. C. § 6335**). The proposed budget includes all proposed expenditures of State special funds, excluding federal grants and non-federal grants funds and gifts, bequests, tuition receipts and the proceeds from the sale of debt instruments by State Organizations.

State special funds, which are included in the budget, are known as Appropriated Special Funds (ASF) and are treated for budgetary purposes in the same manner as the State's General Fund (GF).

4.2.1 Budget Instructions

OMB disseminates budget instructions each year to aid Organizations in the timely and accurate completion of proposed budgets. These instructions outline the content, form, and format needed for Organizations to properly complete budget requests and provide Organizations with any special or additional information.

For more information, Organizations should refer to their OMB Analyst or <http://www.budget.delaware.gov/budget/index.shtml>.

4.2.2 Budget Submissions

Each year, on or before **September 1st**, the OMB Director is required to furnish each budget unit, whether they are State Organizations or non-State Organizations, with official budget estimate blanks, which are used to request funds for the upcoming fiscal year (**29 Del. C. §6503(a)**).

State and non-State Agencies must complete and submit annual budget request forms to OMB on or before **November 15th** (**29 Del. C. §6502(a)**). Public school districts must complete and submit annual budget request forms to OMB on or before **October 30th**. In the case of any non-State Organization, body, committee, or person intending to request an appropriation from the General Assembly, the request must be made by and sworn to by a duly authorized person (**29 Del. C. §6502(b)**).

Requests for State special funds and itemized estimates of all anticipated State special fund receipts must also be included as part of the annual budget request submissions to OMB (**63 Del Laws, C. 279**).

4.2.3 Budget Hearings

The OMB Director is responsible for holding public hearings on any and all estimates to be included in the budget. Hearings shall begin not later than **November 15th**, and the OMB Director is responsible for giving notice of these meetings as deemed necessary.

These public hearings shall be open to the press. Any citizens or authorized representatives of any organization or group of citizens may attend these hearings and be heard upon any subject matter properly in review.

The head or authorized representative of any agency of the State receiving or asking for financial aid may attend and be heard in explanation of any request for financial aid contained in any estimate submitted to OMB.

(29 Del. C. §6332(a))

4.2.4 Submission to the Governor and the General Assembly

The OMB Director is required to submit a proposed budget report to the Governor, based on the review of State Organization budget estimates, on or before **December 15th**. During the review, the OMB Director may increase or decrease any estimate submitted, except those of the Judiciary and the General Assembly. Any revisions made by the OMB Director must be indicated in the Director's report to the Governor, including the reason(s) for the revision. **(29 Del. C. §6333)**

The Director's report is an itemized plan for the proposed expenditures of each agency of the State (classified by function and character) and for the estimated revenues for the ensuing fiscal year. **(29 Del. C. §6334(a))**

The Governor prepares a proposed budget report for each House of the General Assembly, based on the report of the OMB Director, including any changes deemed necessary or desirable. The Governor must submit the proposed budget on or before **February 1st**. At the same time, the Governor must also submit copies of the tentative Budget Appropriation Bill to each House of the General Assembly, detailing all the proposed appropriations for the budget, clearly itemized and properly classified. **(29 Del. C. §6335(a))**

4.2.5 Budget Considerations by the General Assembly

Within five (5) days of the Governor submitting the proposed budget and Budget Appropriation Bill, the standing finance committees in charge of the Budget Appropriation Bill from each House of the General Assembly must sit jointly in open session to begin consideration of the budget and the Budget Appropriation Bill.

All persons interested in the estimates under consideration may be admitted to the joint sessions and have the right to be heard. The Governor, or the Governor's representative, and the Governor-elect also have the right to sit and be heard on all matters coming before the joint committee at these public hearings.

The joint committee may call for the heads of State Agencies requesting financial aid (or responsible Agency representatives) to attend the public hearings, and the joint committee may compel Agencies to furnish information and answer questions, as the committee may require for its considerations.

(29 Del. C. §6336)

The General Assembly may increase, decrease, or eliminate items in the Budget Appropriation Bill in any way that is not contrary to the Constitution of the State. No items providing appropriations for payment of interest or principal due on State debt may be decreased or eliminated. (29 Del. C. §6337)

Final action by the General Assembly on the Budget Appropriation Bill must be taken on or before June 30th. Neither House may consider any further or special appropriations until the Budget Appropriation Bill is finally acted upon by both Houses, except in case of an emergency. Any such emergency must be clearly stated in the further or special appropriation bill. (29 Del. C. §6337)

4.2.6 Modifications to the Budget Appropriation Bill

Prior to the General Assembly's final action on the Budget Appropriation Bill, the Governor may amend or supplement the Bill, in case of an emergency or to correct an error or oversight, by delivering any such amendment or supplement to both houses of the General Assembly.

Any such amendment or supplement then becomes part of the Budget Appropriation Bill as an addition to items of the Bill or as a modification or substitution for any affected item of the Bill.

(29 Del. C. §6338)

4.2.7 Supplementary Appropriation Bills

Any further or special appropriations not included in the Budget Appropriation Bill are known as supplementary appropriations. Each supplementary appropriation must be embodied in a separate bill limited to some single work, object, or purpose that is clearly stated within each Supplementary Appropriation Bill. A Supplementary Appropriation Bill, by its provisions, shall provide or designate the source from which the money therein is to be derived. (29 Del. C. §6339)

4.2.8 Limits on General Fund Appropriations

No appropriation, supplemental appropriation or budget act shall cause the aggregate General Fund appropriations enacted for any given fiscal year to exceed 98 percent (98%) of the estimated GF revenue for such fiscal year from all sources, including estimated unencumbered funds remaining at the end of the previous fiscal year. **(29 Del. C. §6533(b))**

Any portion of the amount between 98% and 100% of the estimated GF revenue for any fiscal year may be appropriated in any given fiscal year in the event of emergencies involving the health, safety or welfare of the citizens of the State, those appropriations to be approved by three-fifths of the members elected to each House of the General Assembly. **(29 Del. C. §6533(c))**

No appropriation or supplemental appropriation enacted for any given fiscal year for Grants-in-Aid shall:

- Be made otherwise than pursuant to an act by the General Assembly, passed with the concurrence of three-fourths of all the members elected to each House; **(29 Del. C. §6341)**
- Exceed 1.2% of the estimated net State GF revenue estimated in March for that fiscal year from all sources; and/or
- Cause the aggregate State GF appropriations enacted for any given fiscal year to exceed 98% of the estimated net State GF Revenue for that fiscal year from all sources, including estimated unencumbered funds remaining at the end of the previous fiscal year.

(29 Del. C. §6533(f))

A summary of the calendar time-line for budgetary activities is listed below:

The Operating Budget Cycle		
Calendar Deadline	Budgetary Activity	Code Reference (29 Del. C.)
On or before September 1st	Budget Estimate Blanks distributed by OMB	§6503(a)
On or before October 30 th	Proposed budget request submissions due for Public School Districts	
On or before November 15 th	All proposed budget request submissions due (including those for State special funds, State Agencies, and non-State Agencies)	§6502(a), (b)
Not later than November 15 th	Last day to begin budget estimate public hearings	§6332(a)
On or before December 15 th	OMB Director completes review and revision of the proposed budget report and submits to Governor	§6333, §6334(a)
On or before February 1 st	Governor submits proposed budget report and the Budget Appropriation Bill to each House of the General Assembly	§6335(a)
Within 5 days after the proposed budget and Budget Appropriation Bill are submitted (by the Governor)	Joint meetings of the standing committees of each House of the General Assembly are held for budget and Budget Appropriation Bill consideration.	§6336
On or before June 30 th	Deadline for General Assembly approval of the annual operating budget	
July 1 st	Beginning of the State's Fiscal Year	§6507

4.3 The Capital Budget Process

The Capital Budget includes the program of State public works, major and minor capital improvement projects, and other facilities recommended to be taken by the State and any of its authorities or instrumentalities. Organizations submit their capital budget requests to the OMB Director for inclusion in the submission to the Governor.

Although submission dates for Bond Bill budget requests are not mandated by Delaware Code, in practice the dates mirror those set forth for annual Operating Budget submissions. Submissions to OMB will be presented to the Governor and House standing finance committees for review and hearings prior to passage of the Bill.

The Capital Budget submission process begins with State Organizations submitting their proposed capital budgets to the OMB Director, who will then arrange for public meetings and review. After the meetings and review process, the OMB Director assembles a proposed capital budget for submission to the Governor. The Governor reviews and amends the proposed capital budget and submits a proposed Bond Bill to both Houses of the General Assembly, who then hold joint hearings to review the bill before passage.

Upon its passage, the Bond Bill Authorization, also known as the Bond and Capital Improvement Act, creates bond appropriations and grants immediate authority to spend the appropriated monies, even before the monies are collected from the sale of the bonds, notes, or revenue notes.

4.3.1 Capital Improvements Project Types

Capital Improvements projects are segregated into two (2) main categories: Major Capital Improvements and Minor Capital Improvements.

- **Major Capital Improvement projects** are generally used for new facilities, major renovations, and economic development efforts. The projects have estimated costs in excess of \$750,000 and the underlying assets carry a life expectancy of 20 years or more.
- **Minor Capital Improvement projects** are generally used to maintain the efficiency and condition of State-owned facilities and may involve reconstruction, renovations, or equipment purchases. These projects have estimated costs of up to \$750,000 and the underlying assets should carry a life expectancy of 10 years or more.

4.3.2 Annual Report to OMB

Each year, every State agency, department, and institution of higher learning, which receives proceeds of appropriated bonds or notes, must report to OMB the status and anticipated cash flow for each project which is not complete. **(29 Del. C. §7419(b))**

4.3.3 Timetable for Use of Bond and Capital Funds

The use of State bond funds must be in compliance with the following State Code requirements:

1. Any project authorized to be undertaken with the proceeds of State bonds must commence in the fiscal year in which it is authorized. **(29 Del. C. §7416(c))**
2. Authorized project must proceed into one or more of the following phases within 18 months from the effective date of the original authorization:

- Planning;
- Initial Engineering;
- Land, building, or equipment acquisition; and/or
- Construction or reconstruction;

(29 Del. C. §7416 (a) and (c))

3. If a project has not proceeded into one or more of the identified phases within the allotted time, the authorized but unsold portion of the bonds shall automatically be de-authorized, and any unspent cash balances shall be reverted to the Bond Reversion Account to be applied to the costs of any other authorized project. **(29 Del. C. §7416 (c))**
4. No funds appropriated by an authorization act may be encumbered for any individual project more than 3 years after the passage of such an act, unless:
 - The project has progressed into the phases listed above; and
 - 85 percent of the project costs have been expended on one or more of such phases

(29 Del. C. §7416(a))

5. No bonds or notes may be issued, nor may funds be borrowed pursuant to an authorization act 4 years after the passage of such an act. **(29 Del. C. §7416(b))** Local school district capital improvements are not subject to this deadline.

4.3.4 Unexpended Capital Funds

Funds that are borrowed pursuant to an authorization act may remain unencumbered for a variety of reasons, including:

- Completion or abandonment of an authorized project; or
- Failure to undertake a project in a timely manner; or
- Expiration of the time periods set forth in **29 Del. C. §7416**.

Any such borrowed and unencumbered funds shall be deposited in a special fund. These funds may be applied to the cost of financing any previously authorized projects, upon the approval of the Governor, Secretary of State, State Treasurer, and the Secretary of Finance **(29 Del. C. §7418)**. The head of the Department or Organization is responsible for which funds were

appropriated to determine when a project is completed or abandoned, and to notify OMB within 15 days of the final determination of the project status.

Schools are usually the Organizations impacted by unexpended capital funds. The Organization must send a letter to OMB. OMB and the Controller General Office (CGO) must both sign the letter. Then OMB performs the transfer of funds.

4.4 Grants-in-Aid Budget Process

Grants-in-Aid are an appropriation made by the General Assembly to provide supplemental funding to support the activities of nonprofit organizations that provide services to Delaware's citizens. Grants-in-Aid should not be considered as sole sources of funding.

To qualify for Grants-in-Aid, organizations must have IRS 501-C3 tax exempt status and must have been incorporated in the State for at least two years prior to the beginning of the fiscal year for which they are applying.

Applications for Grants-in-Aid are available on the first business day in July and must be submitted to the CGO by the first business day of November.

The Joint Finance Committee meets, during the Legislature's two-week Easter holiday break, to review applications and hold public hearings on the Grants-in-Aid requests.

Decisions regarding Grants-in-Aid are made by the Joint Finance Committee in late June.

Any appropriation for Grants-in-Aid will be made, only if it is in accordance with an act by the General Assembly. The appropriation must be passed with the concurrence of three-fourths of all the members elected to each House. **(29 Del. C. §6341)**

For more information on Grants-in-Aid, organizations should refer to http://legis.delaware.gov/legislature.nsf/lookup/Grant_in_Aid.

4.4.1 Receipt of Grants-in-Aid Funds

Funds appropriated in a Grants-in-Aid bill will be paid in installments of 25 percent each quarter of the fiscal year, in accordance with the administrative procedures established by the Secretary of Finance and the State Treasurer.

In the event that the amount of a Grants-in-Aid funding appropriation is \$6,000 or less, it will be paid in a single annual payment.

The General Assembly may make exceptions to the installment requirement by adding epilogue language to the Grants-in-Aid bill.

(29 Del. C. §6505(d))

4.4.2 Limits on the Grants-in-Aid Bill

No appropriation or supplemental appropriation enacted for any given fiscal year for Grants-in-Aid in the aggregate shall:

1. Exceed 1.2 percent of the estimated net State GF revenue estimated in March for such fiscal year from all sources; and
2. Cause the aggregate State GF appropriations enacted for any given fiscal year to exceed 98 percent of the estimated net State GF revenue for such fiscal year from all sources, including estimated unencumbered funds remaining at the end of the previous fiscal year. (The term "estimated net State GF revenue" means the estimated gross State GF revenue less estimated revenue refunds).

(29 Del. C. §6533(f))

4.5 Grant Funds

4.5.1 Delaware State Clearinghouse Committee

The Delaware State Clearinghouse Committee is responsible for the approval/disapproval of federal and non-federal grant coordination. The Committee sets the procedures and guidelines covering all grant applications and serves as the federal Single Point of Contact (SPOC) for the State for all grant applications. For more information about the Clearinghouse, see **29 Del C. §7601**.

4.5.2 Submission of Grant Applications and Plans

All agencies or entities, whether public or private, including political subdivisions of the State and higher education, that:

- Receive State funds to be used in part or in total as match for receiving federal or non-federal funds; or
- Which receive funds through the annual Budget Appropriation Act, or

- Which through the receipt and expenditure of federal or non-federal funds impact State expenditures, must submit plan(s) or application(s) for federal or non-federal grants and monies to OMB for review and approval or disapproval by the Delaware State Clearinghouse Committee, **prior to submitting the application(s) to federal or non-federal authorities for the purpose of receiving funds, (29 Del. C. §7603)**, and prior to submission to any other federal or non-federal entity.

For additional information about the grant submission process, Organizations should refer to <http://budget.delaware.gov/clearinghouse/>.

4.5.3 Required Public Hearings on Block Grants

The Delaware State Clearinghouse Committee is the authorized committee to hold required public hearings on behalf of the Delaware General Assembly for block grants from the federal government. The public hearings are held to:

- Permit public examination of the projected use and distribution of block grant funds;
- Allow affected residents of the State, appropriate units of local governments and private agencies to examine the application and submit comments; and,
- Obtain views of the residents of the State.

The public hearing may be held at the same time the agency's application for block grant funds is reviewed, approved or disapproved by the Delaware State Clearinghouse Committee, at the Committee's discretion.

In addition to other methods, as the Committee may determine, notice of a public hearing must be given by publication in a newspaper of general circulation in the State at least ten (10) days preceding the date of the public hearing, except where a longer period is expressly provided by applicable law. The notice must state the date, time, and place of the public hearing, and must specify the matters to be considered.

(29 Del. C. §7604)

4.6 Budget Transfers

Budgets are loaded based on the spending authorization provided to Organizations by the General Assembly. These spending authorizations are the GF and ASF appropriations. The General Assembly does not provide spending authorization for NSF Appropriation and ASF Holding Appropriation budgets as these are special funds that are controlled by collected revenue. Collected revenue increases the budget spending authority of these special funds.

The Budget Journal transaction is used to load appropriated budgets at the start of the fiscal year and to establish new appropriations during the fiscal year (for example, upon approval of a grant.) Budget Journal transactions require both OMB and CGO approvals. The approvals for this transaction type require hardcopy signatures, and OMB is responsible for executing the transaction in the State's financial management and accounting system, First State Financials (FSF), after all necessary approvals are obtained.

The Budget Transfer transaction is used in the State's finance and accounting system to reallocate spending authorization or spending authority among or between appropriations in the same type of fund or Ledger Group (e.g., MAIN to MAIN or NSF to NSF.) The budget transfer transaction cannot be used to reallocate spending authorization or spending authority among or between different types of funds or Ledger Groups (e.g., NSF to ASF or ASF to MAIN.)

Budget Transfer transactions may be executed by Organizations or by OMB, depending on the budget definitions that underlie the affected appropriations:

- Transfers within the MAIN and ASF_SPEND budget definition require both OMB and CGO approval and may only be executed by OMB.
- Organizations may move spending authority among their own NSF appropriation spending lines or ASF Holding accounts without OMB approval.
- Transfers within the lower ledger groups (LLB, PC_TK_SUM, PC_TK_WBUD, SCHOOLS) do not require OMB approvals.

Organizations should contact the OMB Budget Analyst for any questions about these transfers.

The following policies relate to budget transfers:

1. Transfer of funds from one item of account to another on the books of any agency must be made with the written approval of the OMB Director (**29 Del. C. §6528(a)**), unless authorized in other paragraphs.
2. Transfer of appropriated GF from one item of account to another on the books of any agency must be made with the written approval of the OMB Director and the Controller General (**29 Del. C. §6528(b)**), unless authorized in other paragraphs.
3. Appropriated GF shall remain within the department or agency where the funds are appropriated and shall not be transferred for use by another department or agency, except as provided by law or within the provisions of subsection (d) of this Section. (**29 Del. C. §6528(c)**)
4. Appropriated GF may be transferred within a department or agency of the State, subject to the authority and limitations set forth in Part VI of this title, and the approval by the

Controller General. However, the approval by the Controller General is not required on transfers from the Budget Commission. **(29 Del. C. §6528(d))**

5. No funds may be transferred into appropriations for "Personnel Costs", "Salaries", or "Salaries and Wages" from appropriations for non-salary items. Funds appropriated by the Budget Appropriation Bill for "contingency funds" shall not be used for the payment of a line-item salary, except as otherwise specifically provided by law and for the sole purpose of maintaining the salary schedule defined for school employees. **(29 Del. C. §6528(d))**
6. The Department of Technology and Information is exempt from Paragraphs 4 and 5 from above. However, if the Department of Technology and Information needs to transfer unexpended appropriated personnel costs to either "contractual services" or "equipment rental", the request must be made from the Secretary of the Department of Technology and Information, with the approval of the OMB Director and the Controller General. **(29 Del. C. §6528(e))**
7. In the event the appropriation set forth by the Budget Appropriation Bill is excessive or inadequate to any department or agency, the OMB Director, with concurrence of the Controller General, is authorized to transfer funds among the various departments for:
 - a. Specific non-routine requirements, which must be in writing, recorded, and controlled through separate accounts within the OMB Contingencies.
 - b. Salary and Other Employment Costs, or Personnel Costs to meet overall State Salary and Other Employment Costs requirements. These authorizations for transfer can be between Salaries and Other Employment Costs and must be in writing with full documentation.
 - c. Matching funds and Public Education funds where extended educational components may be administered within other departments or agencies.**(29 Del. C. § 6528(f))**
8. All departments with Internal Programs may transfer appropriations among Travel, Contractual Services, Supplies and Materials, and Capital Outlay lines within the Internal Program. These transfers will not require the approval of the OMB Director and Controller General.
9. All requests for transfers within the GF or ASF must contain the following justifications:
 - a. What is the Organization proposing to purchase or contract?
 - b. What is the effect on the current budget?
 - c. What programs are affected and to what degree?

- d. What improvement in services will be provided?
 - e. How did the surplus develop?
 - f. Will this transfer be recurring?
 - g. What is the effect on the budget for the next fiscal year?
10. All transfers must have the approval of the Organization Head or Designee.
11. The movement of cash between special fund appropriation accounts may only be accomplished using the Budget Journal transaction.

4.7 Fund Transfers

Organizations are required to use an Intergovernmental Voucher (IV), an Intergovernmental Transfer (IT), or a Zero-Balance Cash Receipt (ZBCR) transaction to move funds among or between GF and SF appropriation accounts to meet the state business needs. These transactions do not require OMB approval.

- The IV is used to move funds from one Organization to another *in exchange for a supplied good or service*.
- The IT is used to move funds from one type of fund to another type of fund or one Ledger Group to another Ledger Group (e.g., NSF to ASF), that is not associated with a provided good or service. The IT is also used to reallocate funds collected in the prior fiscal year.
- The ZBCR is used for corrections, or a reallocation of funds collected in the current fiscal year.

4.8 Project Costing

Organizations can track proposed and actual project budgets and expenditures using the Project Costing (PC) module of FSF. Multiple projects can be rolled up into Summary Projects, and multiple Summary Projects can also be rolled up into one Summary Project to aid Organizations in tracking and reporting ongoing project activities. Project Costing establishes:

- Projects
- Activities
- Budgets

Every project must have at least one activity associated to the project before a budget can be established. Summary projects do not have activities attached, nor can they have project transactions cited against them. Summary projects are used to facilitate reporting. Only the Division of Accounting (DOA) will be able to change or delete project IDs and activities, only if no transactions exist against those project lines. Activities are based on project type.

Organizations choosing to use the Project Costing functionality are required to associate transactions with projects, using a Cost Center number for identification purposes. This association will allow all transactional information to feed back to the appropriate project.

Cost Center numbers are created for projects using the numbering protocols developed by OMB and DOA. Organizations should contact DOA for assistance in assigning Cost Center Numbers, if needed.

The budget for a project can exceed the appropriation on the budget for that project, but the appropriation budget will prevent, regardless of the amount remaining in the project budget, project-related transactions from processing after the appropriation limit is reached. Although each project may have multiple cost budget plan revisions, only one cost budget plan is in effect per project at any given time.

If dollars are being moved within a single project, or among projects with the same chartfield string, OMB's approval is not required. If a higher appropriation amount is required for a project, then OMB's approval is required and additional funds are entered into budget journals at the appropriation level.

Although the use of the Project Costing module in FSF is optional, OMB strongly encourages the use of the Project Costing module for Capital Improvement projects and for federally funded grants.

Schools should contact the Department of Education (DOE) for additional policies and procedures associated with the use of the Project Costing module.

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Chapter 5 – Procurement

5.1 General Procurement

The State's procurement laws are set in **29 Del. C. Chapter 69**. The procurement information below is a synopsis of pertinent prevailing information relating to the State's official Budget and Accounting policies. Please refer to the Delaware Code, the Office of Management and Budget (OMB) website, and any online Department of Finance (DOF) accounting memoranda for additional information, governing laws, regulations, policies, and requirements.

5.1.1 Authority

The State of Delaware promulgates its own set of procurement and purchasing laws, regulations, requirements, and guidelines. The responsibilities for establishing and maintaining the procurement and purchasing policies are shared among OMB through Government Support Services (GSS); DOF through Division of Accounting (DOA); and the Contract and Purchasing Advisory Council (CPAC).

The GSS and the OMB Director set the policies governing:

- Small Purchase Competitive Pricing, <http://gss.omb.delaware.gov/contracting/spp.shtml>
- Competitive Sealed Bids (Invitations to Bid - ITB), <http://gss.omb.delaware.gov/contracting/agencyboiler.shtml>
- Requests for Proposal (RFP), <http://gss.omb.delaware.gov/contracting/agencyboiler.shtml>
- Sole Source Procurement, <http://bids.delaware.gov/>
- Multiple Source Contracting, <http://bids.delaware.gov/>
- Cooperative Procurement Participations, <http://gss.omb.delaware.gov/contracting/index.shtml>

DOA sets additional administrative rules for processing and recording transactions in the State's finance and accounting system, First State Financials (FSF), to ensure accurate and timely processing and reporting of the State's financial information. For more detailed transactions processing information, Organizations should refer to **Chapter 7, Purchasing and Disbursements**.

The CPAC, together with the Contracting and Purchasing Committee, are responsible for monitoring the State's procurement policies and procedures, and for making recommendations to improve the processes. The Council also sets the dollar amount thresholds that trigger formal bidding procedures for the State's various contract procurement classifications. For more information about these classifications and thresholds, see **Section 5.3** below.

5.1.2 Purpose

The State created uniform purchasing policies to enable leveraged buying opportunities to increase the quantity and quality of data for spend analysis and to address deficiencies identified through benchmark analysis and annual audit findings. Additionally, it is in the State's interests to enact purchasing and procurement policies to:

- Process purchase transactions in a uniform manner in FSF;
- Take advantage of Strategic Sourcing opportunities;
- Assure legal compliance with federal and State requirements;
- Identify additional benefits and savings;
- Safeguard the State's monies and assets;
- Assure only prescribed uses of the State's resources; and
- Maintain transparency in the application of State policy and practice for all potential and actual vendors, purchasers, and all other constituents.

5.2 Contracts and Contract Purchasing

To create a more efficient procurement process to better enable the State to obtain the highest quality goods, materials, and services at the best possible price, the GSS section of OMB is empowered to administer and manage central or joint purchasing contracts for State Organizations.

5.2.1 State Contracts

The Contracting unit within GSS manages all Statewide contracts for goods and services and administers Organization contracts as requested. This team is the State of Delaware's central contracting unit. It acts on behalf of State Organizations, local government units, and authorized volunteer fire companies.

GSS may negotiate with various manufacturers and distributors and award contracts that will enable State agencies, local governments, schools and school districts to purchase materiel at prices approved by the General Services Administration (GSA) of the United States. **(29 Del. C. §6935)** The protocol for acquiring needed goods and services off GSA schedules is available on the GSS website at: <http://gss.omb.delaware.gov/divisionwide/forms.shtml>.

All covered Organizations are required to procure goods and services through the Mandatory Use Contracts (MUCs) negotiated by GSS. The Organization Business Manager is responsible to ensure that all eligible purchases are made using MUCs.

NOTE: A list of the State's current Mandatory Use Contracts and contract numbers is available on the OMB/GSS website at <http://gss.omb.delaware.gov/contracting/index.shtml>.

Delaware State University, Delaware Technical Community College, the operations funded by public school districts, Delaware Transit Corporation, the Legislative Branch, and the Board of Pension Trustees and their consultants are specifically exempted from the requirement to use GSS-administered Statewide contracts. However, these contracts remain available to them as a service to these Organizations.

Additional information regarding Organization exceptions to the State's purchasing and procurement policies can be found at **29 Del C. §6904**.

5.2.2 Organization Contracts

If no state contract exists for a certain good or service, covered and non-covered agencies may negotiate contracts for their own use. An agency may procure a good or service under another agency's contract as long as the arrangement is agreeable to all parties (**29 Del. C. §6904(e)**). For more information or assistance with negotiating Organization contracts, contact GSS.

5.2.3 Fiscal Year

Contracts and agreements should coincide with the State's fiscal year, whenever possible. The fiscal year begins each year on July 1, and concludes on the following June 30 (**29 Del. C. §6507**).

Any agreement or contract which does not coincide with the State's fiscal year must contain a "funding out" clause, nullifying the State's obligations in the event of a reduction to an Organization's appropriation. Following is an example of an acceptable "funding out" clause:

"If sufficient funds are not appropriated by the Delaware General Assembly, or other appropriate federal or State Organization, to sustain in whole or in part the Department of _____'s performance under this agreement; or if such appropriation is reduced such that the amount of the appropriation is insufficient to sustain said performance; this agreement shall be null and void at the insistence of the Department of _____."

5.2.4 Non-Discrimination

Contracts involving the expenditure of State funds may only be awarded on condition of compliance with the State's equal opportunity laws. **(29 Del. C. §6519A)**

5.2.5 Purchase Orders Required

Any contracts signed prior to DOA's approval of the applicable purchase order must contain a clause to the effect that the contract is subject to the vendor's receipt of an approved purchase order. **The State will not be liable for any goods or services provided by the vendor prior to the receipt of an approved purchase order.**

5.2.6 Contract Documentation

Each Organization must retain in their files all pertinent documents and correspondence relating to the contract bid process, in order that these supporting documents may be available for audit or review by a State official at all times. Documents are not to be kept at an architect's office, etc.

If a contract is awarded to a firm other than the lowest responsible and responsive bidder, the Organization Head must make a written determination of the reason or reasons for rejecting the bid **(29 Del. C. §6923(k)(2))** to be kept in the Organization files. **If a purchase is supported by a contract, the contract number must be listed on the requisition/purchase order/direct claim voucher.**

To establish a proper audit trail, Organizations must assign a numerical control number to all Organization contracts on a fiscal year basis. The numbering process must be in sequential order.

The contract naming and numbering scheme is found for commodities and services contracts in the Agency Solicitation Request. The naming convention is defined specifically in item 13 of the form. To view the form, Organizations may click on the following link:
<http://gss.omb.delaware.gov/contracting/agencyboiler.shtml>.

The **Contract ID** consists of:

- Agency Code – an alphabetic code that may contain up to six characters. To view a listing of the applicable codes, Organizations may click on the link:

<http://bids.delaware.gov/acronyms.asp>

- Last two digits of the contract award year (calendar year)
- 3-digit contract number
- A dash before the short description
- Short description (10-digit alphabetic field)
- The last three characters are reserved for vendor sequence upon award. Contract ID can NOT exceed 25 characters, including the vendor sequence.

Example: GSS09129-PlumbsupplV01

For public works procurement contracts, the naming schematic is as follows:

- Project Costing Project ID – an alpha-numeric code that may contain up to 15 characters.
- Supplemental Agency-Defined Code – an alphabetic field that may contain up to 7 characters.
- Vendor Sequence Number – a 3-digit alpha-numeric sequential field.

**Examples: T200907301DESIGNV01
MJ7601000001SITEWRKV01
C9534EISENBRGESCONSRTV01**

5.3 Small Purchase Procedures and Bidding Thresholds

The Contracting and Purchasing Advisory Council (CPAC) (**29 Del C. §6913**) establishes thresholds that trigger formal bidding procedures in the areas of Materiel and Non-Professional Services, Public Works, and Professional Services. In addition to the thresholds stated here, an Organization may institute policies that are more restrictive than those established by either code or by the council.

NOTE: For covered Organizations, open market purchases are **only permitted for goods and services not already under contract.**

5.3.1 Materiel and Non-Professional Services Purchase Thresholds

In the case of Materiel and Non-Professional Services (M&NP), the dollar amount listed below is a yearly cumulative limit.

For those items not already under a State Mandatory Use Contract, purchases are made according to the following thresholds:

Material and Non-Professional Services Thresholds

Threshold	Requirement
Less than \$10,000	Open Market Purchase
\$10,000 - \$24,999	3 Written Quotes
\$25,000 and over	Formal Bid

Organizations should refer to the Contracting website at:
<http://gss.omb.delaware.gov/contracting/spp.shtml>, for additional information.

5.3.2 Public Works Thresholds

For purchases related to Public Works projects, the dollar amount thresholds listed below are on a contract by contract basis.

Public Works Thresholds	
Threshold	Requirement
Less than \$50,000	Open Market Purchase
\$50,000 - \$99,999	3 Letter Bids
\$100,000 and over	Formal Bid

Organizations should refer to the Contracting website at:
<http://gss.omb.delaware.gov/contracting/spp.shtml>, for additional information.

5.3.3 Professional Services Thresholds

For Professional Services purchases, the dollar amounts listed below are on a contract by contract basis.

Professional Services Thresholds	
Threshold	Requirement
Less than \$50,000	Open Market Purchase
\$50,000 and over	Formal RFP Process

Organizations should refer to the Contracting website at:
<http://gss.omb.delaware.gov/contracting/spp.shtml>, for additional information.

5.4 Exceptions to Bid Laws

Any person who subdivides or fragments any contract, the probable cost of which would require competitive bidding, as directed by the Delaware Code or this Manual, into two or more

contracts with the intent to avoid compliance with these bidding requirements shall be fined in accordance with **29 Del. C. §6903(a)**.

Materials may be purchased and work contracted to be performed without competitive bidding in the following instances:

1. The agency head may determine an emergency condition exists by reason of extraordinary conditions or contingencies that could not reasonably be foreseen and guarded against. An emergency condition creates an immediate and serious need for materiel, professional, or non-professional services that cannot be met through normal procurement methods for the protection of public health, safety, or property. **(29 Del. C. §6907)** Any procurement under this exemption is only permitted during the emergency situation and may not extend beyond the expiration of the emergency itself.

For the period during which a state of emergency is declared by the Governor, the Delaware Emergency Management Agency (DEMA) may incur or authorize other state agencies or local governments to incur obligations to purchase or to purchase immediately such materials and supplies as may be necessary to protect the health and safety of persons and property and provide emergency or disaster assistance to victims of a disaster. Such obligations and purchases shall be exempt from bidding provisions required by Chapter 69 of Title 29. **(20 Del. C. §3107(18))**

In the case of a declaration of a state of emergency by the Governor, state agencies may implement their emergency or disaster assignments without regard to procedures required by other laws (except mandatory constitutional requirements) pertaining to the performance of public work, entering into contracts, incurring of obligations, employment of temporary workers, rental of equipment, purchase of supplies and materials, and expenditures of public funds. **(20 Del. C. §3126)**

2. A contract may be awarded without competition if the agency head, prior to the procurement, determines in writing there is only one source for the required contract. Sole source procurement shall not be used unless there is sufficient evidence there is only one source for the required contract, and no other type of goods or service will satisfy the requirements of the agency. The agency shall examine cost or pricing data prior to an award under this subsection. Sole source procurement shall be avoided, except when no reasonable alternative sources exist. A written determination by the agency for the sole source procurement shall be included in the agency's contract file. **(29 Del. C. §6904(i))** A copy of any such declaration shall also be forwarded to GSS with the contract documents for publication on the central contract portal. GSS serves as a clearinghouse for procurement information for materiel and services for both agencies and vendors **(29 Del. C., §6908(a) (4))**.

Descriptions or specifications shall not use a brand or trade name except as an indication of the type and quality of materiel and in all such cases shall contain the words "or approved equal." All specifications shall seek to promote overall economy for the purposes intended and encourage competition in satisfying the agency's needs and shall not be unduly

restrictive. **(29 Del. C. §6932)** An explanation justifying the award of a "sole source" contract or agreement must be included in the agency's contract file, as audit support for any subsequent purchase orders. **(29 Del. C. §6925(a), (b); §6965(a), (b); §6985(a), (b))**

3. Where, because of changed situations, unforeseen conditions, strikes and acts of God, change orders, supplemental agreements, or extra work determined to be necessary and requested by the agency and not specified in the agency's solicitation or advertisement for bids and in the awarded contract the awarding agency may issue a change order or supplemental work agreement(s) on a contract, which shall not:

- Be subject to competitive bidding requirements; or
- Invalidate the contract, provided the change is within the scope of the contract as set forth in the standard specifications, special provisions or similar publication of the agency.

20 Del. C. §6904(f); §6963)

4. Where the purchase of material is from the federal government or from any government of the State, including any agency of the State, as defined in **29 Del. C. §6902. (29 Del. C. §6904(b))** provided that such purchase is consistent with **16 Del. C., Chapter 96**, regarding Set Aside contracts and the provisions of **29 Del. C., §6935**. For additional information regarding Set Aside contracts, Organizations should refer to <http://contracts.delaware.gov/setaside.asp>. GSS processes regarding the use of GSA contracts may be found at <http://gss.omb.delaware.gov/divisionwide/forms.shtml>.
5. Where the purchased material or work is necessary to enable the Department of Elections to conduct a primary, general, or special election. **(29 Del. C. §6904(i))**
6. Where the purchase of materials or services conflict or are inconsistent with a project or activity subject to federal grant requirements and may jeopardize the availability of federal funds. **(29 Del. C. §6904(a))**
7. Where the contracts are for the transportation of school children. All proposed contracts for transportation of school children are to be submitted to the Secretary of Education through the Department of Education Transportation office for approval. **(29 Del. C. §6904(c))** Approval of a contract is by majority vote by the appointed members of the State Board of Education. Failure to obtain a majority vote shall cause the rejection of the contract.
8. Where the purchase is for library materials by libraries of any agency, or for services by libraries of any agency pursuant to **29 Del. C. Chapter 66. (29 Del. C. §6904(d))**
9. Where the purchase is for educational materials and supplies by a post-secondary educational institution participating in and benefitting from special educational discount and cooperative programs. **(29 Del. C. §6904(j))**

10. Where the purchased material will be used by DHSS's Delaware Industries for the Blind as raw material for goods which the program manufactures for resale, or the purchased material will be used by the Business Enterprise Program of the Division for the Visually Impaired as supplies to operate the vending stands in the program. **(29 Del. C. §6904(g)(1))**

11. Where the purchase pertains to the rental, lease, and/or purchase of automobiles for State use:
 - a. All cars, heavy duty (taxi packages) cars, and station wagons purchased for State use must be purchased by contracts administered by OMB's GSS Fleet Services. All other vehicles must be purchased from bid lists approved by OMB's GSS Contracting Services. **(29 Del. C. §6906(a))** Bid specifications are developed by GSS with the concurrence of the OMB Director and the Controller General. The purchase of special purpose vehicles in excess of the restrictions established by the bid specifications requires the approval of the OMB Director and the Controller General. **(29 Del. C. §6906(b))** The special purpose vehicles of the Department of Public Safety, Division of State Police, the New Castle County Police and all Sussex County vehicles are exempt from these requirements. **(29 Del. C. §6906(f), (g))**

 - b. No agency shall purchase any passenger motor vehicle to be used for State purposes unless, on a one-for-one basis, a vehicle has been identified and/or turned over to the OMB's GSS Surplus Services for sale at auction or as salvage. This requirement may be waived by the Director of GSS, OMB Director, and the Controller General. Passenger vehicles may not be transferred from one agency/school district to another agency/school district without the approval of the Director of OMB. **(29 Del. C. §6906(e))** No agency shall lease passenger vehicles except from GSS. Exempt from this subsection are the Governor's car, agency employees traveling on out-of-state business, and GSS. **(29 Del. C. §7105(c))**

 - c. Except for the Governor's car, cars rented while on out-of-state business and those cars leased by GSS, no agency/school district may lease passenger vehicles except from GSS. **(29 Del. C. §6906(d))** Upon written request, the OMB Director, with the concurrence of the Controller General and the Director of Finance, may grant exemptions to the lease-rental restriction.

12. Where the agency determines professional services are necessary during the course of a previously awarded public works contract, and the agency determines it would be in the best interest of the State to procure additional or supplemental professional services from a firm already under contract for the project, provided such professional services are within the scope of the contract **(29 Del. C. §6981(b) (2))**.

5.5 Public Works Contracts

Any person who subdivides or fragmentizes any contract, the probable cost of which would require competitive bidding as directed by the Delaware Code into two or more contracts with the intent to avoid compliance with the State's procurement practices, shall be fined as directed by **29 Del. C. §6903 (a)**.

Public Works Contracts are divided into three classifications, each classification with its own purchasing requirements. Agencies should contact OMB's Facilities Management for more information or assistance negotiating Public Works Contracts. Plans require Facilities Management approval PRIOR to solicitation for vertical construction (**29 Del. C., §7419(a)** and **29 Del. C. §6307A**). Public Works Contracts may be classified as:

Small – (less than \$50K – CPAC/ Facilities Management) – follow **§6922**; open market purchase (see M&NP, below); bid and performance bonds may be required. (**29 Del. C. §6927(a) (1)**)

Medium – (\$50K - \$99,999 – CPAC/ Facilities Management) – three (3) letter bids; bid and performance bonds may be required.

Large – (greater than \$100K – CPAC/Facilities Management) – follow **§6962**; Material and work of a non-professional nature not performed by employees of an agency must be performed under contract after competitive bidding, except as noted otherwise in this Manual. (**29 Del. C. §6904(g)**)

If the probable cost of a Public Works contract is expected to exceed \$50,000:

- The contract is awarded and associated purchases may only be made after public advertising and the receipt of sealed bids. (**29 Del. C. §6904(g)**). The State issues an Invitation to Bid (ITB), per **29 Del. C. §6923**, or a Request for Proposal (RFP), per **29 Del. C. §6924**, as it deems appropriate. Organizations are required to retain proof of public advertising (a copy of the ad or the newspaper's invoice) and bid tabulations in the contract file as supporting documentation for purchase orders related to the awarded contract. Bids may require a deposit of good and sufficient bond to the State for a sum equal to at least 10 percent of the bid (**29 Del. C. §6962(d)(8)(a)**). Upon execution of a formal contract and bond, the security deposit is to be returned immediately to the successful bidder; securities from unsuccessful bidders are returned immediately upon award of the contract or the rejection of all bids, but no later than 30 days after the opening of bids. (**29 Del. C. §6927(c)** and **§6962(d)(8)(b)**)
- Simultaneous to the execution of a formal contract, the successful bidder executes a good and sufficient bond to the State for the benefit of the agency in a sum equal to 100 percent of the contract price. An agency may reduce or waive such bond, if so stated in the bid specifications. (**29 Del. C. §6962(d)(9)**)

- Agencies of the State are empowered to retain a percentage of the monies to be paid to a contractor during the performance of the contract. The percentage at any one time may not exceed 5 percent of the monies due to the contractor at that time. The rate or amount of retainage may be reduced at any time by the agency. **(29 Del. C. §6962(d)(5)(a)).**
- **Documentation** – Each Organization must retain in their files all pertinent documents and correspondence relating to the bid process, in order that these supporting documents may be available for audit or review by a State official at all times. Documents are not to be kept at an architect's office, etc.
- If an agency determines that a bidder is nonresponsive or non-responsible, the determination shall be in writing and set forth the basis for the determination. A copy of the determination shall be sent to the affected bidder within five working days of said determination. The final determination shall be made part of the procurement file. If the agency elects to award on the basis of best value, the agency must determine that the successful bidder is responsive and responsible, as defined in this subsection. The determination of best value shall be based upon objective criteria that have been communicated to the bidders in the invitation to bid. **(29 Del. C. §6962(d)(13))**

5.6 Professional Services Contracts

"Professional services" means services which generally require specialized education, training or knowledge and involve intellectual skills. Examples of professional services include, but are not limited to, engineering, environmental engineering, environmental monitoring, land surveying, landscape architecture, geology, architectural, archaeologists, architectural historians, historians, educational consultants, management, medical, teaching, planning, computer information management, financial, accounting, auditing, construction management, and arbitration services.

(29 Del. C. §6902(19))

5.6.1 Advertising

Any state contract for which an agency is a party with probable fees, including reimbursable expenses and amendments, greater than the threshold amount(s) established by the Contracting and Purchasing Advisory Council pursuant to § 6913 of this title for the completed job will be subject to the provisions of this subchapter. **(29 Del. C. §6981(a))**

Professional service contracts are to be publicly announced not less than once a week for a two consecutive week period in a Statewide news publication. **(29 Del. C. §6981(b))**

Per the State's web-based procurement program, legal notices shall direct interested bidders to the Organization websites. For additional information, Organizations should refer to **Section 30(a) Epilogue in HB 190:**

For the purposes of meeting the public notice and advertising requirements of 29 Del. C. c. 69, the announcement of bid solicitations and associated notices for the required duration on www.bids.delaware.gov shall satisfy the public notice and advertisement requirements under this chapter.

5.6.2 Evaluation and Negotiation

Organizations are required to evaluate current qualifications and performance data of prospective firms. Each Organization must establish written administrative procedures for the evaluation of applicants.

After discussions with the firms regarding the proposed project, including the firm's qualifications, approach to the project, and ability to furnish the required services, the agency then ranks the qualified firms in order of preference based on criteria established in accordance with **29 Del. C. §6981(f), 29 Del. C. §6982(a), (b)**.

The agency will then negotiate for the professional services with the firm ranked first on the preference list. Should the agency be unable to negotiate a satisfactory contract with the firm ranked first on the preference list, at a price deemed fair and reasonable by the agency, negotiations with that firm shall be terminated.

The agency shall then undertake negotiations with the second ranked firm. Failing accord with the second firm, negotiations shall be terminated and the agency will negotiate with the remaining firms. After successful negotiations have been completed, the agency will prepare a public notice within 10 days after awarding the contract stating the firm selected.

(29 Del. C. §6982)

5.6.3 Additional Provisions

1. All solicitations are required to be processed through www.bids.delaware.gov for formal above threshold procurements. The solicitation process is available through GSS at http://gss.omb.delaware.gov/contracting/documents/agencyboilers/agency_solicitations_lowchart.pdf.

A copy of all awarded/executed contracts is to be forwarded to GSS with the contract documents for publication on the central contract portal. GSS serves as a clearinghouse for procurement information for materiel and services for both agencies and vendors (**29 Del. C., §6908(a) (4)**).

2. Each contract for professional services will contain a prohibition against contingent fees. The agency shall have the right to terminate the agreement for the violation of this provision. **(29 Del. C. § 6903)**
3. For all lump-sum multiple of direct personnel expense or cost-plus-a-fixed-fee professional services contracts, the firm receiving the award is required to execute a truth-in-negotiation certificate. **(29 Del. C. § 6982 (a)(2))**
4. Each Organization must retain in their files all pertinent documents and correspondence relating to the bid process, in order that these supporting documents may be available for audit or review by a State official at all times. Documents are not to be kept at an architect's office, etc.

5.7 Used Equipment

Any agency may purchase used equipment or other materiel by negotiated purchase, rather than by competitive bidding, as provided in this chapter, if it is demonstrated to the satisfaction of the agency head that the negotiated price is reasonable for the intended use. **(29 Del. C. §6934)**

- Purchases of used equipment costing \$5,000 or more but less than \$10,000 must be requested by letter to the OMB Director. The letter will include a detailed description of the item purchased, cost, useful life, purpose for which the item was acquired, and the name, address, and telephone number of the seller.
- All passenger vehicles, including sedans, station wagons, passenger and utility vans, off-road vehicles, police-type cars and station wagons and trucks rated 10,000 GVW or less purchased for State use by any agency/school district must be approved by the OMB Director and purchased by contracts administered by the GSS. All other vehicles purchased for State use by any agency/school district must be purchased from contracts administered by the Government Support Services. **(29 Del. C. §6906 (a))** Used vehicles employed by any agency for undercover operations may be purchased by negotiation rather than by competitive bidding, provided that the negotiated prices are approved by the OMB Director and the Controller General. **(29 Del. C. §6906)(c))**

All items costing \$10,000 or more must be presented to the OMB Director for approval.

NOTE: This procedure does not relieve the Organization from obtaining other required approvals as described in this Chapter.

5.8 Leases

A lease is defined as a contract by which one conveys property for a specified term for a specified rent. It may be a straight lease (i.e. rental) or a lease-purchase through which the asset is required. A capital lease-purchase arrangement provides for the acquisition of fixed assets over a period of time during which the vendor of the leased property or a third party (as in the case in the State's Master Lease Program) provides the financing.

5.8.1 Lease/Purchase Criteria

Organizations may not procure independent 3rd party financing arrangements. The Master Municipal Lease Purchase Agreement (MMLPA) contract administered by the State is a mandatory use contract. Lease contracts are not covered by the bidding laws of the State (**29 Del. C. Ch. 69**) since these laws refer only to purchases. However, the use of the word "lease", in and of itself, does not make a contract a lease arrangement.

Contracts, which are in substance purchases, are subject to the bidding laws. Factors, such as the intent of the parties and substance of the agreement, need to be examined to determine if a contract is a strict lease or in substance a purchase governed by the bidding laws. Factors to be considered in determining if a contract is a lease-purchase are:

- Substantial Equivalence – If the State is bound to pay rent substantially equal, in total, to the value of the goods being leased, and the State's only sensible course of action at the end of the lease is to become owner of the goods, the contract is considered a purchase;
- Option to Purchase – If the lease provides that at the end of the lease period, the State has an option to purchase at a cost which is disproportionately small in relation to the rental already paid, this is an indication the contract is, in substance, a purchase;
- Obligation to Repair and Maintain – A contract entered into by the State to retain possession of goods during the lease period and to repair and maintain the goods, indicates the contract is a purchase; and
- Risk of Loss – The acceptance by the State of the risk of loss during the lease period requiring the State to carry insurance on such risk can indicate the contract is a purchase.

The last two factors, i.e. obligation to repair and maintain and risk of loss, are factors to be considered in determining if a contract is for a purchase. They are not conclusive tests. Also, the above listed factors are not all inclusive. Lease contracts, entered into with the intent to convert to a lease-purchase later, should be bid.

5.8.2 Leasing Options

Leasing equipment may be appropriate when the equipment is expected to have a very short useful life and there is, therefore, no economic reason to acquire it. At times, leasing certain equipment may be cheaper in the aggregate, if service contracts and supplies are included at a discount rate.

NOTE: All leases must carry tax-exempt financing rates.

The GSS section of OMB maintains a Master Municipal Lease Purchase Program. Current rates can be obtained by contacting GSS.

Covered Organizations are required to use the Master Municipal Lease Purchase Program, unless the Organization can demonstrate a rationale for using an alternative vendor. Any alternative vendor(s) must be approved, on a case by case basis, by GSS prior to contracting to lease.

Non-covered Organizations (Transportation Authority, Transportation Trust Fund, public school districts, Legislative Branch and the Board of Pension Trustees) must conduct an analysis of available financing alternatives from several potential vendors and select the vendor with the lowest financing cost.

The lessee Organization is responsible to ensure all proper documentation is prepared, including Federal form 8038. The Secretary of Finance is the only authorized signatory for this form. Each Organization must forward the Federal form 8038, with the appropriate background information, to the Office of the Secretary of Finance (Attention: Director of Bond Finance). The form will be reviewed, signed, and returned to the lessee Organization for filing.

For aggregate amounts greater than \$3 million, the Director of Bond Finance in the Office of the Secretary of Finance must be consulted to determine whether a more economic manner to finance the proposed equipment should be considered.

By its nature, leasing represents the most expensive form of finance capital to the State. Equipment that has less than a 10-year life should be paid for with operating (non-bond) funds. Equipment that has at least a 10-year life may be eligible for purchase with general obligation bond funding and should be incorporated in the Organization's capital budget funding request. **Under no circumstances shall general obligation bond authorization be used for lease payments.**

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Chapter 6 – Approvals

The State's Approvals Policy delineates approvals necessary to process and record transactions in the State's financial management and accounting system, First State Financials (FSF.) Approval requirements and thresholds have been established by the Division of Accounting (DOA) to promote accurate, efficient, and transparent transaction processing by all State Organizations.

6.1 Approval Authority Policy

This policy sets accountability and control standards for the determination and delegation of review and approval authority for business transacted on behalf of the State. This policy is intended to ensure transactions are reviewed for completeness and accuracy and they conform to the State's documentation and compliance standards.

Approval authority is delegated by the Secretary of Finance to DOA and to approving officials (Department Heads and other designees) at the State Organizations to transact the State's business.

The following guidelines and restrictions must be followed for all State transaction approvals:

- Only authorized approvers may transact the State's business.
- Only authorized Organization Heads may delegate approval authority for the review and approval of transactions in FSF.
- Only employees designated by Department Heads are authorized to commit an Organization to a purchase and the associated funding distribution(s). Approvals by authorized personnel certify the transaction conforms to State rules, regulation, and policy.
- Only employees designated by Department Heads are authorized to approve the expenditure of funds to cover biweekly payroll expenses. Approvals by authorized personnel certify the transaction conforms to Federal and State rules, regulation, and policy. See **Chapter 14 – Payroll Compliance** for details.
- A record of those with approval authority for State Organizations must be on file (hardcopy or electronic) with the head of the appropriate State Organization and with DOA. The listing of those with approval authority should be updated by individual Organizations as needed and reviewed at least once a year.

- Approvers authorized to transact business in FSF acknowledge and agree they are accepting a public trust that includes the responsibility to:
 - Properly safeguard State assets;
 - Recognize and record all transactions;
 - Expend resources only for authorized purposes; and
 - Comply with legislation, rules, and regulations in the performance of their duties.
- Approvers are expected to use good judgment and professional standards in the performance of their duties.
- An individual may be authorized to input or submit transaction data into FSF, but this in and of itself does not constitute approval authority.

6.2 Approval Requirements

All accounting transactions require **standard** approval(s) for processing, unless specifically stated otherwise in the Budget and Accounting Policy Manual. Standard approvals can include both Organization and State-level approvals, based on the dollar amount of a transaction. In addition to standard approvals, transactions may require **special** approvals. Special approvals are required for various commodity purchases, such as:

- Computers
- Telephone Equipment
- Vehicles
- Postage Equipment
- Insurance
- Imaging Services
- Individual Consultants
- Purchases Coded to Bond Accounts
- Expenditures from the Advanced Planning and Real property Acquisition Fund

Special approval requirements are specific to the type of item or service being purchased or by the transaction type. Organization Business Managers are responsible for determining which type(s) of approvals are needed for each transaction (See [Section 6.5](#)).

Transaction approvals are processed and recorded electronically in FSF, except for a few instances where manual hardcopy (or facsimile) signatures are required. Manual transactions are recorded in FSF after all approvals have been obtained outside of the electronic system.

DOA has identified the appropriate transaction approval methods (electronic vs. manual), based on transaction type, as follows:

Budget and Accounting Transaction Processing Requirements				
Transaction Name	Trans. ABBR	Electronic/ Manual	Form(s) Required	Form Location
Capital Asset Addition	ADD	Electronic/ Manual	AM Change Request (AM002) – for Manual Add / Modification Only	FSF Extranet
Capital Asset Transfer	TRF	Electronic	Asset Management Dept Transfer / Cost Adjustment Request (AM003)	FSF Extranet
Capital Asset Disposal	RET	Electronic	ERI or Surplus Excess Property Form	OMB's GSS Surplus Services
Capital Asset Modification		Manual	AM Change Request Form (AM002)	FSF Extranet
Capital Asset Adjustment	ADJ	Electronic	Asset Management Dept Transfer / Cost Adjustment Request (AM003)	FSF Extranet
Voucher/PO Voucher	PV	Electronic	No	
Journal Voucher	AP JV	Electronic	No	
Reversal Voucher	RV	Electronic	Voucher Reversal Request (AP008)	FSF Extranet
Payment Cancellation	CX	Manual	Payment Cancellation Request (AP004)	FSF Extranet
Payroll Check Cancellation	PX	Manual and Electronic processes	Reissued: No Not Reissued: Reversal Form	PHRST
Intergovernmental Voucher	IV	Electronic	No	
Intergovernmental Voucher Transfer	IT	Electronic	No	
Budget Transfer	TR	Manual and Electronic processes	Budget Transfer (KK003) No	FSF Extranet (depending upon ledger group)
Budget Journal	JN	Manual and Electronic processes	Budget Journal (KK001) No	FSF Extranet (depending upon ledger group)
Journal Entry	JE	Electronic	No	
Cash Receipt	CR	Electronic	No	

Budget and Accounting Transaction Processing Requirements				
Transaction Name	Trans. ABBR	Electronic/ Manual	Form(s) Required	Form Location
Zero-Balance CR	ZBCR	Electronic	No	
Negative Cash Receipt	NCR	Electronic	No	
Refund on Prepay	RP	Electronic	No	
Billing Invoice	BI	Electronic	No	
Treasury Journal	TJ	Electronic	Treasury Journal	FSF - Generated
Requisition	RQ	Electronic	No	
Purchase Order	PO	Electronic	No	
Change Order	CO	Electronic	No	
Receiver	RV	Electronic	No	
Federal Aid Master	FM	Manual	Federal Aid Master	OMB
Single Point of Contact	SPOC	Electronic	SPOC Form	FSF - Generated
Federal Change	FC	Electronic	No	
Payroll Funding Adjustment	PFA	Electronic	No	

6.3 Authorized Approvers

Transaction approvals are entered into FSF at both the State and Organization levels.

6.3.1 State-Level Approvers

State-level and special approvers include:

- Division of Accounting (DOA)
- Department of Finance (DOF)
- Office of Management and Budget (OMB)
- Department of Technology and Information (DTI)
- Controller General Office (CGO)
- Office of the State Treasurer (OST)

6.3.2 Organization-Level Approvers

Only Organization Department Heads are authorized to confer approval authority to Organization personnel. Four (4) approval profiles are at the Organization level: (* designates required approval.)

- Manager 1
- Manager 2
- Internal Accountant* (IA)

- Business Manager * (BM)

Organizations may set their own internal approval requirements, but all transactions require, at a minimum, the approval of the Organization's Internal Accountant + Business Manager for proper processing in FSF. Systematically the IA and BM are required approvers. Manager 1 and Manager 2 are optional approvers depending on the size and scope of the Organization. **Organizations are required to keep an updated list of authorized approvers on file with DOA at all times.** The State maintains three separate Signature Designee for Approving Transactions forms: one for State employees, one for non-State employees and one for Head of Organization. The authorization of non-State employees to approve transactions must be justified by the Organization Head or a Cabinet Secretary. The form is also approved by the FSF Manager and Director of DOA. The authorization of Head of Organization to approve transactions must be justified by the Organization and then approved by the FSF Manager and Director of DOA.

Business Managers are entrusted with the authority to commit an Organization to a purchase and to approve transactions at the Organization level. Business Managers are only allowed to approve transactions that originate in and are on behalf of their own Organizations.

Business Managers are required to process transactions according to the policies and protocols set by DOA. Business Managers are also expected to follow individual Organization practices, with the understanding that all federal and State legal and regulatory requirements must be met, and the authority of the State's policies and procedures supersedes the authority of Organization directives.

Business Managers need to correctly recognize and direct transactions for proper processing as part of the transaction review and approval process. In addition to determining transaction type and approval requirements, Business Managers need to check for correct amounts and account coding strings before giving their approval for the transaction.

Internal Accounting approvers are entrusted with the authority to approve transactions at the Organization level. Internal Accounting approvers are only allowed to approve transactions that originate in and are on behalf of their own Organizations. The Internal Accounting approver can initiate transactions which will self-approve when submitted into workflow, providing they have the required security.

6.3.3 Grant Security

Grant Security utilizes delivered functionality within the proposal component by business unit. When a draft proposal is submitted, the system sends a worklist item to the designated reviewers and/or approvers. The proposal can either be approved or sent back for more information until the proposal is assigned a status of approved.

Effective January 1, 2014, all Organizations are required to utilize the Grant Security. Organizations can submit a request to FSF to eliminate the Department Fiscal Contact, due to lack of staffing. The proposal component will track/record internal approvals and will be maintained by proposal/contract.

6.4 Electronic Signatures/Approvals

Delaware enacted its Uniform Electronic Transaction Act (UETA) (**6 Del. C. Chapter 12A**), in July 2000 to provide the framework for the creation and validation of electronic signatures.

NOTE: Not all transactions are required to be processed electronically. DOF has identified the appropriate approval method (electronic or manual) for each transaction. Organizations should refer to the Budget and Accounting Transaction Processing Requirement Table in [Section 6.2](#), for more information about electronic and manual processing requirements.

Electronic signatures are considered legal and valid approval signatures for transactions processed in FSF for all Governmental Organizations, provided that:

- The use of FSF by all State Governmental Organizations and DOF constitutes an agreement to conduct business using electronic transactions and signatures.
- The electronic signature must be attributable to a specific individual. An electronic record or signature is attributable to an individual if it was the act of the individual. The act of an individual may be shown in any manner, including a showing of the efficacy of any security procedure applied to determine the individual to which the electronic record or electronic signature was attributable.
- In conformity with UETA as adopted by the State, information is considered provided, sent, or delivered, as the case may be, in an electronic record capable of retention by the recipient at the time of receipt (**6 Del C. §12A-108(a)**). If a sender inhibits the ability of a recipient to store or print an electronic record, the electronic record is not enforceable against the recipient (**6 Del C. §12A-108(c)**).
- The Organization maintains on file with DOA a current listing of Business Managers which apply the final level of approval with electronic signatory/approval authority on behalf of the Government Organization.
- Each State Governmental Organization maintains and documents the system of internal control in place within the Governmental Organization to guard against fraud, waste, misappropriation or misuse of State, federal, and custodial funds and assets, including explicit guidelines regarding approval authority.

In all such cases where the electronic signature/approval requirements have been met, the electronic approval or signature attached to a transaction shall suffice to establish the electronic transaction as the transaction of record in FSF for the State Governmental Organization.

This policy validates the use of electronic signatures for the processing of transactions that accept electronic approvals in FSF and recognizes the legal authority of the electronic approval in lieu of a hardcopy signature.

An electronic approval granted, submitted, and recorded in FSF is legally binding and acceptable as a signature of record for the transaction. In cases where manual (hardcopy) signatures are used to authorize transactions, the hardcopy signature is the legally binding and acceptable record for the transaction. Transactions that are manually approved external to FSF require a hardcopy of the transaction, with all designated signatures, to remain on file or be scanned into the system for document retention and audit purposes.

Additional security, restrictions, documentation, approvals, and retention requirements may be implemented at the Organization level, but not to the extent they countermand or undermine the electronic approval processes delineated in this Manual.

Organizations should refer to **Title 6 Del. C. Chapter 12A**, <http://delcode.delaware.gov/title6/c012a/index.shtml>, for further information about the scope and applicability of Delaware's UETA.

6.5 Approval Thresholds

The approvals outlined in this section represent minimal approval requirements required by the State for transactions processing. Individual Organizations may require additional internal Organization approvals for transactions, prior to State-level processing. Business Managers are responsible for ensuring all transactions meet both Organization and State approval requirements for transactions processing.

For more information about State Special Approvals for commodity purchases, Organizations should refer to [Section 6.6](#).

Transaction Amount	Transaction Type	Workflow Path
≤\$5000	Standard Approvals only	Organization Internal Accountant + Business Manager
≤ \$5000	Special Approval(s) Required	Organization Internal Accountant + Business Manager + State Special Approver(s)
> \$5000	Standard Approvals only	Organization Internal Accountant + Business Manager + DOA
> \$5000	Special Approval(s) Required	Organization Internal Accountant + Business Manager + State Special Approver(s) + DOA

Transaction Amount	Transaction Type	Workflow Path
≤ \$10,000	Standard Approvals only	Organization Internal Accountant + Business Manager + DOA
≤ \$10,000	Special Approval(s) Required	Organization Internal Accountant + Business Manager + State Special Approver(s) + DOA
> \$10,000	Standard Approvals	Organization Internal Accountant + Business Manager + OMB + DOA
> \$10,000	Special Approval(s) Required	Organization Internal Accountant + Business Manager + State Special Approver(s) + OMB + DOA

Transaction Approvals			
Transaction Amount	Transaction Type	Minimum Approvals Required	Comments
All	Change Orders	Organization Internal Accountant + Business Manager + DOA + all approvals required for initial PO	Only if the total purchase order value is greater than \$5,000.
All	Check Cancellations	Organization Internal Accountant + Business Manager + OST + DOA	
All	Open Order POs	Organization Internal Accountant + Business Manager + OMB + DOA	
All	Budget Journals	Organization Internal Accountant + Business Manager + OMB	
All	GF and ASF Transfers	Organization Internal Accountant + Business Manager + OMB + OCG	
All	NSF Transfers	Organization Internal Accountant + Business Manager	For Grants -- Transfers over \$5,000 or over 10% of a total grant value require approval from the Grantor
All	Bond-Coded Purchases (Fund 300)	Organization Internal Accountant + Business Manager + OMB + DOA	Applies to Req's, PO's, Direct Claim Vouchers, P-Card and IV's

Purchases associated with Public Works contracts and/or Professional Services contracts must follow the State's contract bidding and award requirements, in addition to the above approvals. For more contract and bidding information, Organizations should refer to OMB's Government Support Services (GSS) website <http://gss.omb.delaware.gov/default.shtml>.

Unless stated otherwise in this policy Manual, the above approval requirements may only be waived with the expressed written permission of the Secretary of Finance. To request a

waiver, Organizations should refer to **Chapter 7 – Purchasing, Section 7.4.1**. In cases of emergency, Organizations should contact the Secretary of Finance or his/her designee.

6.6 Special Approvals

Certain purchases of goods and services and various State contracts require State special approvals. The following table lists the purchase types subject to these additional approvals and the appropriate approving body.

Special Approvals – Commodity Purchases and Contracts		
Item	Special Approver(s)	Comments
Insurance	State Insurance Coverage Office of the Office of Management and Budget (18 Del. C. §6508 and §6509)	For ALL insurance Requisitions, POs, or Direct Claims. Approval only needed for Higher Education and DOE when GF monies are expended.
Communications	Division of Communications of the Department of Safety and Homeland Security.	Covers purchases of two-way (voice and radio) equipment.
Information Technology	Department of Technology and Information's Internal Technology Investment Council	Approval of project plan required, approval not needed for individual POs. Exceptions: Hardware and Software support/maintenance renewals; additional software licenses; PC/desktop equipment replacements; minor enhancements (up to 70 hrs or \$10,000; daily operational supplies (e.g., paper stock, ink, etc.); on-demand repair services; IT-related training/education.
Microfilm and Imaging Services	Delaware Public Archives of the Department of State (29 Del. C. §515(a), (b))	
Proposed Architectural, Structural, Electrical and Mechanical Plans, Specifications, and Cost Estimates	Office of Management and Budget, Facilities Management	Prior to contract execution. Exceptions: highway construction and reconstruction; school district minor capital improvements.
Capital Improvements	Office of Management and Budget	For all POs, Change Orders, and Direct Claims coded to Bond Accounts, Exceptions: Highway and School – Minor Capital. School-Minor Capital transactions require approval of DOE, School Plant Maintenance.
Vehicles Purchased for State Use	Director of the Office of Management and Budget (29 Del. C. §6906(a))	Must purchase using contracts administered by the Fleet Management Administrator, or bid lists approved by the Director, OMB. Includes transfers from one department/school district to another.
Contractual Services with individuals	DOA	See Section 6.6.2 – Individual Consultants.
Special Counsel	Attorney General and Governor	
Postage Equipment	Office of Management and Budget, Government Support Services	Does not include postage stamp purchases.
Advanced Planning and Real Property Acquisition Fund	Director, Office of Management and Budget and Budget Commission	See Section 6.6.11 – Advanced Planning and Real Property Acquisition Fund
Printing and Copier Equipment	Office of Management and Budget, Government Support Services (29 Del. C. §6308A(i))	
Relocation Assistance	Office of Management and Budget	Available on the OMB HRM website at: http://www.delawarepersonnel.com/policies .

Additional Requirements for Special Approvals

6.6.1 Technology Purchases

No new technology project may be initiated unless covered by a formal project plan approved by DTI (**29 Del. C. §9006C**). DTI procurements include hardware, software, and communications equipment, including telephone systems.

The State's Chief Information Officer (CIO) has established DTI's Internal Technology Investment Council (iTIC) to review and recommend IT procurements. The iTIC, through the business case process, reviews all proposed plans with specific consideration given to the proposed project's feasibility, risk, suitability, and its overall compliance with stated and de facto technical standards and guidelines.

Exceptions to the iTIC review process include:

- Hardware maintenance (support contract) renewals;
- Software support/maintenance contract renewals, including arrangements with third-party contractors who provide continuing application support services;
- Additional software licenses. Software product must already be in production use. Product may not be identified as "Declining", "Discontinued", or "Disallowed" on the applicable standards listing as supplied by the Technology and Architecture Standards Committee (TASC);
- PC/desktop equipment replacements. The iTIC should be made aware of bulk or department-wide PC replenishments;
- Minor application/system/infrastructure enhancement activities. A minor enhancement activity is defined as up to 70 person-hours of effort or a cost up to \$10,000;
- Daily operational components, including:
 - Supplies to support IT operations (e.g., paper stock, preprinted forms, ink cartridges, tape cartridges, etc.);
 - Spare parts for equipment supporting day-to-day operations (e.g., memory, hard drives, monitors, etc.);
 - On-demand repair services to operational equipment; and
 - IT-related training/education, unless it is directly related to a project that requires a Business Case review.

Organizations should refer to DTI's web page for the most current exception list and any additional information regarding the business case process at <http://dti.delaware.gov/contact.shtml>.

6.6.2 Individual Consultants

There are legal distinctions and ramifications between retaining a consultant and hiring an employee. For example, the State incurs liabilities for withholding and/or the payment of State, Federal, and Local income taxes, OASDI and Medicare, workers compensation, unemployment compensation, and pension for employees.

From time to time, the State hires consultants to perform various activities. Special care must be exercised to distinguish between a "consultant" and an "employee" prior to executing any contract for services with prospective consultants.

DOA reviews prospective consulting contracts using the IRS 20-Factor Test (common-law control test) to determine whether an employer/employee relationship will exist. Generally, an employer/employee relationship exists when the employer has the right to control. Control of the workplace is met when the employer determines when the employee works, where he works, and how he works. Control does not need to be exercised for an employer/employee relationship to exist – the right to control is sufficient.

A. Policy:

Human Resources, Payroll, and Fiscal representatives must correctly classify workers who provide services to their Organization. The status of a worker as either an independent contractor or employee must be determined accurately to ensure the worker and the State meet tax obligations in a timely and accurate manner. The State withholds income taxes, withholds and pays OASDI and Medicare taxes, and pays unemployment taxes on wages paid to an employee. The State does not make tax payments on behalf of independent contractors. Therefore, due diligence must be applied when hiring individuals to ensure workers are appropriately classified.

When the IRS determines a worker has been misclassified as a contractor, the employer is responsible for the employer and employee shares of OASDI and Medicare and may also incur penalties in the form of fines and interest for each instance the worker was paid incorrectly.

B. IRS Regulations

The IRS may submit an inquiry for a worker who receives both a W-2 and a 1099 from the same employer.

C. State of Delaware Policy

The *State of Delaware* is **one** employer, paying employees at Merit Organizations, School Districts, and Higher Education facilities.

An employee who has separated from State service may not be hired as an independent contractor within two years of separation. Exceptions may be made if the services being provided are not related to the field of former State employment and subjected to review by the Delaware Public Integrity Commission (DEPIC).

D. Definitions:

Contractor – an individual hired to do a specific task with little or no direction from the Organization. The **worker has the control** over how the job will be accomplished. Contract includes language of when and how payment for services will be made.

Employee – an individual hired to do a specific task with direction from the employer on when and how the task is to be performed and when and how payment for services is made.

E. IRS Worker Classification Test:

Common Law Test – focuses on the “right to control” which is grouped into three factors. No one factor stands alone, all must be considered:

- *Behavioral Control* – the right to direct and control the details and means by which the worker performs the work to be done; to the extent of instructions given regarding how, when and where to do the work; what tools and equipment to use; what assistants to hire to help with the work; where to purchase supplies and services; and any training provided about required procedures and methods.
- *Financial Control* – the right to direct and control the economic aspects of the worker’s job; whether business expenses are reimbursed; if there is a significant investment in the work; how the worker is paid; whether the worker incurs a profit or a loss; and whether services are offered to public.
- *Relationship of the Parties* – looks at such things as are there written agreements; are employee benefits offered; the length of the relationship; and the importance of the services to the regular operations of the Organization.

For additional information, Organizations should refer to *Publication 1779, Independent Contractor or Employee*; a publication of the Internal Revenue Service.

Reasonable Basis Test – this test takes court decisions, IRS rulings, past IRS audits, and longstanding industry practices into account.

20-Factor Test – provides 20 criteria to determine if the employer has the right to control. This test is included in the Budget and Accounting Policy Manual in [Exhibit A at the end of this chapter](#).

Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding – A Form SS-8 determination may be requested only in order to resolve federal tax matters. The IRS does not issue a determination letter for proposed transactions or on hypothetical situations.

F. Procedure:

Prior to awarding a bid, or hiring a contractor, these steps must be followed:

1. Determine if the worker is currently employed by or has previously been employed by the State of Delaware. An Organization HR representative must search the PHRST system by Social Security Number to determine if an employee relationship exists/existed.
 - If the worker is a State employee, ask the following questions:
 - a. Is the employee relationship and the contractor relationship the same?
 - If yes, the worker must be hired as an employee.
 - If no, it may be appropriate to hire the worker as a contractor.
 - b. Does the independent contractor have a valid business license?
 - If yes, obtain a copy.
 - If no, Organizations should refer to the State of Delaware web site.
 - If the worker terminated State employment within the past two years, contact the DEPIC for a ruling.
2. Apply the Common Law Test.
 - Look at the entire relationship and the length of the relationship.
 - Consider the degree or extent of the right to direct and control.
 - Consider written agreements and the importance of the services to operations.
3. Document each of the factors used in making the determination.
4. Is the work being contracted substantially different from the work performed as an employee of the State?
5. Complete Form SS-8, if classification is still unclear.

G. Additional Considerations:

The following questions can help Organizations determine if an individual is an employee or a contractor:

1. What services are performed?

2. Are these services essential to the Organization?
3. Is there a written contract between the worker and the Organization?
4. Is there a written contract between the worker and the State?
5. Who directs and controls the details of how the work is to be performed?
6. Does the worker have a current business license?

H. Supporting Documents:

May 15, 2008, PHRST Memorandum #08-02 *Worker Classification Compliance – Employee vs. Contractor, 1099 Misc Issued for Tax Year 2007*

The Delaware Public Integrity Commission:

- 410 Federal Street, Suite 3, Dover, DE 19901, 302-739-2399
- www.depik.delaware.gov
- Ethics Bulletin 007, Post Employment
- Ethics Brochure, Promoting Ethics in Delaware

American Payroll Association – *Payroll Source* (Sec. 1: The Employer-Employee Relationship)

IRS Pub 15-A, *Employer's Supplemental Tax Guide* (www.IRS.gov)

6.6.3 Insurance

The Insurance Coverage Office of OMB has the centralized responsibility for the operation of the State Insurance Coverage Program. **No other Organization is authorized to place any insurance.** This approval is required for all insurance-related requisitions, purchase orders, and direct claim transactions. This approval is not needed for insurance payments for Higher Education and DOE, if State General Fund monies are not expended.

6.6.4 Communications

All State government communications purchases must be in accordance with policies and procedures established by the Division of Communications of the Department of Safety and Homeland Security. Requests for purchases for all two-way equipment (voice and radio) must be made to the Division Manager, Division of State Communications.

6.6.5 Microfilm and Imaging

No microfilm or imaging project or program may be undertaken or maintained without the prior written approval of the Delaware Public Archives of the Department of State,

except as may be authorized directly through an Organization's General Fund appropriation. Any such programs or projects in operation must adhere to standards established by the Delaware Public Archives, of the Department of State, to allow for approval of expenditures **(29 Del. C. §515(a), (b))**. Any program or function of any Organization requiring microfilm or imaging services must purchase the services through the Central Microfilm Services Unit, including all programs or functions funded by federal funds, other special funds, or local government funds.

6.6.6 Proposed Architectural, Structural, Electrical, and Mechanical Plans, Specifications, and Cost Estimates

All State Organizations, Delaware State University, and Delaware Technical and Community College must submit all proposed contracts for architectural services and all architectural, structural, electrical, and mechanical plans, specifications, and cost estimates to OMB's Facilities Management.

The OMB Facilities Management section is responsible for reviewing and approving such proposed contracts, plans, specifications, and cost estimates prior to bid advertisement. **No contracts for construction or reconstruction projects will be executed without the prior approval of OMB**, except highway construction and reconstruction contracts and school district minor capital improvements contracts.

(29 Del. C. §7419(a))

6.6.7 Capital Improvements

All requisitions, purchase orders, change orders, and direct claim vouchers coded to bond accounts (other than Highway and School – Minor Capital) must be sent to OMB for approval prior to processing by DOA. Requisitions, purchase orders, change orders, and direct claim vouchers coded to School – Minor Capital require the approval of DOE – School Plant maintenance. Charter school requisitions, purchase orders, change orders and direct claim vouchers coded to School – Minor Capital do not require the approval of DOE because these funds may be used for current operations, minor capital improvements, debt service payments or tuition payments **(14 Del. C. §509(g))**.

NOTE: Purchases of material or work paid from General Fund appropriations do not require approval from OMB, except as noted in this Manual.

6.6.8 Vehicles Purchased for State Use

All passenger vehicles purchased for State use must be purchased through contracts administered by OMB's GSS. All purchases must be approved by the Director of OMB (**29 Del. C. §6906(a)**). No vehicle owned by the State may be transferred from one agency/school district to another without the prior approval of the OMB Director (**29 Del. C. §6906(e)**).

6.6.9 Special Counsel

No agency may employ any person to act as an attorney to such agency, except as otherwise set forth in Delaware Code. Agencies may employ special counsel with the prior approval of the Attorney General and the Governor, under the terms and conditions that the Attorney General and Governor may prescribe. Any special counsel appointed by the Attorney General and the Governor will have powers, duties, and responsibilities as designated by the Attorney General and **29 Del. C. §2504(3)**. Payment of the expenses associated with the employment of special counsel is to be paid by the State Treasurer from general funds, not otherwise appropriated, upon approval by the Attorney General and Governor.

(29 Del. C. §2507)

6.6.10 Postage Equipment

Requisitions, purchase orders, change orders, and direct claim vouchers for the purchase of postage machines and meters need the approval of OMB's GSS. The make and model number of the equipment must be included in the description block of the transaction. All purchases over \$5,000 also require the approval of DOA.

NOTE: Purchases of postage stamps do not require this special approval.

6.6.11 Advanced Planning and Real Property Acquisition Fund

The Advanced Planning and Real Property Acquisition Fund (the Fund) may be expended for:

- The advanced planning of proposed facilities in the State, including but not limited to, the cost of architectural sketches; general site plans; preliminary engineering; general design services; legal, accounting, and consulting services; or other such services as may be deemed appropriate (**29 Del. C. §6343(c)**).

- Earnest money of up to 10 percent for the acquisition of real property (including any options to purchase and any improvements thereon) by state agencies, reorganized school districts and vocational-technical school districts (**29 Del. C. §6343(d)**).

NOTE: The Fund may not be expended for highway right-of-way construction.

Before any sum is withdrawn from the Fund, the agency, reorganized school district or vocational-technical school district must submit a request to erect or renovate a State facility or a request to acquire real property to the OMB Director. The OMB Director will report to the Budget Commission whether the request is consistent with the capital program provided for by 29 Del. C. §6342 and the State's comprehensive plan and land use and development goals and policies. (**29 Del. C. §6344(a)**)

- If the request is to erect or renovate a State facility, the OMB Director must determine that the proposed facility is consistent with the capital program and that the facility is likely to be authorized within 3 years (**29 Del. C. §6344(b)**).
- If the request is to acquire real property, the OMB Director must determine that the proposed real property acquisition is consistent with the capital program, or with OMB's long-range planning recommendations for the State (**29 Del. C. §6344(c)**).

Any funds provided by the Budget Commission that are not used by the agency, reorganized school district or vocational-technical school district within 36 months will be refunded to the Budget Commission and deposited in the Fund (**29 Del. C. §6345**).

Upon the funding of a capital project for which monies have been provided from the Fund, a refund will be made to the Fund by the State Treasurer from the appropriation made or other source of funds provided for the facility or real property (**29 Del. C. §6346(a)**).

6.7 Intergovernmental Voucher Approvals

The following policies are in effect regarding approvals for Intergovernmental Vouchers (IVs):

- IV Vouchers with an origin of Manual Intergovernmental Voucher (MIV) require one approval by both the Buyer and Seller Organization, by an individual with the Business Manager role.
- IV Vouchers with an origin of Automated Intergovernmental Voucher (AIV) are created with the Seller's line approved. They require only one other approval by the Buyer Organization, by an individual with the Business Manager role.

Billing should be made on a monthly basis utilizing one form for each Organization from which goods or services are being provided. An exception will be made in the month of June when billing may be on a weekly basis. This will facilitate a timely year-end close-out.

Exhibit A

The IRS 20 Factor Test:

Workers are generally employees if they:

1. Must comply with the employer's instructions about when, where, and how to work.
2. Receive training from or at the direction of the employer. This may include having to work along with an experienced employee or having to attend meetings.
3. Provide services that are integrated into the business. That is, the success or continuation of the employer's business depends significantly on the performance of certain services which the worker provides.
4. Perform the work personally.
5. Hire, supervise, and pay assistants for the employer.
6. Have a continuing relationship with the employer. This may exist where work is performed at frequently recurring, although irregular, intervals.
7. Must follow set hours of work.
8. Work full-time for the employer.
9. Do their work in a sequence set by the employer.
10. Must do their work in a sequence set by the employer.
11. Must submit regular oral or written reports to the employer.
12. Receive payments of regular amounts at set intervals.
13. Receive payment for business and/or traveling expenses.
14. Rely on the employer to furnish tools and materials.
15. Lack a significant investment in facilities used to perform the service.
16. Cannot make a profit or suffer a loss from their services.
17. Work for one employer at a time.
18. Do not offer their services to the general public.
19. Can be fired by the employer.
20. May quit work at any time without liability.

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Chapter 7 – Purchasing and Disbursements

7.1 General Information

The State uses an **encumbrance accounting system** to provide information on the actual extent of the State's obligations (encumbrances) and to guard against over-committing available funds. All General Fund and Special Funds are subject to this encumbrance accounting system.

All financial obligations of each Organization are recorded by the Secretary of Finance and the Division of Accounting (DOA) when they are incurred (**29 Del. C. §6523**). **Agencies may not enter into any agreement or contract, or incur any expenses, which will result in an obligation in excess of the agency's budgetary appropriations (29 Del. C. §6519(a)).**

7.2 Obligating Funds

Organizations may only obligate available funds, and correct amounts must be charged at the time of the issuance of a PO or a Direct Claim payment. The Organization is responsible for verifying that funds are in the proper account before obligating or expending funds. If the funds are not in the proper account, the transaction should not be processed or submitted to DOA.

An agency may not create any indebtedness or incur any obligation for personal services, work, labor, property, materials, or supplies, except by properly executed and approved requisitions or purchase orders, unless specifically exempted in the Manual and bearing the approval or approvals as prescribed by the Manual (**29 Del. C. §6512(a)**). Any obligations incurred in any other manner will not be considered an obligation of the State.

A PO is required for purchases exceeding \$5,000 (individually or in aggregate). Requisitions, POs, and Direct Claims are initiated at the Organization. After receiving all required Organization approvals, Organizations must determine if the purchase is subject to any special approvals.

All Requisitions, POs, and Direct Claims greater than \$5,000 require DOA review and approval for processing in the State's financial management and accounting system, First State Financials (FSF). For more information on standard and special approval requirements for transactions, Organizations should refer to **Chapter 6 – Approvals**.

If no special approvals are required to process the transaction, **and** the purchase is for \$5,000 or less, the Requisition, PO, or Direct Claim is processed in the FSF system with only Organization approvals required.

If special approvals are required to process the purchase transaction, **and** the purchase is greater than \$5,000, the Requisition, PO, or Direct Claim is to be forwarded for the needed additional special approvals before it is submitted to DOA for review and special processing.

7.2.1 Federal and Local School District Fund Purchases

Organizations have the option of using POs to encumber available federal funds or local school district funds. **Federal and local school district funds used for the purchase of capital assets must be encumbered.**

Organization purchases over \$5,000 made using both General Fund and federal or local school district funds must use a PO to satisfy General Fund purchase requirements. The State Application Identifier (SAI) number must be referenced on all POs used to encumber federal funds.

For additional transaction information relating to Grants, Organizations should refer to **Chapter 10 – Grants Management.**

7.2.2 Prohibitions

No funds appropriated by the Budget Appropriation Bill or otherwise available to an agency of this State shall be expended except for purposes necessary to carry out the functions of such agency. **(29 Del. C. §6505(c))**

No funds shall be expended for purposes such as gratuities, greeting cards, flowers and tickets to athletic events when unrelated to an agency's function. **(29 Del. C. §6505(c))**

No funds may be expended for parking tickets and other traffic violations **(29 Del. C. §6505(c)).**

State officials and employees may not sign or approve any blank Requisitions or POs **(29 Del. C. §6512(c)).**

Cash advances are prohibited. A cash advance occurs when funds are disbursed prior to the receipt of a good or service. Employees must not be provided funds for future use. The disbursement of funds includes, but is not limited to, ATM withdrawals, money orders, gift cards, and disbursements from petty cash or by voucher.

7.3 Direct Claims

Certain purchases may be made as Direct Claims, without the use of POs. Direct Claim purchases are subject to all of the State's purchasing and procurement policies, protocols, and

guidelines, and all transactions require proper approvals for processing. While Organizations are encouraged to encumber funds, the following transaction types do not require a formal encumbrance of funds as a prerequisite to affecting a purchase or processing payment documents:

1. All expenditures not exceeding \$5,000 (individually or in aggregate). A purchase must not be split into multiple transactions under \$5,000 to circumvent the State Procurement Code.
2. Salaries
3. Other Employment Costs –Employer's/Employee's share
4. Employee group benefit plan expenditures approved by the General Assembly, inclusive of non-payroll groups
5. Grants-in-Aid expenditures, as per annual Grants-in-Aid legislation (Annual Bill passed by General Assembly)
6. Revenue refunds
7. Welfare and Assistance grants
8. School district payments out of local funds (not including the purchase of capital assets)
9. Debt service
10. Bond sale expenses
11. Jury Duty and witness fees
12. Investigation Funds (DSHS)
13. Court-appointed attorney's legal fees
14. Court-mandated legal settlement
15. Budget Commission Contingency Fund expenditures
16. Expenses that are an obligation of the Organization, wherein the Organization cannot directly control the timing and amount of the expenditures
17. Reimbursement to parents (Parent visits child placed in out-of-state facility)
18. Student private placement expenses, including tuition and transportation
19. Private carrier school transportation
20. Client placement expenses
21. Examinations & Premium Tax Evaluations
22. Federal funds expenditures
23. Payments to institution inmates and patients
24. Funeral service payments
25. Freight
26. Books purchased for resale
27. Reimbursement of carriers and self-insurers from the Industrial Accident Board Second Injury and Contingency Fund
28. Hospital and medical costs incurred under the Migrant Worker Program
29. Late payment charges (**29 Del. C. §6516(d)**)
30. Patient trust funds
31. State Employee Pension Fund Investments (OMB)
32. Blue Collar Dollar (DOL)
33. Home Health Agency expenditures (DHSS)
34. Right-of-way expenditures
35. Library standards' payments (DOS)

36. School bus contractors' payments (Schools)
37. Monthly tourism convention payments (DOR)
38. DNREC Underground Storage Tank Amnesty Program
39. Bureau of Museums' purchases at auction
40. Legal Contingency Fund payments (OMB)
41. Foster Care Board and Adoption Assistance payments
42. DTI – telephone bill for State Organizations (ASF)
43. OMB's GSS and DTI – replenishment for postage meter (ASF)
44. DOA PCard payment (NSF)
45. Inter- and intra-Organization reimbursement for services and supplies. (Seller has the right to request a PO from the Buyer.)
46. Loan Disbursements
47. Transfers to an Organization's account, external to FSF

7.4 Transaction Processing Requirements

Each Organization is responsible for processing their transactions and documents:

- in a timely manner;
- in proper sequence; and
- in accordance with established procedures.

POs may not be presented simultaneously with payment vouchers. "After-the-Fact" POs will not be accepted, unless accompanied by an After-the-Fact Waiver Request Form. The form can be accessed by clicking the link below.

<http://www.budget.delaware.gov/forms/index.shtml>

7.4.1 Waivers

Ordinarily, the Secretary of Finance will not approve transactions where either the documentation or the transactions reflected therein are not in accordance with the law, the accounting Manual, or DOA memoranda. Under extraordinary circumstances, the Secretary of Finance may waive compliance and approve the transactions.

To secure a waiver of procedures, an Organization Head (cabinet secretary or equivalent) must receive prior approval from the Office of Management and Budget (OMB) Director, and the Secretary of Finance. The waiver request should include:

- the reason(s) the accounting procedures should be waived; **or**
- the cause for the failure to adhere to normal accounting procedures; **and**
- a showing that the best interests of the State will be served by a waiver of the procedures.

In the event the waiver request is **approved**, a copy of the request and the approval must be forwarded by the Secretary of Finance to the Auditor of Accounts and the Attorney General.

In the event the waiver request is **not approved**, the Secretary of Finance, through DOA, must report in writing to the General Assembly, the Attorney General, the OMB Director, (**29 Del. C. §8304(4)**), and the Auditor of Accounts.

7.4.2 Emergency Purchases

From time to time, Organizations may face emergency situations, in which goods or services must be acquired immediately. In these cases of emergency, Organizations may need to bypass normal purchasing processes and approval requirements. In instances where emergency purchases have been made, invoices received from the vendor will be processed in the same manner as for regular encumbrances.

For emergency purchases, Organizations will need to complete an Emergency Purchase Justification Form (**KK004**) and retain it in its files. This form will include a brief explanation of the emergency, a short description of the goods and services to be purchased, and space for the Cabinet Secretary/Organization Head to sign in approval. The actual financial transaction must be entered by the Organization into FSF as a direct claim voucher or as a purchase order. In either case, the description is to include the word “EMERGENCY.” For purchases that must be made immediately, a direct claim payment voucher must be prepared. In cases where the purchase must be made over an extended period of time, a purchase order must be prepared. The processing of direct claim vouchers and purchase orders go through the normal steps required.

All emergency purchases and POs will be periodically reviewed by DOA to determine the kinds of emergencies encountered. All Organizations are expected to limit the use of this procedure to bona fide emergency situations, and to comply with the State's procurement provisions as set forth in **29 Del. C., Chapter 69**.

7.5 Requisitions, Purchase Orders, and Change Orders

A PO is required for purchases exceeding \$5,000 (individually or in aggregate). Requisitions and POs require review and approval in the FSF system to create an encumbrance. All proposed purchases over \$5,000 require DOA review and approval in addition to any Organization level approvals. For a complete list of approval requirements, Organizations should refer to **Chapter 6 – Approvals**.

The Secretary of Finance, through DOA, reviews transactions to determine that:

- the request is authorized by law;
- the request is properly coded;
- the procedures set forth in the Budget and Accounting Policy Manual and the Delaware Code have been followed;
- funds are available to the department; and
- all authorized approvals have been granted.

If all these conditions are met, the transaction will be approved and the necessary funds will be encumbered. If the proposed purchase is not approved, it will be returned to the originator with an explanation.

Only approved POs and Change Orders may be dispatched to vendors. **Organizations are responsible for dispatching approved POs and Change Orders to vendors.**

7.5.1 Requisitions

A requisition creates a pre-encumbrance in FSF; not a formal obligation of funds. After a requisition is approved, FSF will create an approved PO (a formal encumbrance), usually through overnight batch processing. Organizations also have the option to manually source an approved requisition to a PO, if the Organization does not wish to wait for the nightly process.

Organizations may encumber for purchases using either the requisition or the PO functionalities of FSF.

7.5.2 Regular Purchase Orders

All General and Special Funds POs must be issued to specific vendors, unless exceptions are granted by OMB. See **Section 7.5.3 – Open Order POs**, below, for more information.

All POs must include a vendor identification number (VIN). A list of identification numbers for approved vendors is maintained by DOA. For instructions on how to make changes to vendor information, see the State of Delaware Substitute Form W-9 at <http://w9.accounting.delaware.gov/W9form.aspx>. To add a new vendor to the State's list of approved vendors, see the GSS website at <http://gss.omb.delaware.gov/contracting/index.shtml>.

NOTE: If a PO is supported by a contract, the contract number must be listed on the PO or Direct Claim voucher.

7.5.3 Open Order Purchase Orders

Occasionally, Organizations may wish to encumber funds for a purchase without designating a specific vendor. These non-specific vendor POs are called Open Order POs.

All requests to establish Open Order POs require concurrent approvals from the OMB Director, and the Secretary of Finance. After the Open Order PO has been approved, purchases are governed by normal purchasing procedures.

NOTE: Special approvals are only required when Organizations **establish** an Open Order PO. Regular processing is used to spend against the encumbrance, after it is approved, and to process all payment vouchers.

School districts are permitted to establish Open Order purchase orders for school bus contractors **without** prior approval(s) from OMB. These POs still require DOA approval if the amount is greater than \$5000.

7.5.4 Next Fiscal Year Purchase Orders – School Districts

As previously noted, agencies may not enter into any contracts or agreements, or incur any expenses, which will result in an obligation in excess of an agency's appropriation (**29 Del. C. §6519(a)**). Since each year's appropriation is not effective until July 1, this requirement prohibits the issuance of POs for the next fiscal year, until July 1 of each year.

An exception to this policy is made for school districts to allow the schools to obligate school supplies or capital outlay items for the following school year with the provision that the obligation(s) shall not be due and payable until after July 1 of the next fiscal year (**29 Del. C. §6519(b)**). School districts may obligate funds on Next Fiscal Year POs beginning on March 1.

7.5.5 Fiscal Year Considerations for Purchase Orders

Organizations should encumber funds for year-end by specific vendor using the best estimates available. At year end, certain encumbrances may be carried over to the next fiscal year, while other encumbrances will revert back to the General Fund.

7.5.5.1 General Fund Purchase Orders & Reversions

Outstanding General Fund encumbrances that carry-over into the next fiscal year are referred to as Type 04 POs (excess amounts encumbered for a vendor). Type 04 POs are automatically reverted on June 30, the last day of the fiscal year, into

which the Type 04 PO was carried-over. Appropriations designated by the General Assembly as continuing are exceptions to this policy.

To pay an outstanding balance with a vendor after the encumbered funds have been reverted, Organizations must either request from OMB a transfer of funds from the Prior Year Obligations Fund, or a new PO must be issued for the vendor. This new PO will be encumbered against the new fiscal year appropriation.

7.5.5.2 Special Fund Purchase Orders & Reversions

Special Fund POs (Type 20, 40, and 50) will routinely be carried in FSF for up to two years. At the end of the second fiscal year, the system will verify any activity during the preceding 12 months:

- If there has been activity associated with the PO, such as a Change Order or payment, the PO will continue as is.
- If there has not been any activity associated with the PO, the open amount of the PO will be decreased to \$0, and the funds will become unencumbered available funds.

Type 30 Special Fund POs will always be decreased to \$0 after two years, whether or not there is any activity. For more information about Special Fund reversions, contact DOA.

7.5.5.3 Contingency Fund

Organizations may request a transfer from the Prior Year Obligations Fund, in the event a year-end liability exists for a vendor that was not anticipated, and therefore, a specific PO was not prepared. Requests should be directed to the OMB Director.

7.5.6 Change Orders

All adjustments to encumbrances, where the aggregate total is \$5,000 or greater, (approved POs) must be initiated by Organizations using a Change Order transaction, and submitted to DOA. Change Orders are to be used for all adjustments (increases or decreases) to both regular and Open Order POs.

The same approvals required to approve the original encumbrance are necessary to adjust the PO. However, when a modified PO amount exceeds a higher dollar threshold (e.g., \$5,000), additional approvals are required.

NOTE: Only dispatched POs may be altered with a Change Order. If an approved PO has **not** been dispatched, the Organization should modify and process the PO through FSF workflow for a PO approval.

If a specific PO is cancelled, the Organization will notify the vendor in writing.

7.5.7 Purchases of Capital Assets

Requisitions are recommended to be initiated in FSF for purchases of capital assets. Organizations should enter asset category information into the system prior to the purchase of the asset. After the capital asset has been purchased, FSF will forward the transaction information to DOA for further processing.

Organization personnel are responsible for entering product information into FSF upon receipt of goods (e.g., model number, identifying information, etc.).

Organizations should contact DOA's Asset Management staff for assistance, if required. Additional information about the State's Asset Management requirements can be found in **Chapter 13 – Asset Management**.

7.5.8 Credit Cards

Agencies and school districts may not use credit cards registered in the name of the employee, agency, school district, or State which could create an obligation of the State, except as specifically and duly authorized by the Secretary of Finance. Only oil company, telephone, or contract credit cards may be authorized for such purposes, and the use of such credit cards is subject to all policies and procedures established by the Secretary of Finance (**29 Del. C. §6505(c)**).

An approval for a credit card is only good for one fiscal year. Organizations must renew all credit card approvals at the start of each fiscal year in order to continue to use the card(s). For more information about State-authorized credit card use, Organizations should refer to **Chapter 12 – PCard**.

7.6 Disbursements

The Secretary of Finance is responsible for safeguarding and systemizing the expenditure of State funds. State monies may only be expended to carry out the functions of State Organizations. The OMB Director is responsible for directing agencies in the manner and method in which forms of indebtedness are presented, including salaries of officers and employees (**29 Del. C. §6514(a)**).

Monies drawn from the State Treasury to pay employee salaries and expenses, to defray the expense of any agency, on account of any contract for building or repairs, to purchase property, for work and labor performed, or for materials or supplies furnished to any agency must be presented to, reviewed, and approved by an approving official of the agency being charged (**29 Del. C. §6515(a)**) and by the Secretary of Finance, as required by this Manual. The Secretary of Finance may not make any requirements that will unnecessarily interfere with the prompt payment of amounts due and may not cause the payment of salaries to state officers to be delayed beyond the due date (**29 Del. C. §6517**).

For the payment of expenditures in which bills or statements are rendered, a Payment Voucher (PV) is used in the FSF system. For the payment of salaries, pensions, or any other expenditures in which bills or statements are not renderable, the Secretary of Finance shall present a signed statement authorizing the payment of the amounts due (**29 Del. C. §6515(d)**).

The Secretary of Finance may refuse to approve payment for an invoice or bill only, if the invoice or bill:

- More than exhausts the appropriation from which it must be paid;
- Has not been presented in accordance with this Manual and Title 29, Chapter 65 of the Delaware Code;
- Is not in accordance with the contract under which the indebtedness was created;
- Does not have required supporting documentation or information; or
- Involves any transaction or item not in accordance with law.

This action does not apply to the payment of the principal or interest on any obligation of the State.

(29 Del. C. §6518)

Specific information regarding the required approvals for processing regular and Direct Claim Vouchers is located in **Chapter 6 – Approvals**.

7.6.1 General Information

All vouchers, issued by any Organization, are paid by the State Treasurer upon certification by the officers of the Organization. The approval of the Secretary of Finance is required for vouchers totaling more than \$5,000. Methods of payment may include checks, drafts, (**29 Del. C. §2707**) and electronic payments.

Organizations must provide the vendor's invoice number and invoice date on all vouchers processed in the FSF system, to ensure payments from the State are properly credited to

the account. The vendor's invoice number is used as a reference on the pay advice (check stub). Vendor's invoice numbers should be meaningful and unique. FSF will only process vouchers that have a unique vendor, vendor invoice number, and invoice date combination.

Upon processing of an approved voucher, the encumbrance will be liquidated, in whole or in part, as the situation requires, and the expenditure will be recorded. If a voucher is not approved, it will be returned to the department with an explanation.

Organizations should not hold back payments until the PO can be paid in total. Organizations should encourage partial billing by vendors.

7.6.2 Regular Vouchers

Regular Vouchers are also referred to as PO Vouchers and Payment Vouchers (PVs). Vouchers may be used for Direct Claim payments, or a voucher can reference a PO.

Organizations should note the receipt of goods and services covered by a PO, either through FSF Receiving functionality, or by noting "OK to Pay" on the paper invoice. The Organization then prepares a voucher. If the vendor's invoice and the PO are not in agreement, the difference must be charged or credited to the proper account on the State's PO, as a Change Order or as a Direct Claim, as appropriate.

7.6.3 Reversal Voucher

A Reversal Voucher is used to correct a voucher that has been posted and paid. The Reversal Voucher references the original voucher number and can be used to reestablish an encumbrance.

A Reversal Voucher can be used to correct a paid voucher for the following reasons:

- To detach a PO and direct claim the invoice line(s);
- To correct a direct claim voucher to reference a PO;
- To correct the PO or PO line referenced; or
- To change the amounts on the Distribution Lines, but not the Total Invoice Amount (the Total Invoice Amount of the correcting voucher must match the original voucher).

Reversal Vouchers may not be used when either the PO on the original voucher or the PO to be referenced on the correcting voucher has been closed.

Organizations submit a request for a Reversal Voucher to the FSF Service Desk, via email or phone. A Voucher Reversal Request Form ([AP008](#)) is completed and submitted to the FSF Service Desk to streamline the process.

FSF Service Desk staff will review and, as needed, confirm the original and new coding requested by the Organization, prior to including as part of a service ticket and forwarding to the FSF AP Team for processing.

The FSF AP Team will process the Reversal Voucher to "undo" the initial voucher. After canceling the initial voucher, the FSF AP Team can then process a new voucher with the correct information.

The FSF AP Team will contact the Organization to request that they review and approve the Reversal and Correcting Vouchers. These vouchers must be approved the same day so they will net to zero.

7.6.4 Journal Voucher

A journal voucher is used to process corrections when Organizations need to recode a prior transaction.

A journal voucher can be used to change the coding of:

- Posted Vouchers
- Cash receipts pertaining to grant or project expenditure reductions
- Cancellations of prior fiscal year payments

When processing a journal voucher to correct prior funding, reference the original voucher, using the comments section when combining vouchers.

Since the purpose of journal vouchers is to correct accounting entries, the voucher must be a zero-dollar voucher. The first Distribution Line of the journal voucher will reverse the accounting entries from the original transaction. The second Distribution Line will charge the voucher to the correct accounting string.

7.6.5 Intergovernmental Vouchers (IV)

An Intergovernmental Voucher (IV) is used for purchases where the Buying and Selling parties on a transaction are both State Organizations. An IV permits transactions between Organizations without the issuance of a check (via a voucher) and the subsequent execution of a cash receipt (CR) and bank deposit.

NOTE: Organizations may only effect payment to another State Organization using the Voucher-Check-CR-Bank deposit sequence with the **prior** approval of the Director of DOA.

7.6.5.1 Reimbursement for Services and Supplies

All state agencies which supply goods or services to any other state agency, governmental agency, person, corporation, partnership, or business are reimbursed for the full cost of the rendered goods or services. Reimbursements must be made within 30 days of billing. Full cost includes all purchase, out-of-pocket, other employment, and overhead costs, computed in accordance with this Manual and accepted governmental accounting principles.

An exception to this policy is made if, after a written request by an agency, the Governor (or his designate) decides that full cost reimbursement is not in the best interests of the State. If such a determination is made, reimbursement for the full cost of the goods or services provided will not be required until June 30 of the next odd year. This exception does not apply to specialized transportation authorities created pursuant to Chapter 17 of Title 2. **(29 Del. C. §6531)**

7.6.5.2 Special Fund Direct Bill Recoveries

Central service allocations, identified by State Special Fund activities, will be recovered from State Organizations, without exception, and turned over to the appropriate central service Organization. These Special Fund activities include:

1. Audit activities of the State Auditor
2. Personnel activities by OMB
3. Information technology services provided by DTI
4. The Printing and Publishing services provided by OMB's GSS
5. Telephone Services provided by DTI
6. Fleet services provided by OMB's GSS
7. Mail services provided by OMB's GSS
8. Surplus Food Distribution services provided by OMB's GSS

7.6.5.3 Inter-Organization and Intra-Organization Reimbursement

An IV is usually initiated by the Selling Organization. Intergovernmental Vouchers consist of two types: manual and automated.

Manual Intergovernmental Vouchers (MIVs) are originated online. The Seller Organization initiates the IV transaction and notifies the Buyer Organization. After both Organizations mark the IV complete in FSF, a nightly process builds

the IV Voucher.

Automated Intergovernmental Vouchers (AIVs) are automatically produced by different Organizations. DTI produces a monthly automated IV billing for telephone services. Other monthly automated IV billings include Fleet, Postage, Printing, and Food Distribution, which are produced by OMB.

In these instances, both DTI and OMB are considered the Seller Organizations. The Seller Organization loads data files into FSF, which generates the IVs. These IVs are automatically approved for the Seller Organization. Only the Buyer Organization must review and mark the IV as complete in FSF.

Intra- and Inter-Organization billings should be made on a monthly basis utilizing one form for each Organization from which goods or services are being received. An exception will be made in the month of June when billing may be on a weekly basis, to facilitate a timely year-end close-out.

7.6.5.4 Inter-Organization and Intra-Organization Transfers

Additional information regarding Inter-Organization and Intra-Organization Transfers is located in **Chapter 4 – Budgeting, Section 4.6 Budget Transfers** and **Section 4.7 Cash Transfers**.

Additional information regarding required approvals for IV transactions is located in **Chapter 6 – Approvals**.

7.6.6 Travel-Related Payments and Personal Reimbursements

7.6.6.1 Travel

Travel advances are prohibited. Payment for all travel-related, approved expenses should be made using the Delaware Travel Card. However, in cases where this option is not possible, travel-related expenses will be reimbursed using a voucher. See **Chapter 11 – Travel Policy, Section 11.5 Travel Expense Reimbursement** for the policy regarding travel reimbursement.

7.6.6.2 Food

Employees are not provided or reimbursed for food consumed in-State, during normal working hours. Exceptions are made for the following instances:

- Employees of state agencies who regularly receive wages-in-kind in addition to their salaries;

- Employees of the Delaware Economic Development Office;
- The expenditures of funds for food supplies as part of employee recognition activities established pursuant to § 5950 of this title;
- The expenditures of funds for food supplied as part of an agency training function, such as a retreat or workshop, held away from the agency's home location.
- State Police recruits during the period of their training; or
- Circumstances where approval has been granted by the Director of the Office of Management and Budget and the Controller General.

(29 Del. C. §5112)

For implications on employee taxes when a meal or meal reimbursement is provided, Organizations should refer to **Chapter 14 – Payroll Compliance, Section 14.6.3.**

Non-state employees, except clients of State-administered programs, are not provided or reimbursed for food unless approval has been granted by the Director of the Office of Management and Budget and the Controller General. For this purpose, client is defined as a person who is receiving the benefits, services, etc., of a State-administered program. The program must allow the use of funds to cover food expenses. The purchase of food must support the achievement of program objectives and must be limited to necessary, reasonable, and actual costs.

7.6.7 Gift Cards

State-administered programs may allow clients to receive cash or cash equivalent items (e.g., gift cards.) Organizations must adhere to the rules of the program, and where gift cards may be purchased, an inventory process must be in place in order to manage the purchase, custody, and disbursement of the cards. The inventory process must be established prior to purchasing any gift cards.

7.7 Additional Payments Information

Voucher processing in FSF offers a number of options to increase the efficiency, cost-effectiveness, and timeliness of payments. For additional information about the following processing methods and requirements, Organizations should contact DOA.

7.7.1 Payment Consolidations

Multiple payments to the same vendor are automatically consolidated by FSF, whenever possible. Organizations may manually override system default settings for a transaction to stop a single payment from being consolidated.

Payments will consolidate Statewide, whenever possible. For a limited number of vendors, school payments will consolidate by district. Each payment advice will list all the vendor invoices associated with the payment.

7.7.2 Payment Handling Codes

Payment Handling Codes are set to a default value in FSF, as part of the Vendor set-up process, but Organizations can adjust the Payment Handling Code during the processing of individual voucher transactions, as needed. Each vendor can only be set up with one of the following Payment Handling Codes:

- RE (Regular);
- CA (Call agency/school for pick up);
- PR (Payroll vendor checks); or
- RA (Return to agency/school by mail).

Payment Consolidation assists the Office of the State Treasurer (OST) in the distribution of checks. Organizations may not change the Payment Handling Code associated with a transaction after the pay cycle process has begun (usually an overnight process).

School districts have unique Payment Handling Codes for each district, to consolidate payments by district. School districts must change the Payment Handling Code on each Voucher for proper processing.

7.7.3 Single Payment Vendors

Single Payment Vendors are vendors the State pays only once for a non-taxable event. Organizations are not permitted to use Single Payment Vendors for any taxable events. Non-taxable, single payment events include, but are not limited to, revenue refunds, pension refunds, school bus training, and grants for violent crimes. Any Organization with questions regarding which vendors are eligible to be Single Payment Vendors, or requiring additional information on the complete list of non-taxable events, should contact DOA.

7.8 Debt Service

The State Treasurer is the administrator of the State's debt service. The State Treasurer executes the State PV for payment of the State's indebtedness as a result of its borrowing program (**29 Del. C. §7417(b)**). Vouchers in payment of school district indebtedness are forwarded to the appropriate school district for approval, prior to approval from DOA. Bonds, notes, revenue notes, and the interest associated with each are payable at places inside and outside of the State, as the issuing officers may determine (**29 Del. C. §7408**).

7.9 Loan Disbursements

Organizations authorized to disburse funds to another Organization or outside entity as a loan are not required to encumber funds. The Organization must maintain all documents that support the loan (e.g., loan agreement, amortization schedule, etc.)

7.10 Grant-Related Payments

7.10.1 Grants-in-Aid Payments

Funds appropriated in the Grants-in-Aid bill will be paid in installments of 25 percent, each quarter of the fiscal year. If a Grants-in-Aid total is \$6,000 or less, it will be paid on an annual basis. The General Assembly may make exceptions to this installment policy by adding epilogue language to the Grants-in-Aid bill (**29 Del. C. 6505(d)**).

7.10.2 Interest Earned on Grants-in-Aid

Interest earned on deposits of Grants-in-Aid monies are credited to the fund associated with the grant.

7.10.3 Pass-Through Grants

Federal funds passed through from one State Organization to another State Organization must be done using a Budget Transfer or a Budget Journal transaction, not with a PV or an IV. Only OMB may execute this transaction.

7.11 State-Issued Refunds

This section details the requirements for State-issued refunds. Organizations should refer to **Chapter 9 – Receipt of Funds, Section 9.3.5**, for policies pertaining to refunds received by the State.

7.11.1 Refund of Improperly Collected Fees

In the event any agency improperly collects fees or receipts that become revenue to the General Fund, the State Treasurer has the authority (except as otherwise provided specifically by law) to make a refund from the General Fund, after certifying with the collecting agency that the fee or receipt was improperly collected and deposited. **(29 Del. C. §2713)** The State Treasurer will execute a Direct Claim Voucher charging the expenditure to the Refunds and Grants appropriation.

7.11.2 Tax Refunds

If the refund is for the Current Year corporate and personal tax, the refund payment is processed through the Division of Revenue's (DOR) automated system. A Journal Entry (JE) transaction is executed to enter this data into FSF. The JE reflecting the summary of refunds by appropriation and account code is prepared by DOR and approved by the State Treasurer. The summary refund information is coded to the State Treasurer's Refunds and Grants appropriation and sent to DOA for processing.

If the refund is not for the Current Year corporate and personal tax or if the refund is for some other tax, the refund payment is not part of DOR's automated system. The refund payment is generated by DOR using a voucher, approved by the State Treasurer.

7.12 Outside Bank Accounts

Organizations may request a bank account to be held outside of FSF for purposes of supporting its own programs and policies under the State's EIN. Such accounts are considered "outside bank accounts," and they are classified as either "petty cash" or "non-petty cash."

Petty cash accounts are used for small purchases when the use of the State's purchasing card is not feasible or possible. Petty cash outside bank accounts may only be used for State business.

Other outside bank accounts using the State's EIN are non-petty cash accounts, and may only be used for the following purposes and/or activities:

- Escrow
- Student and school

- School food service/cafeteria
- State park
- Hospital resident
- Protective services
- Child support
- General assistance
- Bail and court fines
- Inmate holding accounts
- Bookstore and museum
- Public safety
- Unemployment insurance fund
- Workers compensation
- Delaware Economic Development Authority (DEDA)
- Delaware Department of Transportation (DelDOT) real estate fund

Use of the State's EIN is not permitted for opening or maintaining an outside bank account except as provided above. See Section 7.12.4 for policies regarding Non-State Outside Bank Accounts.

7.12.1 Opening/Closing Outside Bank Accounts

Organizations must follow the guidelines listed below to establish or close a bank account outside of FSF using the State's EIN:

1. Organizations must complete a Request to Open Bank Account Form (TR1-a), obtained from OST. All required information such as justification for the account, the dollar range of the account, and the estimated dollar value of activity to occur during the year must be included. If part of this activity will require cash on hand, it is limited to \$50 at any time and will need to be included in the request.

The State has developed contracted relationships with certain banks and will only approve a new bank account with such financial institutions. A list of approved banks and branch locations can be found on the OST website.

2. Once approved, OST will notify the Organization and DOA by email so that the bank account information may be added to the Organization's vendor record in FSF.
3. Annually, OST will confirm the need for the bank account still exists to ensure the purpose matches the reason for opening the account.
4. To close an outside bank account, Organizations must submit a Request to Close Account Form (TR1-b) to OST. For a copy of this form, Organizations should contact OST with the subject line, "Request to Close an Outside Bank Account Form," point of contact, and name of Organization. Upon receipt, OST will email

the form to the Organization and DOA to be recorded to the Organization's vendor record in FSF.

7.12.2 Petty Cash Account Management and Replenishment

A petty cash account is an external bank account established for acquiring and paying for small value purchases when the State PCard cannot be used. The purpose of the account is limited to State business only.

Generally, the maximum authorization is \$2,000. However, amounts not exceeding \$5,000 for the Organization as a whole may be requested where exceptional circumstances exist. **(29 Del. C. §6520(a))**

7.12.2.1 Account Management of Petty Cash Accounts

With respect to making petty cash payments and managing petty cash accounts, the Organization will:

1. Maintain an internal control policy for petty cash.
2. Maintain the approval for opening the petty cash account, along with names and signatures of those persons authorized to sign petty cash checks.
3. Designate an account custodian who will be responsible for the preparation of petty cash payments.
4. Draw petty cash checks in consecutive numerical order.
5. Ensure petty cash checks are signed by two Organization employees.
6. Ensure proper segregation of duties by not allowing the account custodian to sign the checks.
7. Draw petty cash checks for no more than \$250.
8. Process payments over \$250, but not exceeding \$5,000, as direct claim vouchers in FSF.
9. Prohibit the use of petty cash to pay a vendor or an employee that is established in FSF. Any such payment should be processed as a voucher in FSF.

10. Prohibit the use of petty cash to purchase materials, supplies, or services when payment by voucher or State PCard is accepted.
11. Prohibit the use of petty cash to issue a cash advance, as cash advances are prohibited.
12. Prohibit the use of petty cash in any situation where a special approval is required.
13. Prohibit the use of petty cash to purchase personal items for employees.
14. Maintain a ledger of all transactions for reconciliation to the bank account, and reconcile the ledger to the bank statement each month.
15. Maintain the statement and reconciliations based on the Organization's archiving policies.
16. Review General Fund and Appropriated Special Fund petty cash accounts at the end of each fiscal year to determine if they are still needed.

7.12.2.2 Replenishments to Petty Cash Accounts

Petty cash funds may be replenished as often as necessary. To replenish a petty cash account, an Organization should process a direct claim voucher to DOA, payable to the Organization, supported by the following required documentation:

1. Expenditure totals by appropriation and account code;
2. A copy of the petty cash account bank statement; and,
3. The supporting reconciliation documentation attached to the voucher.

The Organization must retain all receipts and supporting documentation for audit purposes. Follow the retention policies referenced in **Chapter 2 – Internal Controls**.

7.12.3 Non-Petty Cash Account Management

A non-petty cash account is an account used to make payments on behalf of an Organization to meet the goals or mandates of their Organization's mission.

With respect to making non-petty cash payments, deposits, and managing non-petty cash accounts, the Organization will:

1. Maintain an internal control policy for outside accounts.
2. Maintain the approval for opening the account, along with names and signatures of those persons authorized to sign outside account checks.
3. Identify an account custodian, who is responsible for the preparation of non-petty cash payments
4. Draw checks in consecutive numerical order.
5. Ensure that checks are signed by two Organization employees.
6. Ensure proper segregation of duties by not allowing the account custodian to sign the checks.
7. Maintain a ledger of all transactions for reconciliation to the bank account, and reconcile the ledger to the bank statement each month.
8. Maintain the statements and reconciliations based on the Organization's archiving policies.

7.12.4 Non-State-Business Accounts

Organizations are required to establish and use their own EIN for outside bank accounts that support non-State activities such as employee sunshine accounts, booster clubs, volunteer entities, and foundations. Any Organization using such an account must ensure that controls and procedures are in place to properly manage funds.

7.13 Transfers to Accounts External to FSF

Transfers to an Organization's account, external to FSF, are not required to encumber funds. However, when disbursing payments from the external account, Organizations must adhere to the same policies as payments disbursed from FSF. Approvals will be retained by the Organization and proof of such approvals must be produced if requested by DOA for audit or other purposes.

7.14 Payment of Officials and State Employees

Payment of earnings to State officials and employees, both salaried and hourly, is accomplished through PHRST (Payroll Human Resources System Technology).

7.14.1 Pay Dates

The salaries of State officials and employees are paid on a bi-weekly basis (**29 Del. C. 2712 (a)(1)**). The bi-weekly payment represents earnings for the period ending 14 days prior to the check date for all State officials and employees (**29 Del. C. 2712 (a)(2)**).

If any of the above dates of payment falls on a holiday, payment shall be made on the last working day prior to the specified date of payment (**29 Del. C. §2712 (a)(3)**). Methods of payment may include checks, drafts, direct deposits, and electronic funds transfers (**29 Del. C. 2712 (b)**).

7.15 Payroll Funding Adjustment (PFA)

The Payroll Funding Adjustment (PFA) Bolt-On application provides a mechanism for the State of Delaware's Organizations to correct payroll expense distribution. PFA allows Organizations to redistribute Payroll charges that arise from coding errors, retroactive funding, funding shortfalls and other business practices. The PFA application must adhere to the traceability and audit ability requirements.

Every payroll funding adjustment transaction must be traceable to a tangible business event. The State requires the ability to look at an individual employee's pay and trace it from the source in PHRST to the appropriations used to fund this individual. That is, DOA must be able to look at the work the individual is assigned and make the determination that the funding is appropriate for the work. Payroll funding adjustments must be made at the paycheck level and are associated with a single individual.

The Expired Appropriations Process (EAP) manages expired appropriations in FSF. When an appropriation referenced in a payroll chartfield string is expired, FSF does not allow the payroll-related transaction to post to that appropriation. The payroll transaction is modified by the EAP and charged to the Unfunded Payroll Appropriation.

The Unfunded Payroll Appropriation is a new, zero-balance appropriation, established in FSF to house "kickers." Organizations must clear balances on a regular basis. The PFA is used to redistribute charges from the Unfunded Payroll Appropriation to an active appropriation, thereby clearing the Unfunded Payroll Appropriation. Payroll transactions will continue to kick on future payroll charges until the source is corrected. To permanently correct an expired line of funding, PHRST End Users must locate and recode the source of the expired appropriation in the PHRST system.

7.16 Vendor Information

If a vendor has not previously done business with the State or changes to the vendor's data are needed, the vendor is responsible for properly registering or updating the vendor record through the State's automated Vendor W-9 process, which is accessible through the DOA website, www.accounting.delaware.gov.

After a vendor has supplied the new or changed information, the data will be forwarded to DOA for review and approval. Approved vendors are then added to the appropriate system tables, and the vendor may be selected to process requisitions, purchase orders, and vouchers. **Purchases may only be made using vendors who have completed vendor registration and have been approved by DOA.** Organizations should contact DOA for assistance or questions relating to vendor requirements.

Vendors must be set up and activated in the vendor table in order for the system to issue payments. This includes State employees, who must be set up in the vendor table. State employees must complete vendor set up through the State's website (without the W-9 requirements), and then, have the vendor status activated by DOA.

7.17 Payment Dates

The payment date of an invoice or bill will be the date appearing on the vendor check issued by the State. The State shall make every effort to issue payments to vendors within 30 days of the:

- Presentation of a valid invoice on which a State Organization is liable to make payment; or
- Receipt of goods or services, if received after the invoice or bill.

The Organization must determine what constitutes "Received". Organizations should date and time stamp all incoming invoices or bills. Organizations also have the option of using the Receiving functionality of FSF.

Payment Vouchers requiring DOA approval should be forwarded to DOA (via FSF) with at least five working days remaining in the 30-day period to ensure timely payment:

- Transactions will be processed in the order received.
- There is no guarantee of same day processing.
- A fax or copy of a document will not be accepted for processing unless an emergency situation exists and with the approval of DOA.

7.17.1 Contested Invoices or Bills

Organizations do not have to make payments or accrue interest charges on portions of an invoice or bill which is contested on reasonable grounds by the Organization, provided the Organization notifies the vendor, in writing and within a 30-day period, detailing the reasons for contesting the invoice or bill.

7.17.2 Vendor Interest Charges

A vendor may require that interest commence from the end of the 30-day period and continue until payment. The interest rate shall not exceed annualized rate of 12 percent. Instead of interest, vendors may charge a “penalty,” which is not permitted. All interest charges shall be paid by the Organization receiving the goods or services from the vendor.

Payment of General Fund and Special Fund interest charges accrued by an Organization are processed as a Direct Claim, using funds appropriated for contractual services. OMB will record payments for this purpose separately from "other contractual services". Organizations of public or higher education may make payments from local or State General Funds not restricted to another purpose.

If the Organization believes the interest charge was incurred through no fault of its own, an appeal may be made to OMB and Controller General. If, in their opinion, the receiving Organization demonstrates that some other Organization(s) bear greater responsibility for causing the delay which occasioned the payment of interest, the responsible Organization(s) shall reimburse the receiving Organization for the interest charge.

The Secretary of Finance will report to the Controller General on January 15 and July 15 of each year:

- The name of any Organization which has, within the first six months, paid interest to a vendor;
- The number of interest payments made by each Organization; and
- The total amount of interest paid by each Organization.

7.17.3 Vendor Discounts

Every effort must be made to take all discounts allowed by vendors. This policy requires vendors' invoices to be processed as expeditiously as possible. All Organizations should seek to obtain discount terms when negotiating purchases with a vendor.

7.17.4 Advance Payments to Vendor

Payments to vendors are to be made only after goods or services are received. The only exceptions to this policy are where:

- Advance payments are standard business practices (e.g., maintenance contracts, subscriptions, registration fees, airline reservations).
- An advanced payment is in the State's best interests. Requests for such advance payments must be in writing to the OMB Director, and receive the concurrent approval of the OMB Director and the Secretary of Finance.

7.18 Checks & Drafts

The standard method of generating a check is through FSF. When all approvals have been entered for a voucher, FSF will process the necessary check, as scheduled (generally, the next overnight batch job). Checks are then sent to OST for verification and signature (**29 Del. C. §6516(a)**).

7.18.1 Check Processing Requirements

The signing of a check or draft by the State Treasurer may either be by hand, using pen and ink, or by a check signing machine imprinting the facsimile signature of the State Treasurer (**29 Del. C. §2706(a)**).

All checks are drawn in consecutive numerical order (**29 Del. C. §6516(b)**). The Secretary of Finance will periodically verify that the State Treasurer has drawn no checks other than those accounted for as described in **29 Del. C. §6516**.

Checks or drafts issued by the State Treasurer will not be honored after the expiration of six months from the date of issuance. (**29 Del. C. §2706(b)**) The State processes manual warrant transactions, using vouchers to be paid by wire transfers.

7.18.2 Cancelled and Spoiled Checks

Any check that is written in error, or a check an Organization has decided not to forward to a vendor, must be processed for cancellation through OST. Organizations must complete a Payment Cancellation Request Form ([AP004](#)) and forward to OST the completed form, a copy of the voucher, and, if available, the physical check. The Treasurer's Office will verify the check against the outstanding check list and will forward the verified check and forms to DOA for cancellation processing.

Cancelled checks may be processed to reduce an Organization's expenditures, or cancellations may be processed to rewrite a new check without entries to the Organization appropriation account. Checks that need to be replaced will have a new check number if the cancelled check was issued. If a check was never issued (e.g., mangled during printing) the new check may have the same check number. Once a check has been issued, it may not be reprinted with the same check number.

NOTE: Contact the Organization's PHRST representative for information regarding the processing of cancelled payroll checks.

7.19 Tax Considerations

For the purposes of tax compliance, DOA will give notice to DOR of payments made to any corporation or business association when the aggregate payments during a fiscal year exceed \$2000. (**30 Del. C. §305**)

7.19.1 Levies and Garnishments against a Vendor

As the need arises, the Internal Revenue Service (IRS) and/or the State's DOR will send DOA a notice of a levy or a State of Delaware Tax Garnishment, in order to collect money owed by a taxpayer. These notices direct the Organization to make checks payable to the vendor "in care of the IRS or DOR" with the appropriate IRS or DOR address. **A levy or garnishment cannot be removed until DOA receives written release from the IRS or DOR.**

When entering a voucher to a vendor that has a levy or garnishment applied to their Taxpayer Identification Number (TIN), Organizations may not add another suffix or omit the IRS or DOR name and address. A levy or garnishment requires the State to turn over all money obligated to the vendor or taxpayer. If a suffix is added and the money is sent directly to the individual, the Organization will be responsible for retrieving the money to satisfy the levy or garnishment.

Vendor checks should not be returned to an Organization in order to change the IRS or DOR name and address to the vendor's address. The bank will refuse to cash or deposit the check and will notify OST of the change.

Organizations should contact DOA regarding any questions concerning levies and garnishments.

7.19.2 Tax Exempt Certificate

The State of Delaware is exempt from paying federal excise tax. According to the IRS, the buyer (State of Delaware) is to provide to the seller (the vendor) a certificate with this information. In January, DOA distributes the Certificate of Tax Exempt Status for the State of Delaware to Organizations via the annual Tax Exempt Certificate Accounting Memo. To determine if a purchase is tax exempt or non-exempt, Organizations should review IRS Publication 510.

7.20 Form 1099

DOA produces IRS Information Returns annually for payments made through FSF. Reporting includes Forms 1099-MISC, 1099-G, and 1099-INT. DOA primarily reports non-employee compensation for payments made to vendors in the course of the vendor's trade or business on a Form 1099-MISC. Rent, medical and health care payments, and payments to attorneys are also reported on a Form 1099-MISC. Also reported are agricultural payments on a Form 1099-G and interest income on a Form 1099-INT.

DOA consolidates all Form 1099 reportable payments to vendors into a single file for 1099 reporting. Any State Organization that files a paper 1099 is subject to a fine/penalty for each form submitted to the IRS per Section 6011(e)(2)(A) of the Internal Revenue Code. Exceptions to this rule include Organizations that produce Forms 1099 of a unique type or for a unique purpose. All exceptions must be reviewed by DOA.

Vendor 1099 reportable status is established when the vendor submits a Delaware Substitute Form W-9, which can be found on the DOA website, www.accounting.delaware.gov. The dollar threshold for Form 1099-MISC reporting is \$600. The dollar threshold for Form 1099-G is any amount and for Form 1099-INT is \$10.

FSF has a 1099 External Transactions component in place to enable capturing 1099 reportable payments made outside of FSF. However, the best practice is to process all vendor payments in FSF. Instructions for using this component are available at http://www.accounting.delaware.gov/DOA_Memos.shtml.

7.21 Documentation

Organizations are responsible for maintaining supporting documentation for Organization transactions. Organizations have the option of attaching (scanning) supporting documents to the transaction in FSF, or Organizations may retain supporting hardcopy documents in compliance with the Document Retention schedules set forth by the Delaware Public Archives.

Chapter 8

Chapter 8 of the Budget and Accounting Policy Manual has been merged into Chapters 5, 7 and 13.

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Chapter 9 – Receipt of Funds

All receipts of monies of the State are credited into the General Fund (**29 Del. C. §6102(a)**), except as noted otherwise in this Manual. Funds not deposited into the General Fund are placed in Special Funds and accounts.

The State Treasurer is responsible for loading daily deposit information received from the State's banks into the State's financial management and accounting system, First State Financials (FSF). Organizations are then responsible for applying deposits into the correct Organization appropriation.

The Secretary of Finance is accountable for all monies collected on behalf of the State. These monies include, but are not limited to, receipts for taxes, fines, fees, sales (including proceeds from the disposition of surplus property), rentals, admissions, tuitions, gifts, grants, and donations.

9.1 Cash Management Policy Board

The Cash Management Policy Board (Board) (**29 Del. C. §2716**) determines policies for the investment of all money belonging to the State, except money deposited in any state pension fund or State Deferred Compensation Program. Additionally, the Board determines the terms, conditions, and other matters relating to the protection and maintenance of State investments, including the designation of permissible investments.

The Board has determined and requires that:

- Deposits of State monies must be continuously and fully secured by direct general obligations of the United States of America, other obligations unconditionally guaranteed (principal and interest) by the United States of America, or other suitable obligations; (**29 Del. C. §2716(a)(1)**)
- The selection of financial institutions to provide banking and investment services involving the funds for which the Board is responsible must be conducted on an open and competitive basis; (**29 Del. C. §2716(a)(2)**) and
- Temporary clearing accounts and major disbursement accounts are established in a bank or banks whose principal office is located within the State. (**29 Del. C. §2716(a)(3)**)

The State Treasurer is responsible for enforcing all policies established by the Board with respect to the creation of all checking accounts by the State. (**29 Del. C. §2716(d)(2)**) The State Treasurer is also responsible for investing monies belonging to the State in accordance with the Board's policies, except as noted otherwise in this Manual. (**29 Del. C. §2716(e)(1)**) The Board

may amend or change these policies from time to time and may grant waivers for these policies, should the Board determine the policies are not in the State's best interests.

Organizations must report to the State Treasurer projections of receipts and expenditures, so the State Treasurer may provide the Board with accurate cash flow forecasts. (29 Del. C. §2716(e)(2))

9.2 Cash Receipts

Organizations must exercise close control in handling cash receipts. Exact audit requirements for processing cash receipts may vary among Organizations; however, the following basic procedures must be followed:

- Organizations must separate the functions of cashier and accounting among Organization personnel.
- Frequent and unannounced cash counts must be conducted by Organization personnel other than those responsible for the handling and accounting of cash receipts.
- Cashiers must issue official pre-numbered receipts to payers, a copy of which will be retained for audit purposes.
- Check endorsements should satisfy general endorsement requirements, as outlined periodically by the State Treasurer.
- Where the authorized depository is other than the official depository, undeposited checks, the proceeds of which belong to the State, but are not made payable to the State Treasurer, may be endorsed as follows:

"Pay to the Order of the Treasurer,
State of Delaware
Payee "

All monies that belong to the State must be deposited on the day of receipt, except funds received after the close of normal banking hours or daily receipts totaling less than \$100. Funds must be deposited to the credit of the State Treasurer into the designated bank for the State's funds.

Organizations that receive less than \$100 in daily receipts are required to deposit the funds when the accumulated receipts exceed \$100 or on a weekly basis, whichever occurs first. Monies received after the close of normal banking hours will be deposited on the next business day. However, if the receipts are of a significant magnitude, Organizations should make arrangements for an after-hours deposit. (29 Del. C. §6103(a))

9.2.1 Stock Dividends and Interest

The State Treasurer may receive dividends or interest from any stock, shares, loans, or investments of monies belonging to the State or to a school. The State Treasurer is responsible for allocating the received funds to the proper Organization. **(29 Del. C. §2709)** Organizations are responsible for applying the funds to the correct Organization appropriation.

9.2.2 Tax Receipts

The Division of Revenue (DOR), Department of State, and the Bank Commission have independent systems to manage the detailed accounting associated with the tax revenues collected by the Division. Tax period and taxpayer-specific information is captured from the tax remittance documents (e.g., tax return forms, checks) and entered into the appropriate system. A Cash Receipt (CR) transaction is processed by DOR to properly credit the cash receipts into the State's cash collections account and FSF.

9.3 Special Funds Collections

The current list of Special Funds and Accounts follows:

1. Accounts established by Organizations for the collection of receipts for:
 - Board;
 - Tuition;
 - Hospital Treatments; and
 - Sale of Farm Products

(29 Del. C. §6102(b))
2. Revenue Refund Accounts **(29 Del. C. §6533(e))**
3. Federal Aid Funds - All federal financial assistance program money received by the State, whether directly or indirectly, in the form of cash, check, or via an electronic funds transfer method. **(29 Del. C. §2711(a))**
4. Capital Improvement Projects Fund – All monies received from the sale of bonds and notes issued for the capital improvement program. **(29 Del. C. §7414)**
5. First State Improvement Fund **(29 Del. C. §5080)**

6. Advanced Planning and Real Property Acquisition Fund **(29 Del. C. §6343)**
7. Accounts established for minor capital improvements by local school districts **(29 Del. C. §7528)**
8. Accounts established for the rental, repair, and lease purchase of portable classrooms by the State Board of Education **(29 Del. C. §6102(d))**
9. Accounts established for the Business Enterprise Program's vending receipts, operated by the Division for the Visually Impaired, within the Department of Health and Social Services. **(29 Del. C. §6102(l))**
10. Accounts established for the improvement of statewide (departmental and divisional) indirect cost recoveries from programs financed in whole or in part with federal funds. **(29 Del. C. §6102(k))**
11. Accounts established for the Delaware Emergency Management Agency **(29 Del. C. §6102(i))**
12. Division of Corporations Corporate Revolving Fund **(29 Del. C. §2311(b))**
13. Emergency Housing Fund **(29 Del. C. §7953)**
14. State Lottery Fund **(29 Del. C. §4815)**
15. Delaware Higher Education Loan Program Fund **(29 Del. C. §6102(e))**
16. University of Delaware Funds **(29 Del. C. §6102(b))**
17. Delaware State University Funds **(29 Del. C. §6102(b))**
18. Delaware Technical and Community College Funds **(29 Del. C. §6102(b))**
19. Delaware Child Support Enforcement Account **(29 Del. C. §6102(g))**
20. Delaware State Housing Authority Funds **(29 Del. C. §6102(h))**
21. Housing Development Fund **(31 Del. C. §4030)**
22. Local School District Funds **(29 Del. C. §6102(j))**
23. Delaware Housing Insurance Fund **(31 Del. C. §4050)**

9.3.1 School Internal Funds

School internal funds are generally collected by the school district, but the disbursement of the funds is not at the discretion of the school authority. Accounts should be maintained for all internal funds in a safe depository, and each school district must define procedures concerning the maintenance of their internal accounts, including the proper documentation of all transactions. All internal funds are subject to audit by the State Auditor.

School internal funds include the following:

- Accommodation accounts for student and employee community drives;
- Student Class/Club accounts that are expended only upon the authorization of the class or club; and
- Accounts for small miscellaneous sums to be paid to the State Treasurer at the end of each month.

Funds not maintained under the custody of the State Treasurer should be managed as regular school internal funds and are subject to the accounting procedures described above.

9.3.2 Cash Receipts from the Sale of Bonds, Notes, and Revenue Notes

Proceeds from the sale of bonds, notes, and revenue notes, including premiums and accrued interest, are deposited by the State Treasurer into State Funds as follows:

- All proceeds from the sale of bonds or notes, other than premiums or accrued interest, are deposited into a Special Fund or Funds of the State, and are applied for the purposes for which the bonds or notes were issued.
- All proceeds from the sale of revenue notes and all accrued interest from the sale of bonds or revenue notes are deposited into the General Fund.
- Any premium from bonds or revenue notes are deposited, at the discretion of the Director of the Office of Management and Budget (OMB), the Controller General, and the Secretary of Finance, into:
 - A Special Fund of the State; or
 - An escrow fund to redeem or refund debt service on any debt or obligation of an instrumentality of the State.

(29 Del. C. §7414(a))

9.3.3 Federal Grant Funds

All federal grant funds should be made payable to the State Treasurer. Funds will be credited to the State's "Federal Aid Account" Special Fund (**29 Del. C. §2711(a)**), unless the federal government requires the funds for a specific grant to be segregated into a separate account. The State Treasurer is responsible for establishing any such segregated accounts for grant funds in compliance with all federal requirements. Organizations should use the delivered functionality of FSF to bill grantors for draw downs associated with the Organization's grant(s).

9.3.4 Refunds to the State

Organizations periodically receive refunds from employees or from vendors. The refunds (General Fund and Special Fund) are processed as follows:

- Refunds resulting from **current fiscal year expenditures** are credited to the appropriation from which the monies were expended.
- Refunds resulting from **prior fiscal year expenditures** are credited to the appropriation from which the monies were expended if the appropriation is an active appropriation in the current fiscal year. Refunds are treated as an associated revenue if the appropriation from which the monies were expended is not active in the current fiscal year. An active appropriation is an appropriation with an open budget status and spending period.

Refunds of federal grant or Capital/Bond Fund monies are credited to the appropriation from which the monies were expended, regardless of whether the expenditure is from a prior or current fiscal year, assuming the appropriation is active.

NOTE: Expenditure-reducing credits are intended for use with refunds only. **Expenditure-reducing transactions are not to be used as a routine method of processing the receipt of fees and/or reimbursements**, except when specifically identified and authorized by the Delaware Code, Budget Act Epilogue, other legislation, or this Manual. If this limitation hampers or jeopardizes an Organization's programs or operations, the Organization should discuss the issue with its assigned OMB Fiscal and Policy Analyst.

9.3.5 School Facilities Usage Fees

A local school board may allow school-sponsored organizations, nonprofit organizations, or any governmental Agencies to use school property or equipment under its jurisdiction free of

charge; or the local school board may adopt a policy to charge these Agencies or organizations a fee for costs incurred in excess of normal operations.

Other organizations, including for profit organizations, which receive approval to use school property and/or equipment, are charged an amount at least equal to the costs incurred in excess of normal operations. Local school boards are responsible for determining and calculating these costs and for maintaining appropriate documentation of the calculations, which are subject to audit.

Recoverable costs include: custodial salaries, other employment costs, heat, lighting, and other identifiable operational costs. All such facilities usage fees collected by a local school board are retained by the school district to be used as local funds for any permissible educational purpose.

9.3.6 Fees for the Examination and Copying of Public Records

The Freedom of Information Act (**29 Del. C. §10003**) allows the charge of a reasonable fee for the reproduction of public documents, upon the request of any citizen. The first 20 pages of standard-sized (8.5" x 11", 8.5" x 14", and 11" x 17"), black and white copies shall be provided free of charge. Copies over and above 20 shall be \$0.10 per sheet (\$0.20 for a double-sided sheet). The fee for copying oversized public records shall be as follows: 18" x 22", \$2.00 per sheet; 24" x 36", \$3.00 per sheet; and documents larger than 24" x 36", \$1.00 per square foot. An additional fee of \$1.00 per sheet will be assessed for all standard-sized, color copies and \$1.50 per sheet for larger copies. Organizations should credit the receipt of these fees as an expenditure reduction for reproduction costs.

If the designated fee per copy is not an adequate recovery for an Organization, the Organization may submit a request to the OMB Director to increase the fee and/or charge administrative fees. The request should include cost factors based on both the copy machine cost and the operator's cost. Organizations requiring assistance in calculating a modified copy fee should contact OMB's Government Support Services (GSS).

9.3.7 Restitution Processing

State employees and private citizens who are found guilty, by a court or through another settlement process, of theft, embezzlement, or fraud, in the handling or receipt of State funds or property, may be required to make restitution to the State. Due to the wide array of variable criteria that can apply to each case, the proper handling of the restitution must be addressed on a case-by-case basis.

Organizations must inform the OMB Director and the Secretary of Finance of the details of any and all incidents of theft, embezzlement, or fraud with respect to State monies or property as soon as the alleged behavior is discovered. This notification will allow the

Budget and Finance offices to effectively participate in the investigation and/or resolution processes, including the development of acceptable settlement and restitution provisions. Organizations should contact the Division of Accounting (DOA) to determine proper processing requirements for any restitution payments received.

9.4 Accounts Receivable

Accounts Receivable represents amounts billed or billable to patients, clients, or taxpayers when the State provides goods and services or when the State establishes a due date for various fees or taxes. An accounts receivable report is submitted to the Secretary of Finance each year as part of the annual GAAP reporting package.

9.4.1 Collections

Every reasonable effort should be made to collect all receivables. Each Organization with accounts receivable must develop and implement procedures for a positive collection effort, including procedures for evaluating the effectiveness of the Organization's collection efforts and procedures for determining Doubtful Accounts.

Organizations should coordinate with the Department of Finance (DOF) and consult with the Attorney General to develop collection procedures. Each Organization must provide an annual written report of its procedures, or any amendments to its procedures, to the Secretary of Finance by June 30.

Organizations are required to cooperate with the Attorney General in effecting collections and should use the remedies provided by the legal system, as appropriate. If the account remains uncollectible, the Organization should refer the account to the Secretary of Finance with all pertinent information.

All Organizations collecting accounts receivable should solicit the assistance of other Organizations that have a collections staff. Organizations with collections staff should make every effort to provide assistance to other Organizations. Organizations require prior written approval from the Secretary of Finance and the Attorney General to enter into a contract with a professional collection service.

9.4.2 Doubtful Accounts

Organizations are required to calculate an Allowance for Doubtful Accounts to determine a realistic net value for expected receivables. "Doubtful Accounts" is the term for the estimated receivables an Organization does not expect to collect in the near future.

Organizations may determine an Allowance for Doubtful Accounts using either the Percentage of Outstanding Receivables method or the Aging of Receivables method. Organizations should contact DOA for assistance calculating doubtful accounts.

Organizations must document the procedure used to determine the amount of doubtful accounts and include the procedures as part of the annual written submission to DOF of the Organization's collection policies and procedures. The procedures used to determine doubtful accounts should be reviewed periodically to determine whether revisions are necessary due to changing conditions.

NOTE: The Allowance for Doubtful Accounts is not a write-off of accounts receivable.

9.4.3 Waiver of Accounts Receivable Compliance

An Organization may request a full or partial waiver from Accounts Receivable requirements if the Organization satisfies outside requirements that are more stringent than the State's policy. Waiver requests should be made in writing and submitted to the Secretary of Finance for approval.

9.4.4 Write-Offs

Organizations must obtain written approval from the Secretary of Finance to remove an account from an Organization's list of active accounts receivable. The reclassification of a full or partial account balance to an inactive status does not forgive the debt. The account balance remains subject to collection in the event the Organization determines circumstances have changed at a later date.

Organizations must provide the Secretary of Finance with the following documentation to obtain approval to reclassify an account balance to an inactive status:

- Documentation of the Organization's collection efforts for the account balance in question;
- Documentation of the collection efforts, if any, by the Attorney General; and
- Certification by the Attorney General, or his deputy, that the potential recovery and costs of collection do not merit further collection efforts.

An Organization may certify it has followed its previously filed and approved collection plan, in lieu of a declaration from the Attorney General that further collection efforts are unwarranted.

Upon approval by the Secretary of Finance, Organizations should remove the full or partial account balance from the Organization's active accounts receivable file and place the account into a permanent inactive file. The Organization's Accounts Receivable policy should include periodic review of inactive accounts receivable to determine if the account(s) should be reclassified for further collection efforts.

In the event there are collections of any or all of the account after it is written off, the collections are to be recorded as General Fund revenue to account 49159, Bad Debt Recovery, in the year they are received. It is not necessary for the Organization to request the former receivable be re-activated.

The Organization's permanent inactive file must be updated and noted for such collections. The Organization must submit the documentation from the collection and the adjusted account balance of the permanent inactive file to DOA.

DOA retains a record of accounts receivable that have been written off and will attach the documentation to the appropriate record.

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Chapter 10 – Grants Management

Federal grants represent a large amount of the State’s annual revenue. At a minimum, Organizations must process transactions in accordance with State policies and procedures, but must also adhere to any additional federal requirements imposed by the specific grant. Organizations should contact their grants management personnel, the Office of Management and Budget (OMB), or the Department of Finance (DOF), as appropriate, if they have any questions.

The Federal government has identified areas to be included in proper grant management processes. They are as follows:

1. **Financial reporting** - accurate, current and complete disclosure of financial results
2. **Accounting records** - maintenance of records which identify the course and publications of funds
 - a. Grants Management for accounting records consists of two major components:
 - Grant Application and Proposal Process (Pre-Award Processing)
 - Proposal Maintenance – includes project assignment, federal reporting requirements (activities), and budgets that contain indirect costs, matching (cost share) and program income.
 - Grant-Related Transactions (Post-Award Processing)
 - Grant Award – includes contract and billing information, project transactions tracking and project budget modifications.
 - Transaction Tracking – includes the capturing of all Accounts Payable, eProcurement, Purchasing, Billing, Accounts Receivable, and General Ledger activities.
3. **Internal control** - maintain effective control and accountability for all grants and subawards
4. **Budget control** - comparison of actual expenditures or outlays to budgeted amounts for each grant or subaward
5. **Allowable costs** - grants expenditures determined by applying appropriate OMB cost principles, agency program regulations and the terms of grants and subaward agreements
6. **Source documentation** - documentation maintained to support accounting records
7. **Cash Management** - procedures to minimize the time elapsing between the transfer of funds from the federal government and the disbursement by the grantee or sub-grantee

10.1 General Information and Definitions

Uniform Guidance Definitions	
Term	Definition
Allowable Costs	<p>To be allowable under a grant program, costs must meet the following criteria:</p> <ul style="list-style-type: none"> • Be necessary and reasonable for proper and efficient performance and administration of Federal awards; • Be allocable to Federal awards; • Be authorized or not prohibited under State or Local laws or regulations; • Conform to any limitations or exclusions set forth in Federal guidelines; • Be consistent with policies, regulations, and procedures that apply uniformly to both Federally assisted and other activities of the government unit of which the grantee is a part; • Be accorded consistent treatment and determined to be in accordance with Generally Accepted Accounting Principles (GAAP); • Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation and; • Be net of all applicable credits and adequately documented.
Cognizant Agency	The Cognizant Agency for cost allocation plans and indirect cost proposals for all governmental units or agencies not specifically identified by OMB will be determined based on the Federal Agency providing the largest amount of federal grant funds to the entity. Department of Health and Human Services (HHS) is the State's Cognizant Agency.
CMIA	The Cash Management Improvement Act of 1990 (CMIA) provides the general rules and procedures for the effective, efficient and equitable use of State and Federal funds on behalf of major Federal assistance programs in the annual Treasury-State Agreement (TSA). See 31 CFR 205 Part A of the Code of Federal Regulations for the rules governing the largest Federal programs, and Part B for all other programs.
Drawdown	A process whereby a state requests and receives federal funds.

Uniform Guidance Definitions	
Term	Definition
Federal Financial Assistance	Assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals. Assistance includes awards received directly from Federal Agencies or indirectly from other State and Local government units.
Federal Award (Grant)	An award of financial assistance, including cooperative agreements, in the form of money, or property in lieu of money, by the Federal government to an eligible grantee. The term does not include technical assistance, which provides services instead of money, or other assistance in the form of revenue sharing, loans, loan guarantees, interest subsidies, insurance, or direct appropriations. Also, the term does not include assistance for which the grantee is not required to account.
Owner of the Grant/Grantee	The direct recipient of a grant that is accountable for the use of the funds received. The grantee is the entire legal entity even if only a particular component of the entity is designated in the grant award document (this may be a State Organization or Program).
Grantor	The Federal Agency that awards a grant to an eligible grantee. Also referred to as the Sponsor.
Questioned Costs	Costs that, in the opinion of the auditor, may not comply with or may not be consistent with the requirements set forth in contracts, statutes, or regulations governing the allocation, allow ability, or reasonableness of costs charged to awards and programs, and thus may not be reimbursable. <i>Questioned cost</i> means a cost that is questioned by the auditor because of an audit finding: <ul style="list-style-type: none"> (a) Which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds; (b) Where the costs, at the time of the audit, are not supported by adequate documentation; or (c) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.
Statewide Indirect Costs	Indirect costs incurred by the State's central service agencies in support of other State Organizations and institutions. The Division of Accounting (DOA) notifies Organizations annually of their allocation of Statewide indirect costs.

Uniform Guidance Definitions	
Term	Definition
Data Universal Numbering System (DUNS) Number	Dun & Bradstreet (D&B) provides a DUNS number, which is a nine-digit identification number for each physical location of your business. This number is needed for any federal grant application. Obtain a DUNS number online using the following website: http://fedgov.dnb.com/webform .
Advance payment	A payment that a Federal awarding agency or pass-through entity makes by any appropriate payment mechanism, including a predetermined payment schedule, before the non-Federal entity disburses the funds for program purposes.
CFDA	<p>The number assigned to a Federal program from the Catalog of Federal Domestic Assistance.</p> <p>The CFDA number is found on the Catalog for Federal Domestic Assistance online database. The database contains all Federal programs available to State and Local governments, federally-recognized Native-American tribal governments, territories and possessions of the United States, domestic public, quasi-public, and private profit and nonprofit organizations and institutions, specialized groups, and individuals.</p> <p>Additional information on the Catalog for Federal Domestic Assistance database may be found online using the following website: https://www.cfda.gov.</p>
Contract	<p>A legal instrument by which a non-Federal entity purchases property or services needed to carry out the project or program under a Federal award. The term as used in this part does not include a legal instrument, even if the non-Federal entity considers it a contract, when the substance of the transaction meets the definition of a Federal award or subaward.</p> <p>A State Organization may receive funds from a Federal Agency, a cataloged federal program, or from another State Organization to supply a deliverable or perform a service under a contract or cooperative agreement. Organizations receiving these funds are bound by the specific contract terms when supplying a deliverable or performing a service under contract or cooperative agreement. These monies are not considered grant funds, and the use of these monies is not governed by this chapter.</p>

Uniform Guidance Definitions	
Term	Definition
Federal financial assistance	<p>(a) For grants and cooperative agreements, <i>Federal financial assistance</i> means assistance that non-Federal entities receive or administer in the form of:</p> <ol style="list-style-type: none"> (1) Grants; (2) Cooperative agreements; (3) Non-cash contributions or donations of property (including donated surplus property); (4) Direct appropriations; (5) Food commodities; and (6) Other financial assistance (except assistance listed in paragraph (b) of this section). <p>(b) For Subpart F—Audit Requirements of this part, <i>Federal financial assistance</i> also includes assistance that non-Federal entities receive or administer in the form of:</p> <ol style="list-style-type: none"> (1) Loans; (2) Loan Guarantees; (3) Interest subsidies; and (4) Insurance.
Improper payment	<p>(a) Any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and</p> <p>(b) Includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning.</p>
Indirect (facilities & administrative (F&A)) costs	<p>Costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools must be distributed to benefitted cost objectives on basis that will produce an equitable result in consideration of relative benefits derived.</p>
Internal controls	<p>A process, implemented by a non-Federal entity, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:</p> <ol style="list-style-type: none"> (a) Effectiveness and efficiency of operations; (b) Reliability of reporting for internal and external use; and (c) Compliance.

Uniform Guidance Definitions	
Term	Definition
Loan	<p>A Federal loan or loan guarantee received or administered by a non-Federal entity, except as used in the definition of 2 CFR § 200.80 (Program income) of the Code of Federal Regulations.</p> <p>(a) The term “direct loan” means a disbursement of funds by the Federal Government to a non-Federal borrower under a contract that requires the repayment of such funds with or without interest. The term includes the purchase of, or participation in, a loan made by another lender and financing arrangements that defer payment for more than 90 days, including the sale of a Federal Government asset on credit terms. The term does not include the acquisition of a federally guaranteed loan in satisfaction of default claims or the price support loans of the Commodity Credit Corporation.</p> <p>(b) The term “direct loan obligation” means a binding agreement by a Federal awarding agency to make a direct loan when specified conditions are fulfilled by the borrower.</p> <p>(c) The term “loan guarantee” means any Federal Government guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender, but does not include the insurance of deposits, shares, or other withdrawable accounts in financial institutions.</p> <p>(d) The term “loan guarantee commitment” means a binding agreement by a Federal awarding agency to make a loan guarantee when specified conditions are fulfilled by the borrower, the lender, or any other party to the guarantee agreement.</p>
Subaward	<p>An award provided by a pass-through entity to a sub-recipient for the sub-recipient to carry out part of a Federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a Federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract.</p>
Sub-recipient	<p>A non-Federal entity that receives a subaward from a pass-through entity to carry out part of a Federal program, but does not include an individual that is a beneficiary of such program. A sub-recipient may also be a recipient of other Federal awards directly from a Federal awarding agency.</p>

Uniform Guidance Definitions	
Term	Definition
Suspended and Debarred Vendors	<p>A suspension is an action taken by a suspending official that excludes or disqualifies a person or company from bidding on, receiving, or participating in Federally funded contracts or grants for a temporary period of time pending the completion of an investigation or legal or administrative proceedings. A suspension has government-wide effect applying to all Federal programs and procurement.</p> <p>A debarment is an action taken by a debarring official that excludes or disqualifies a person or company for a specific period of time, generally not longer than 3 years. A debarment has government-wide effect applying to all Federal programs and procurement.</p> <p>When an Organization is making payments using federal funds, they are required to review the https://www.sam.gov/ to ensure that the vendor(s) they are paying do not appear on the vendor exclusion list.</p>

First State Financials (FSF) Definitions	
Term	Definition
Sub-Grant/Pass-Through Grant	Federal funds or other grant monies passed through from one State Organization to another State Organization, at which time the sub-grantee becomes responsible for complying with the rules and regulations governing the program, audit issues, etc.

The following table lists common types of grants used in the State:

Type of Grants	Explanation
Direct Grant	Funds received by a State Organization directly from the federal government to run a specific program cataloged in the Catalog of Federal Domestic Assistance (CFDA).
Subaward (referred to as Indirect Grant in FSF)	Funds received by a State Organization from a cataloged Federal program for a private, nonprofit, Local government or higher education facility.
Advance Payment (referred to as Prepaid Grant in FSF)	Funds advanced at the beginning of the grant for the full amount of the grant; Organizations are required to account for the expenses associated with the grant. Prepaid grants are identified under Post-Award.
Reimbursable Grant	Funds received for programs to be operated on a reimbursable basis as mandated by Federal law. The State must cover payment of bills before reimbursement can be requested from the Federal Agency.
Non-federal Grant	Funds received by a State Organization from other than federal sources. Non-federal grants must be entered in the State's financial management and accounting system, FSF, by the Owner of the grant.
Block Grant	A consolidated grant of Federal funds, formerly allocated for specific programs, that a State or Local government may use at its discretion for such programs as education or urban development, and provides money for general areas of social welfare, rather than for specific programs.

10.2 State Process for Application of a Federal Grant

10.2.1 State Review Requirements (SPOC, DSCC)

Prior to submitting state or local plan(s) or application(s) to federal or non-federal authorities for the purpose of receiving funds, such plan(s) or application(s) shall be submitted to the Clearinghouse Administrator, Single Point of Contact (SPOC) for Delaware, for review and approval or disapproval by the Delaware State Clearinghouse Committee (DSCC).

29 Del. C. §7603

Housed at OMB, the State's SPOC coordinates the grant review process. The establishment of federal and non-federal grants and corresponding spending authority is the responsibility of OMB, through the State's SPOC.

Grant SPOC Information

When the grant is ready for formal OMB review, the grant application and SPOC form are electronically processed within FSF. The grant application and the SPOC form are approved internally by the Organization and electronically submitted to OMB for review and approval.

NOTE: The SPOC forms are system generated in FSF from the Pre-Award collected data and data components. The SPOC form and the instruction manual are located on OMB's website and are available via the following link:

<http://budget.delaware.gov/clearinghouse/forms.shtml>.

10.2.1.1 SPOC Review and Fiscal and Policy Analyst Review

The grant application is reviewed by the Organization for completeness, accuracy and approval. The approved grant application is forwarded to OMB for review for appropriate uses of the requested funds. Both the Organization and the Fiscal and Policy Analysts must approve the grant applications, before the applications are scheduled for review by DSCC. If a grant application is not approved, it is returned to the requesting Organization with a written explanation of the disapproved status. Requested modifications to the grant application must be made and must be resubmitted for review within FSF.

10.2.1.2 Delaware State Clearinghouse Committee (DSCC)

Once a month, DSCC meets to review grant applications. The Committee consists of the following members (or designees): Chairperson and Vice Chairperson of the Joint Finance Committee, Controller General, OMB Director, Director of the Delaware Development Office, Secretary of Finance, and four members of the General Assembly. If a grant application is not approved, it is returned to the requesting Organization with a written explanation as to why the application was not approved. If modifications to the grant application have been requested, changes must be made to the application and resubmitted for review within FSF.

Additional information on DSCC's procedures is available via the following link:

<http://budget.delaware.gov/clearinghouse/index.shtml>.

10.3 Grant Application and Proposal Process in FSF (Pre-Award Requirements)

To begin the process, an Organization prepares a grant application in FSF. Pre-Award requires the following:

10.3.1 General Grant Requirements

10.3.1.1 The Owner of the Grant Concept

The grant application must be completed by the Owner of the Grant. All sub-grant post-award activities are to be completed by the Owner of the Grant. Sub-Grant Organizations are responsible for communicating all requirements during Pre-Award set-up and Post-Award amendments. The establishment of the Owner of the Grant requires the following steps to be performed during the set-up:

1. Identify if pass-through or sub-grantee will be applied.
2. Identify the types of activities (federal reporting) required for reporting.
3. Identify if cost share (matching) will be applied and which Organization will be supplying the required match.
4. Identify required budget items within the spending plan for each project and activity (i.e., salaries, fringe, travel, contractual services, etc.).
5. Identify if indirect costs are applied and which rate agreement is to be utilized.

6. Identify if indirect cost distributions are required and which Organization(s) are associated with the receipt of indirect cost reimbursement. For those grants with indirect cost reimbursement a portion must be provided to the Office of Management and Budget.
7. Identify if program income or interest will be applied.

10.3.1.2 Proposal Requirements

1. The proposal must include grant description, grant title which is identified on the Federal grant notice and should include the State fiscal year, project manager (principal investigator), Federal sponsor, CFDA number, and spending period authority (start and end dates, should include 90/120-day close out period, if applicable).

The State Organizations are required to include the CFDA number on Federally funded grant applications and the Grant Pre-Award to comply with Federal and State audit requirements. If a CFDA number has not been assigned Organizations must utilize the Program Not Catalog to load the proposal.

NOTE: If a grant application does not request Federal funding, then a CFDA number is not required. If the required CFDA is not supported within FSF; the Organization must complete the required CFDA form and submit for approval and assignment. Each CFDA number is verified against the National CFDA website.

2. Establishment of a multiple year grant allotment:

If the grant has Multi-Year Grant Allotments, Organization(s) must submit the initial first year of the cluster, to OMB for the entire number of allotment years, the amount for Clearinghouse approval and reflect the proposal type as Continuation.

For the subsequent allotment years, Organizations will only be required to create a proposal for each additional year to establish a new contract (SAI) number for the new year of spending authority and reflect the proposal type as Resubmission.

Additional Clearinghouse approval will not be necessary unless the authorized amount exceeds 30% of the total allotment previously approved by the Clearinghouse.

10.3.1.3 Project Requirements

1. All Organizations receiving pass-through funds must be represented within the grant and supported as a separate project.
 - Sub-recipient can also be supported as a separate project or can be incorporated within the Owner of Grants primary project as a specific budget item (i.e., contractual service, etc.)
2. All grant applications must reflect specific activities or objectives (Federal reporting) of the grant as assigned by the Owner of the Grant.
3. Indirect costs are to be apportioned (F & A Distribution) by the Owner of the Grant along with the associated by percentage.

10.3.1.4 Indirect Costs

Indirect cost allocation is a cost accounting process in which administrative support costs are developed and distributed to the Organizations receiving the benefit. The amount each Organization receives is in proportion to the Organizations' relative use of the services provided.

Administrative support and/or the provision of centralized services exist at both the Statewide and Organization levels and may be comprised of activities, such as budgeting, accounting, auditing, facilities management, administration, personnel, and information technology services.

Indirect costs are developed and distributed through:

- An annually updated Statewide Indirect Cost Allocation Plan (SWCAP), and
- The development of individual departmental indirect cost rate proposals.
(29 Del. C. §6102(k))

1. Statewide Indirect Cost Allocation Plan (SWCAP)

Each fiscal year, OMB oversees the preparation, submission, and negotiation of a Statewide Indirect Cost Allocation Plan (SWCAP) with the designated Federal agency, designated as the State's cognizant agency, which is currently the Department of Health and Human Services. The indirect cost allocation plan is prepared on a budgetary basis, using a multiple rate methodology. The plan identifies both the category and amount of Statewide central service costs

traceable and attributable to State Organizations, which forms the basis for preparation of Organization indirect cost rate proposals.

2. Indirect Cost Rate Proposals

OMB oversees the preparation, submission, and negotiation with the designated Federal cognizant agencies, departmental indirect cost rate proposals for those State Organizations requiring significant Federal funds, by April 15 of each fiscal year. Departmental indirect cost rate proposals will be prepared on a budgetary basis, using a multiple rate methodology, which distinguishes between Statewide indirect costs and departmental indirect costs at the divisional or sectional levels of each Organization, as appropriate.

Each Organization is responsible for forwarding the Indirect Rate Agreement to OMB and to DOA so that FSF can be updated with the most current approved rates.

3. Indirect Cost Recoveries

a. Statewide Indirect Cost Recoveries

The portion of indirect cost recoveries, identified from Statewide indirect costs that will be recovered from Federal grants and returned to OMB, utilizing the IV process.

b. Departmental Indirect Cost Recoveries

The portion of indirect cost recoveries, identified from Organization indirect costs, that may be retained by the State Organization for the Organization's discretionary use or as authorized by the Annual Appropriations Act.

c. Direct Bill Recoveries

Central service allocations identified by State Special Fund activities that are recovered from State Organizations, without exception, and turned over to the appropriate central service Organization. These Special Fund activities include:

- Audit activities of the State Auditor;
- Personnel activities of OMB;
- Information technology services provided by the Department of Technology and Information (DTI), and

- The services of Printing and Publishing arising from the current period.

d. Budget Submissions

Indirect costs must be provided for in all budgetary submissions where an indirect cost rate is applicable, accompanying Federal funding requests to DSCC.

Any exceptions to this policy will be made when the Federal program does not allow for indirect cost recovery. Such instances must be noted on the budgetary submissions.

Current indirect cost rates are retained by the OMB Chief of Financial Management Services for each specific Organization. The indirect cost rates on file must be budgeted and claimed in all Federal fund applications. OMB will review these indirect cost rates. Upon completion of the review, OMB forwards the indirect cost rates to DOA to be loaded into FSF.

e. Organizations Without Indirect Cost Rate Proposals

State Organizations may administer only limited federal programs, which do not warrant the development of formal indirect cost rate proposals. If State Organizations intend to recover any indirect costs, these Organizations are still required to identify and budget for the appropriate amount of both Statewide and Organization indirect costs in the grant submissions to OMB. If Organizations are unsure whether or not a limited Federal program requires an indirect cost rate recovery proposal, they should contact OMB.

When no formal indirect cost rate has been prepared for an Organization, OMB provides assistance in making a fair determination of the portion of Statewide indirect costs applicable to Federally funded activities. Federal programs that do not allow indirect cost recoveries must still budget with approved rates for audit services and personnel services, even if recoveries are not made. Organizations are responsible for applying the indirect cost rates within FSF.

f. Payments to OMB

Indirect costs recovered from federal programs must be transmitted to OMB on a quarterly schedule, at a minimum, utilizing an IV transaction.

g. Public Education

Public Education operations (Department of Education, local school districts, and charter schools) are exempt from participation in the Statewide portion of the Indirect Cost Program.

4. Waiver of Payment of Indirect Costs

All funds received under any Federal program, which allows indirect cost recovery, will be subject to the State's Indirect Cost Recovery Program. The only exception will be with the expressed written approval of the OMB Director, Chief of Financial Management Services, and the involved Organization Head or Secretary.

Waiver requests must be made in writing to the OMB Director, presenting the following information for review:

- a. Specific program identification;
- b. Program status, including:
 - Whether the program is capped, level funded, or cut;
 - The dollar amounts involved;
 - The impact of non-approval of the waiver request; and
 - The future year outlook and considerations.

An approved waiver is applicable only to a single fiscal year. Multi-year programs must be reviewed on an annual basis, and an updated waiver request must be processed, if a waiver is needed.

No waivers will be granted for direct cost recoveries. These costs are due from reimbursements received or from other Organization funds. Those Organizations, which are not utilizing these services, will not be assessed for these costs.

5. Sub-grants

Sub-grants are Federal funds or other grant monies received indirectly by a State Organization, usually through another State Organization.

a. Eligibility of sub-grantees

State Organizations, who sub-grant Federal funds to other State Organizations, shall pursue requests for recovery of indirect costs by the sub-grantee State Organization if:

- Indirect costs are recoverable from the sub-grant; and
- Indirect cost allocation to sub-grantee Federal programs is done in a manner consistent with federal cost principles.

b. Organizations With Formal Indirect Cost Rates

If the sub-grantee Organization has a formal indirect cost rate that is recognized by a cognizant Federal agency, then the grantor State Organization may approve indirect costs charged to sub-grants. The indirect costs charged must be based upon the submission of documentation, indicating these rates exist.

c. Organizations Without Formal Indirect Cost Rates

If the sub-grantee Organization does not have a formal indirect cost rate, the grantor State Organization is responsible for negotiating with the sub-grantee Organization for the application of indirect cost rates to the sub-grant. A multiple rate methodology is desirable in these situations, but a single rate is acceptable if, by its use, indirect cost allocations to sub-grants are not distorted or misrepresentative.

d. Recovery of Statewide Costs

In all cases of indirect cost recoveries from sub-grants to other State Organizations, the Statewide portion of indirect costs applicable to the sub-grantee State Organization is recoverable by OMB.

e. External Agencies

State Organizations that sub-grant federal funds or grant state funds to external private agencies or other governments are responsible for assuring that indirect costs claimed by such external agencies are fairly determined.

10.3.1.5 Grant Spending Plan (Budget)

For each grant, the Owner of the Grant must provide a spending plan (budget), which must address, if applicable:

1. A negotiated indirect cost rate agreement (if applicable);
2. OMB requests that all proposals support audit fees on the primary project.
3. A budget that identifies specific objects of expenditure, including:

- a. Contractual Services

Organizations completing a service for another State Organization are to be identified as contractual services.

- b. Personnel Requirements:

- OMB requires all personnel being paid with Federal funds from a grant to be identified on the Personnel Summary. Organizations must identify their Full Time Equivalent (FTE) employees associated with a grant on the external Personnel Summary form (<http://budget.delaware.gov/clearinghouse/forms.shtml>), as well as the position's authorized title, funding, salary and the portion of FTE that will be allocated towards the grant.
- Personnel costs must be separated within the following categories:
 - Federal Funds
 - General Funds
 - Appropriated Special Funds
 - Salary identified as a matching requirement:
 - 1) Create a listing of all employees associated with the grant. This listing should support the categories identified above, as well as Budget Position (BP) number, Position Title, Pay Grade and Salary.
 - 2) Identify the effort percentage for each employee.

- 3) Identify if the personnel cost must include the annual Other Employment Costs (OEC), as defined annually by OMB.
- 4) Identify and include if casual seasonal positions will be utilized.
4. Associate matching requirements, must also identify the Organization contributing to the match and the corresponding appropriation.
5. Other budget items should include, but not be limited to: Travel, Supplies, Capital, Contractual Services, Audit fees, Indirect Costs, etc.

10.3.1.6 Cost Share (Matching)

1. Identify those budget items that are match-related.
2. Identify the required matching percentage within the Cost Share link.
3. Identify the Organization(s) that will be providing the match, along with the total match percentage.
4. General information about summary cost sharing includes the following:
 - a. Cost shares (includes third-party cost shares where the appropriate institution information is identified), percentages, or fixed dollar amounts to be entered into FSF. Any shared cost or matching funds and all contributions, including cash and third party in-kind contributing, must be accepted as part of the non-Federal entity's cost sharing or matching with the following criteria:
 - Verifiable from the non-Federal entity's records,
 - Not included as contributions for any other Federal award,
 - Necessary and reasonable for accomplishment of project or program objectives
 - Allowable under Subpart E (Cost Principles),
 - Not paid by the Federal government under another Federal award,
 - Provided for in the approved budget, and
 - Confirm to other provisions.
 - b. Organization must be included for indirect cost distribution purposes, if cost sharing by institution.

10.3.1.7 Spending Plan Capping Requirements

The spending plan of the grant is based on the total amount of the budget for the grant. When the application has been reviewed and approved by DSCC, but the formal grant award notice has not been received by the Organization, OMB will permit the Owner of the Grant temporary spending authority of a maximum of 15 percent of the total amount of the grant. This requirement does not apply to new grant requests.

10.3.1.8 Proposal Identification Number

The State Proposal Identification Number is system generated by FSF and begins with SAI.

10.4 Grant Application Post-Award Requirements in FSF

Post-Award requirements include the following items:

- Final detail budgets for expenses and revenues;
- Establishment of base transactional information;
- Contracts; and
- Projects.

10.4.1 Final Detail Budgets

Organizations are responsible for creating the final budgets within FSF, following approvals from DSCC and OMB.

10.4.2 Establishment of Base Transactional Information

Organizations must use FSF to create and establish profiles, documents, etc., that will facilitate transactions on behalf of the grant.

The completion of these elements must include the following components:

- Federal Award Reference Number and/or the Federal Award Identification Number (FAIN);
- Identify if the grant is an Indirect Grant;
- Capturing of DUNS number; and
- Capturing of Commercial And Government Entity (CAGE) number (if funds are from Department of Defense).

10.4.3 Contracts/Billing/Accounts Receivable

A contract manages the posting of revenue to the general ledger through the use of revenue recognition plans. The method of revenue recognition is as incurred, unless the revenue is prepaid, then it is treated as deferred revenue.

Within FSF, every award requires the setup of a contract. All contracts must include the following components:

- The establishment of the Letter of Credit.
- The establishment of a Pre-Paid contract, if federal funds have been received in advance.
- The assignment of a proper Billing Plan.
- Customer (Federal sponsor)

Following DSCC, OMB, and federal approval, Organizations must place the contract in active status in FSF to activate the bill cycle so transactions can be processed (both expenditures and revenue) for reimbursement from the Federal sponsor. Transactions are processed based on Bill Cycle and post in FSF as Accounts Receivable (AR) Pending Items. The AR Pending Items represent grant reimbursable funds or prepaid funds that need to be collected in a timely manner per Federal and State approved guidelines.

10.4.4 Projects

FSF utilizes several project-related functions to support grant-based financial transaction processing, including project (the purpose of the grant), activity (the objective to achieve the purpose of the grant), transaction inquiry, and budget. Within FSF, every award requires the setup of a minimum of one project, and each project requires a minimum of one activity. Awards may have multiple projects, and projects may have multiple activities.

10.5 Draw Requirements

OMB is responsible for defining specific requirements regarding all draws on grants, which are as follows:

- All draws are completed for the exact amount of the expenditure. Rounding on the draw is not permitted.
- Draws must be on a defined, routine schedule. All draws should be completed within 30 days of the expenditure.
- Once the deposit is received the Accounts Receivable Item must be posted in FSF within 30 days.

10.6 Cash Management Improvement Act

OMB is responsible for coordinating the activities necessary to comply with the Cash Management Improvement Act of 1990 (CMIA), as amended.

10.6.1 Overview of CMIA Process

The objectives of the CMIA are:

- **Efficiency** – To minimize the time between the transfer of funds to states and the payout for program purposes;
- **Effectiveness** – To ensure that Federal funds are available when requested; and
- **Equity** – To assess an interest liability to the Federal government and/or states to compensate for the lost value of funds.

The components, required by CMIA, are:

- Annual Treasury-State Agreement;
- Annual Report; and
- Annual Interest Exchange (if applicable).

10.6.2 Treasury-State Agreement

All states must enter into a Treasury-State Agreement (TSA) as required by CMIA. The TSA is an agreement between the Federal and State governments as to the method that Federal fund transfers will occur. All Federal funds transferred to the states are covered. However, only major assistance programs (large-dollar programs) are included in a state's TSA.

The TSA includes the following:

- The listing of programs covered by the agreement.
- The funding techniques to be applied to programs in the agreement, including guidelines for requests for supplemental funding.
- The methods and standards used to develop and maintain clearance patterns.
- The method the State will use to calculate and document interest liabilities.
- The types of interest calculation costs the State expects to incur.

10.6.3 Clearance Patterns

Clearance patterns refer to the number of days lapsed from the time a payment is made by a State Organization until the time the disbursement is redeemed by the program recipient. The clearance pattern is used as the basis for the timing of funding requests through the TSA.

Clearance patterns are developed from the Float Report, for the prior fiscal year. A clearance pattern extends, at a minimum, until 99% of the dollars in a disbursement for Federal program purposes have cleared. Organizations shall maintain adequate documentation for the clearance pattern reported to OMB, which is subject to audit.

The State must re-certify the accuracy of a clearance pattern at least every five years. The State of Delaware performs this process annually to examine clearance pattern effectiveness, while also making adjustments for programs that may be included or removed from the TSA per the Schedule of Federal Awards (SEFA).

OMB coordinates with Organizations to determine any changes in clearance patterns or funding techniques and provides notification to DOA. Changes are provided in writing within 30 days of the time the State (Organization) becomes aware of a change.

10.6.4 Funding Techniques

Funding techniques are the methods which the Federal government utilizes to transfer funds to State Organizations for the State's Federally sponsored programs. Funding techniques should be efficient and minimize the exchange of interest between the State and Federal agencies. The following sample funding techniques are discussed in the Code of Federal Regulations:

- **Zero balance accounting** - The amount of Federal funds transferred to a state, based on the actual amount of funds paid out by the state each day.
- **Projected clearance** – The transfer of Federal funds to State Organizations in accordance with a specified clearance pattern.
- **Average clearance** – The transfer of funds to a State Organization based on the dollar-weighted average day of clearance for the disbursement. The dollar-weighted average day is determined from a clearance pattern as the day when, on a cumulative basis, 50% of disbursed funds have cleared.
- **Cash advance funding** – The transfer of the actual amount of Federal funds to a State Organization, not more than three business days prior to the day the State makes payment. Funds permitted to be drawn early are not interest neutral and are subject to interest liability.
- **Reimbursable funding** – The transfer of Federal funds to a State Organization after the State has paid out its own funds for program purposes.
- **Other** –FSF and the State may negotiate the use of mutually agreed upon funding techniques to address funding issues, which are unique to the State of Delaware.

Organizations should review their funding techniques annually and report any changes to OMB. When selecting funding techniques, Organizations are encouraged to work with OMB and use those techniques, which are interest *neutral*. Organizations are responsible for using the funding techniques specified in the TSA for each applicable fiscal year.

10.6.5 CMIA Annual Report

The CMIA annual report is submitted into FSF, which details interest liabilities for both the Federal and State governments. Federal funds drawn according to the TSA prevent the State from accruing an interest liability to the Federal government.

10.6.6 Annual Interest Exchange

An interest liability is calculated by Organizations in accordance with methods specified in the TSA. When the calculated Federal liability is greater than \$5,000, FSF requires additional supporting documentation. State Organizations must provide detail, supporting any liabilities owed by the Federal government. This documentation is subject to audit and should be retained per records retention requirements. Payment of the difference between Federal interest and State interest liabilities must occur no later than March 31.

10.7 Reporting and Auditing

For reporting the use of Federal Funds that the State has received, OMB has required that the State follow the OMB circulars and the quarterly financial reports. The grant award issued by the awarding Organization specifies the types of reporting, the timeline and the frequency of reporting on the grant.

As of December 2014, OMB incorporated OMB Circulars A-21, A-87, A-89, A-102, A-110, A-122 and A-133 into a single document. The new document, titled 2CFR, Uniform Administrative Requirement for Federal Award, is located in Title 2 of the Code of Federal Regulations at <http://www.gpo.gov/fdsys/pkg/CFR-2015-title2-vol1/pdf/CFR-2015-title2-vol1.pdf>.

The new guidance streamlines the previous circulars into one document. The guidance is divided into subpart for acronyms and definitions, general provisions, pre-federal award requirements and contents of federal awards, post federal award requirements, cost principles and audit requirements.

10.7.1 Federal Financial Reporting

OMB requires State Organizations to express the financial condition of the grant project or program by using the standard Federal Financial Report (SF-425) and the SF425A, an attachment to the SF-425 to report financial data and to request payments. Other standard OMB approved forms include the Request of Advance or Reimbursement (SF-270) or the Outlay report and Reimbursement for Construction

Programs (SF-271). The SF-425 is used for reporting on a single Federal award and the SF-425A is used to report on multiple Federal awards. The SF-270 and SF-271 are used when non-Federal entities do not receive payments through a letter of credit or electronic funds transfer. Within FSF the new Federal Financial Report (FFR) is available for Organizations to assist with the completion of quarterly, semiannually, and the yearly Federal reporting.

10.7.2 Time and Effort Reporting

The Federal government does not mandate a single recommended practice for non-Federal entities to monitor time and effort reporting and requires non-Federal entities to follow proper internal controls to document time spent on grants. However, please note, the grantor agency may have specific rules around time and effort that need to be followed.

Some basic steps to be included in the time and effort reporting process are as follows:

- Use a timesheet
- Perform a reconciliation of time charged on timesheet to payroll report or appropriation charged for payroll
- Have the employee and supervisors sign off on the timesheet
 - Credible endorsements of the hours worked is needed from persons knowledgeable about the activities performed.
 - It is recommended that this be done monthly. However, depending on the size of your grant you may need to change the frequency of the report verification.
- Submit timesheet and complete any adjustments, if needed, on a timely basis
 - Confirmation process or reconciliation takes place at some point after the charges occur. Then any adjustments found from that process will need to be made timely completion.

10.7.3 FFATA and DATA Act

In 2006, the Federal Funding Accountability and Transparency Act (FFATA) was enacted to identify requirements, for each Federal award of \$25,000 or more, that OMB create a no-cost, publicly accessible website (<https://www.USASpending.gov>) that includes basic information about the recipient and the project being funded.

In 2008, FFATA was amended by the Government Funding Transparency Act of 2008 requiring recipients to report certain information about them and their first-tier sub-recipients for awards obligated as of October 1, 2010.

In April 2014, the Digital Accountability and Transparency Act (DATA) was signed into law requiring the establishment of government-wide data standards that are searchable and are used on USA Spending.gov. With this, the DATA Act will require the streamlining of reporting requirements for non-Federal entities receiving Federal funds and also to improve data quality and ensure that the data is complete and accurate when posted on Federal websites.

10.7.4 Annual Single Audit

The Single Audit is required for grant expenditures by CFDA for the fiscal year in aggregate exceeding \$750,000. The Single Audit is completed after the State CAFR audit and uses the basic financial statements and any findings from there as the beginning of the Single Audit report. The Single Audit is performed by an independent audit firm.

Included in the Single Audit are the following:

- Report on the financial statements
- Report on the schedule of expenditures of Federal awards (SEFA) – this is prepared by DOA for expenditures by CFDA
- Report on internal controls related to the financial statements
- Tests of, and reporting on, internal control over compliance applicable to major federal award programs
- Test of, and reporting on, compliance with laws regulations contras and grant agreements that may have a material effect on the financial statement (The auditor also reports certain fraud and abuse)
- Test of, and reporting on compliance with laws regulations controls, and grant agreements noncompliance with which could have a direct and material effect on each major Federal award program
- Schedule of findings and questions costs

Once the Single Audit is completed, it is submitted to the Federal Government on or before March 31st each year. The Federal Agency will reach out to the State Organization to further clarify any corrective action plans based on the assessments of the Single Audit Report posted. DOA may request an assessment of the corrective action plan as well.

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Chapter 11 – Travel Policy

11.1 Introduction

11.1.1 Purpose

The purpose of this policy is to provide guidelines and specific procedures with regard to incurring and reporting travel expenses for employees and officials for authorized travel expenses incurred in the conduct of State business.

This policy is an “Accountable Plan” for IRS purposes, and as such, employee reimbursements are not reported as pay. “Accountable Plans” require per diem rates be “similar in form to and not more than the federal rate”. The federal rates are established by the U.S. General Services Administration (GSA) each year for the period October 1 to September 30. This policy requires Agencies/travelers to use the GSA rates effective during the period of travel.

Each Agency’s management is responsible for control over and approval of travel-related expenditures. Agencies’ internal controls must include policies covering the designation of approving authorities for travel expenditures.

11.1.2 Scope

This policy does not cover every possible situation, but it establishes adequate parameters for employees and officials to make appropriate judgments about the expenditure of State funds. Agencies should always consider alternatives to travel prior to approving travel requests. Other options to travel include, but are not limited to, teleconferencing, video conferencing, and webinars.

This policy applies to all State employees, Agencies, boards, commissions and others, except as excluded below, who are engaged in authorized travel and who expend State funds for travel purposes. Although the following are excluded, it is highly recommended that this policy be adopted.

Exclusions:

- Legislative Branch
- Judicial Branch
- School Districts (inclusive of charter schools)

11.1.3 Travel Authorization

All out-of-state travel that extends beyond one day shall be approved by the designated Agency approval authority. All requests shall be made on the Travel Authorization Form ([AP006](#)). A copy of the conference or meeting program shall be attached to the form. The authorization form should be submitted to the Agency approval authority prior to the traveling day in compliance with Agency requirements.

11.1.4 Travel Card

1. The method of payment for travel expenses is the Delaware Travel Card. Agencies should refer to **Chapter 12** for information on the PCard Program. The Travel Card must not be used for personal or unauthorized purposes. The Travel Card is to be used for authorized expenses for State personnel only and may not be used to charge expenses for family members or others not on official State business. Employees may not use the Travel Card to charge expenses for others, even with the intent to reimburse the State. The Travel Card may not be used for cash withdrawal. Non-State employees (e.g., Board members, commissioners, etc.) should follow Statewide and Agency specific policies when making payment for a reimbursable travel expenditure.

Employees must obtain an **itemized receipt** for all transactions. The receipt must be legible, itemized (reflecting the good or service purchased), and contain the vendor name, date of purchase, and price of each item. A receipt description, which only states “Miscellaneous” or “Merchandise”, or only includes a vendor’s stock or item number, is not acceptable. Receipt documentation may be paper or electronic. In conformity with the Uniform Electronic Transaction Act (UETA) (**6 Del. C. Chapter 12A**), which permits copies of receipts, electronic documentation includes pictures of receipts taken with a smartphone or other electronic device.

Under extenuating circumstances, the employee may be unable to obtain an itemized receipt. In this case, the employee must complete an Affidavit for Missing and Non-Itemized Receipts ([AP005](#)). The employee must provide a detailed explanation as to why an itemized receipt is not available. The affidavit must be approved and signed by the employee’s immediate Supervisor. The Office of Management and Budget (OMB) and Division of Accounting (DOA) approval is only required for transactions exceeding \$20.00. Agencies shall determine if the Division Director or Section Head approval is required for all affidavits or only those exceeding \$20.00. When required, the affidavit must be submitted to OMB within 30 days of the transaction to be considered for reimbursement. This allows sufficient time for the employee to exhaust all reasonable measures for obtaining an itemized receipt. See the Affidavit for Missing and Non-Itemized Receipts Flowchart ([Exhibit A](#)) for assistance in determining when an affidavit needs to be completed and when it must be approved by OMB and DOA.

All travel documentation must be provided to the Agency's Reconciler **within seven (7) business days** after the completion of travel, including all itemized receipts, the Travel Authorization Form ([AP006](#)), and a reconciliation of the estimated versus actual expenses. This action is required in order to document the expenses of the trip. The Travel Reconciliation Form ([AP009](#)) is provided as a tool for Agencies; however, Agencies may choose to use another form of reconciliation.

NOTE: The Travel Card must not be used for personal or unauthorized purposes. The purchase amount must be reimbursed by the employee, within 30 days of the transaction if a purchase is for personal or unauthorized purposes or if an itemized receipt is not provided and the Affidavit for Missing and Non-Itemized Receipts is not submitted as required. A copy of the check, deposit slip, and supporting detail on what is being reimbursed should be filed with the monthly statement and the traveler's paperwork in case of an audit.

2. There are times when a cardholder is reimbursed for travel from an external/member organization. In these cases, the cardholder is responsible for notifying the coordinator and documenting on the Travel Authorization Form that the reimbursement will be requested. When the reimbursement is received, it should be credited against the expenditures incurred for that specific trip. A copy of the check and deposit slip should be filed with the traveler's paperwork in case of an audit. For more information on processing refunds/reimbursements to the State, Agencies should refer to **Chapter 9 – Receipt of Funds, Section 9.3.4 Refunds to the State**.
3. In certain situations, a traveler utilizing the State's Travel card may rely on an administrative liaison to transact and manage travel arrangements. Typically, such relationships are limited to Agency Heads and other officials who are assigned administrative support. If a traveler needs another individual to make travel arrangements on their behalf utilizing the State's credit card, the delegation of responsibility must be memorialized through the proxy process in JPMC's PaymentNet system via DOA. Once assigned the role of proxy, delegates have the ability to perform certain functions on behalf of the traveling cardholder such as activate a card, authorize card transactions, and report a card lost or stolen. All proxies must meet the same policy requirements established for becoming a cardholder and must adhere to the same policies and procedures as a cardholder. See **Chapter 12 – PCard** for more information regarding the Travel Card program.

Only one proxy may be assigned to a cardholder. To assign a proxy, the PCard Proxy Request Form ([PO004](#)) must be completed and submitted to DOA.

Note: The cardholder is ultimately responsible for the card and must review transactions and card statements on a regular basis to ensure compliance with all applicable rules and requirements.

11.1.5 Cancellation

When changes in travel require cancellation or revision of carrier tickets, car rental, or lodging arrangements, the employee must notify the travel coordinator and/or the manager approving travel as soon as possible so the necessary changes can be made. State funds shall not be expended to pay for unused reservations unless the State Agency is satisfied that failure to cancel or use the reservation was unavoidable. An explanation for the cancellation should be documented and maintained at the Agency.

11.2 Transportation: Common Carrier

11.2.1 General

All trips requiring the use of common carrier must have prior approval by the appropriate authority within the Agency.

The mode of travel must be the method most advantageous to the State. Agencies should consider total cost, the most economical use of time of the personnel involved and the requirements of the trip.

The standard for common carrier travel is coach fare. Common carrier should be booked at the lowest available fare consistent with reasonable business travel planning and may be booked from any source.

Travelers should be advised to make travel reservations as far in advance as possible to attain the lowest fares, including non-refundable tickets. Travelers may not specify particular airlines or other carriers to accumulate mileage on promotional plans, such as frequent flyer programs for personal gain.

Travelers may purchase tickets in advance of travel to take advantage of special discount rates (supersaver fares, etc.), or other savings that will accrue to the State (i.e. supersaver discounts).

Note: Most airlines will not give refunds or partial refunds for supersaver airfares.

Baggage charges assessed by airlines are reimbursable to the traveler if and only if the charges are directly related to the work mission. The employee is limited to one checked bag. The need for additional bags must be preapproved by the manager approving travel.

State funds shall not be expended to pay for priority boarding or preferred seating unless it is deemed medically necessary. Preferred seating may also be approved if it is the only seating available or the cost of the preferred seating is less than taking a

different flight. Documentation must be provided to the travel coordinator and/or the manager approving travel, prior to booking, for approval of preferred seating.

Agencies are encouraged to examine the advantage of fares requiring early trip departure or delayed return. The additional cost of meals and lodging for the required extra day(s) stay must be considered when comparing cost.

11.2.2 Air Travel

1. Accommodations

When commercial airlines are used as a mode of travel, accommodations should be coach/economy class, unless some other class is more economical.

2. Routing of Travel

All travel shall be by the most economical and direct routes. If a person travels by an indirect route for personal convenience, the extra expense shall be the responsibility of the individual. Reimbursement for expenses shall be based only on the cost of the most economical and direct route.

11.2.3 Rail Travel

1. Accommodations

When rail travel is the most appropriate mode of transportation, the most economical class accommodations shall be used.

2. Routing of Travel

All travel shall be by the most economical and direct routes. If a person travels by an indirect route for personal convenience, the extra expense shall be the responsibility of the individual. Reimbursement for expenses shall be based only on the cost of the most economical and direct route.

11.3 Transportation: Passenger Vehicles

11.3.1 State-Owned Vehicles

State-owned vehicles should be used for out-of-state travel when such use is the most practical and economical mode of transportation, including the cost of tolls, fuel, and parking.

11.3.2 Privately-Owned Vehicles

1. The use of privately-owned vehicles for out-of-state travel shall require prior approval of the appropriate Agency authority. Reimbursement of private vehicle expenses is at the rate proscribed by **Delaware Code, Title 29, §7102**, and only for actual and necessary miles traveled.

In considering approval, the approval authority shall take into consideration the cost of alternative modes of travel and the cost of meals and lodging for the additional travel/transit days.

2. When two or more employees travel in a privately-owned vehicle, only one mileage reimbursement will be approved.
3. Vehicles from Delaware Fleet Services shall be used for in-state travel; therefore, reimbursement for use of privately-owned vehicles for in-state travel is discouraged. Agencies may allow exceptions to this policy, but in no case should the total amount reimbursed for in-state mileage to an individual on a single day exceed the Delaware Fleet Services daily discounted rental rate for a compact sedan. Board and Commission members are excluded from this provision.

11.3.3 Rental Cars

1. General

The use of a rental car when traveling out-of-state must be justified as an economical need and not as a matter of personal convenience. All rentals should be at the most economical rate per day, including government rates. When traveling in groups, the sharing of vehicles, when practical, should be done to minimize costs.

To ensure the most cost effective rates are available, all approved rental car arrangements must be made in accordance with the Statewide Contract for Nationwide Vehicle Rental Services GSS13694-VEH_RENTAL.

2. Vehicle Size

Whenever possible, compact cars shall be rented or reserved. However, if a larger size vehicle is more economical or more than two travelers are traveling together, the larger vehicle may be appropriate.

3. Insurance

The Travel Card should be used to pay for rental cars. Use of the Travel Card provides collision and theft coverage from the card provider. To activate the coverage, the rental transaction must be completed with the Travel Card and any Collision Damage Waiver (CDW) coverage, which is offered by the car rental company, must be declined. Reimbursements for additional or optional insurance coverage will not be approved.

4. Refueling Before Return
To avoid a refueling surcharge, all rental cars must be refueled before returning the vehicle to the rental company. Any surcharges billed to the employee or State must be explained on the reimbursement request.

11.4 Per Diem Expenses

11.4.1 General

1. Expenses shall be based on actual expense method.
2. Per Diem Rates
 - a. Delaware Agencies will use the rates established by the U.S. General Services Administration (GSA) for locations within the United States and by the U.S. Department of State for foreign areas. The per diem for a location is a combination of a lodging allowance, meals allowance and incidental expense allowance.
 - b. Within the United States, a standard rate is provided for each year and covers all locations.
 - c. All per diem rates can be found at:
 - (1) United States - <http://www.gsa.gov/perdiem>
 - Rates are set each Federal Fiscal Year - October 1 to September 30. (See [Exhibit B](#) for an example of the internet site tables and how to calculate the maximum per diem rate and the rate for the first and last day of travel.)
 - The GSA Max lodging by Month rate may fluctuate throughout the year for certain cities/regions. The traveler must be sure to use the rate for the month in which travel will occur.
 - (2) Foreign Areas - https://aoprals.state.gov/content.asp?content_id=184&menu_id=78
 - Rates are set monthly.

11.4.2 Lodging and Meals and Incidental Expenses (M&IE)

1. Lodging
 - a. Lodging costs are authorized when approved official travel is out-of-state, more than 12 hours, and overnight lodging is required.
 - b. Lodging accommodations are priced for single occupancy rooms.

- c. Accommodations shared with family members or others not on official State business are reimbursable at the single occupancy rate only.
- d. Accommodations shared with other State travelers should be billed and reimbursed to one traveler. When required, reimbursements to more than one traveler shall be based on a pro rata share as reported on each reimbursement request.
- e. State travelers may elect to use their personal campers or recreation vehicles, rather than staying in a hotel/motel. When prior approval is received from the appropriate Agency authority, the traveler will be reimbursed actual cost, not to exceed the location cost of hotel lodging.
- f. Agencies have the authority to approve lodging expenses up to 150 percent of the locality lodging per diem rate. To qualify for more than 150 percent of lodging per diem rate, it requires prior approval from OMB and DOA. ([Exhibit C](#) to this policy provides a template to be used for requests that exceed 150 percent of GSA rate.)
- g. Conference Lodging Arrangements

When hotel rooms are blocked for a conference, seminar, etc., and a special discounted conference hotel rate is provided, the employee should inform the individual making the reservations. The person making the reservations shall then attempt to obtain the conference rate, government rate or lower rate, for the traveler. If a lower rate is not available, the normal reservation procedure should be used.

2. Meals and Incidental Expenses (M&IE)

- a. The reimbursement for M&IE is not to exceed the standard locality M&IE rate. To qualify for more than the standard locality rate, it requires prior approval from OMB and DOA.
- b. All expenses, including each individual meal, must be itemized separately.
- c. M&IE is authorized when approved official travel is out-of-state, more than six hours or overnight lodging is required.
- d. M&IE include:
 - (1) Meals (**food, beverage, tax, and tips**). Tips should be reasonable and customary, not to exceed 20% of the bill before taxes. The total for meals and tips should not exceed the per diem.

- (2) Incidental Expenses (fees and tips given to porters, baggage carriers, bellhops, hotel maids, and stewards or stewardesses). The allowance for incidental expenses must not be used to purchase personal items.
- (3) Meals and Incidental Expenses are not to exceed the location rate, as shown in the following table:

When travel is:		The allowance is:
More than 6 but less than 24 hours		75 percent of the applicable M&IE rate.
24 hours or more, on	Day of departure	75 percent of the applicable M&IE rate.
	Full days of travel	100 percent of the applicable M&IE rate.
	Last day of travel	75 percent of the applicable M&IE rate.

e. Reduced M&IE

If an Agency knows in advance a meal is to be provided without cost to the employee, e.g., included in a conference fee; then a reduction to the daily per diem may be made for the appropriate meal as shown in the following table:

% Reduction to the location rate rounded to the nearest whole dollar	
Breakfast	20%
Lunch	24%
Dinner	50%

NOTE: The remaining 6% is related to incidental expenses.

11.4.3 Miscellaneous Expenses Authorized to Be Claimed

Authorized expenses include:

- a. Ground transportation, including airport shuttle, taxi (excluding premium car service) or public transit.
- b. Hotel/airport parking and tolls for turnpike, bridges and/or ferries.
- c. Business related telephone calls.
- d. Personal telephone calls.

- (1) Travel for three nights or less, not to exceed \$10 total.

(2) Travel for four nights or more, not to exceed \$20 total per week

e. Business related use of miscellaneous services.

Miscellaneous services include, but are not limited to, the use of hotel computers, printers, or data services. Use of such services must be preapproved by the manager approving travel. Services must be deemed necessary for the employee to perform required job-related functions.

f. Gasoline and/or Other Supplies

(1) When State-owned vehicles are used, the Fleet Services fuel access card is the first method of payment. If the traveler is in a location where the Fleet Services fuel access card is not accepted, the expense is reimbursable, and the Travel Card may be used. All in-state purchases of gasoline must be made using the Fleet Services fuel access card.

(2) Emergency repairs incidental to using a State-owned vehicle.

g. Multiple Employee Meal Expense

When multiple employees are having a meal together and more than one meal is being reimbursed, the names of the additional individuals are to be submitted on a schedule itemizing the cost of each individual's meal. Individuals on per diem should have the meal cost deducted from the individual per diem rate.

Unallowable expenses include, but are not limited to:

- a. Alcoholic beverages.
- b. Entertainment, not included in the cost of the conference.
- c. Other expenses noted in **Chapter 7 – Purchasing and Disbursements, Section 7.2.2.**

11.4.4 In-State Travel

1. Lodging

The policy for in-State assignments requiring overnight lodging is established by the Agency. As a general rule, in-State lodging is not encouraged; however, there may be instances when it is deemed appropriate and cost effective. In such instances, in-State lodging must be preapproved by the Agency Head.

2. Meals and Incidental Expenses (M&IE)

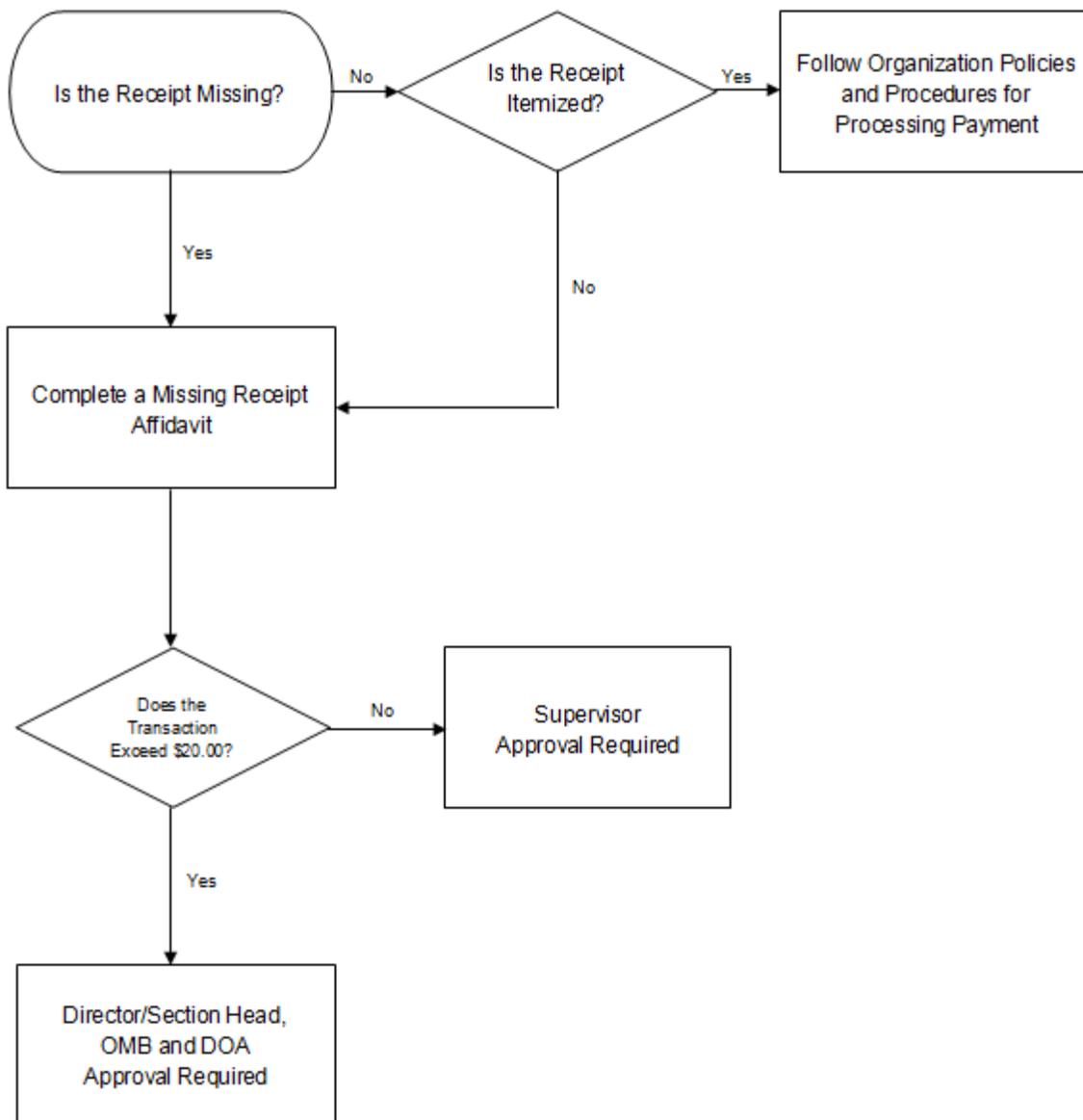
The meal allowance for in-State assignments requiring overnight lodging is established by the Agency and must be preapproved by the Agency Head. As a general rule, such allowances are not encouraged, but may be approved on a case-by-case basis, as long as the amount does not exceed the GSA rate.

11.5 Travel Expense Reimbursement

Travel advances are prohibited. Payment for all travel-related, approved expenses should be made using the Travel Card. However, in cases where this option is not possible:

- All requests for travel expense reimbursements shall be submitted on the State of Delaware Personal Expense Reimbursement (PE) Form ([AP003](#)). This form and supporting documentation, including required itemized receipts, should be submitted to the appropriate Agency authority **within seven (7) business days** after the completion of travel. An **itemized receipt must be obtained** as proof of purchase. The receipt must be legible, itemized (reflecting the good or service purchased), and contain the vendor name, date of purchase, and price of each item. A receipt description, which only states “Miscellaneous” or “Merchandise” or only includes a vendor’s stock or item number, is not acceptable. Receipt documentation may be paper or electronic (including pictures of receipts taken with a smartphone or other electronic device).
- Reimbursements for travel expenses incurred without required receipts, as outlined, is strictly prohibited. A "no receipt - no reimbursement" policy applies. Under extenuating circumstances, the employee may be unable to obtain an itemized receipt. In this case, the employee must complete an Affidavit for Missing and Non-Itemized Receipts ([AP005](#)). The employee must provide a detailed explanation as to why an itemized receipt is not available. The affidavit must be approved and signed by the employee’s immediate Supervisor and the Division Director or Section Head. OMB and DOA approval is required for all transactions. The affidavit must be submitted to OMB within 30 days of the transaction to be considered for reimbursement. This allows sufficient time for the employee to exhaust all reasonable measures for obtaining an itemized receipt. If an employee uses this form, it must be attached to the Personal Expense Reimbursement Form ([AP003](#)).
- Receipts may not be customary for certain transactions (e.g., tips given to bellhops, maids, baggage carriers, etc.). Agencies must use the Miscellaneous Non-Receipt Transaction Form ([AP007](#)) to support such transactions.
- Agency fiscal personnel assigning or receiving account coding of travel expenses should ensure that Travel account codes are used in preparing the Personal Expense Reimbursement.

**AFFIDAVIT FOR MISSING AND NON-ITEMIZED RECEIPTS
FLOWCHART
(For Travel Card transactions)**



NOTE: All transactions are subject to workflow approvals in FSF. Follow the Organization's document processing and record retention guidelines for ALL Missing Receipt Affidavits.

EXAMPLE OF GSA PER DIEM RATES

Rates are set each Federal Fiscal Year for the period October 1 to September 30
 (See internet site for all current rates)

NOTE: If neither the city nor the county is listed on the internet site tables, the location is a standard and uses the standard rate as listed on the internet site.

Below is an **example** of the GSA per diem table. For actual rates, visit <http://www.gsa.gov/perdiem>. As shown for City C, the GSA Max lodging by Month rate may fluctuate throughout the year for certain cities/regions. The traveler must be sure to use the rate for the month in which travel will occur.

Primary Destination	County	Max lodging by Month (excluding taxes)												Meals & Inc. Exp.
		Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	
Standard Rate	Applies for all locations without specified rates	83	83	83	83	83	83	83	83	83	83	83	83	46
City A	County A	121	121	121	121	121	121	121	121	121	121	121	121	71
City B	County B	92	92	92	92	92	92	92	92	92	92	92	92	61
City C	County C	105	105	105	160	160	160	112	112	98	98	98	98	56
City D	County D	100	100	100	100	100	100	100	100	100	100	100	100	66

Below is an **example** of how to calculate the maximum per diem rate and the rate for the first & last day of travel. The Max Lodging and M&IE Rates are obtained from the table above, based on travel occurring in April.

Primary Destination (1)	County (2, 3)	Max Lodging (exc. taxes)	+	M&IE Rate	=	Max Per Diem Rate (4)	First & Last Day (75% of M&IE)
Standard Rate (see GSA site for current rates)	Applies for all locations without specified rates	83		46		129	\$34.50
City A	County A	121		71		192	\$53.25
City B	County B	92		61		153	\$45.75
City C	County C	112		56		168	\$42.00
City D	County D	100		66		166	\$49.50

Example of Lodging/Travel Request Exceeding Established Threshold Limit of 150%

- I. Reason to Exceed
 - Brief description of the travel required, why the need to exceed the prescribed threshold is warranted and why travel is essential.

- II. Support or Detail
 - Please split details between lodging and meals/incidentals. Do not include taxes in your rate calculation. Please detail separately if hotel/motel charges a “resort fee”.
 - GSA Rate
 - GSA Rate x 150%
 - GSA Rate x N%
 - i. The N% should be the percentage above GSA rate needed to reserve room described in Section I.

- III. Manager Sign-off
 - Please have manager sign-off on request prior to sending for OMB and DOA approval. This sign-off can be in the form of an e-mail as long as it clearly references the travel request and plainly grants approval.

- IV. Funding
 - GF, ASF, NSF, Federal

- V. Process Request Path
 - Please send all requests to John D. Nauman, OMB at John.Nauman@state.de.us

Below is an **example** of Section II requirements (do not include tax). See the GSA internet site for the current rates: <http://www.gsa.gov/perdiem>.

GSA Rate		
Destination	County	Max Lodging
City A	County A	\$187.00

GSA Rate @ 150%		
Destination	County	Max Lodging
City A	County A	\$280.50 (\$187.00 x 1.5)

Actual expense for hotel requested for this training is \$299.00 per night, which is 160% of the GSA rate. (\$299.00/\$187.00 = 1.5989, rounded to 1.60)

GSA Rate @ 160%		
Destination	County	Max Lodging
City A	County A	\$299.00

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Chapter 12 – PCard

12.1 Program Summary

The State of Delaware, through Division of Accounting (DOA), has contracted with JPMorgan Chase (JPMC) Bank to provide State Organizations with a VISA card program for purchasing or travel. This program is called the PCard Program; one card operating with purchasing or travel options. JPMC's online card administration software (PaymentNet) allows the management of the PCard program at the State level via the following link:

<https://www.paymentnet.jpmorgan.com>.

Purchasing cards are used by employees within the Organization to purchase goods/services that are needed for business. These cards should also be used for registering travelers for conferences. Hotel, airfare and other travel-related expenses are not permitted on the purchasing card.

Travel cards are solely for the purpose of State business travel. When using the Travel Card while on State business travel, cardholders must follow the State's Travel Policy (see **Chapter 11 – Travel Policy**), in addition to the policies contained herein.

Please note that due to the nature of both purchasing and travel practices, there is some overlap in allowable vendors across programs. Cardholders should follow the policy appropriate for the type of purchase. See the Merchant Category Code (MCC) list for each program in order to determine which card is most suitable for the employee. The list is located on the Information tab of the First State Financials (FSF) Extranet at <http://extranet.fsf.state.de.us>.

The State of Delaware is liable for the use of the PCard. The card is backed by the full faith and credit of the State, not the credit of the employee. Only State employees are eligible for participation in the PCard program. State employees are defined as individuals who receive a paycheck through the Payroll Human Resource Statewide Technology (PHRST) system.

State employees, with appropriate approvals from their Organization, can obtain a card without a personal credit history check. However, in accordance with OFAC (Office of Foreign Assets Control, U.S. Department of Treasury), personal information (e.g., date of birth, country of citizenship, home address) is required. Employees must enroll in the program online via the Account Request Manager (ARM) application. Employees are only authorized to carry one card, allowing for better control. The cardholder may have access to PaymentNet at the discretion of the Organization to review card information.

12.1.1 Services of the Travel Card

1. For travel, the card provides:
 - a. Primary coverage auto rental insurance – Call the VISA Benefit Administrator at 1-800-VISA-911 for assistance with this coverage or to file a claim. If outside the United States, call collect at 0-410-581-9994.
 - b. Travel and Emergency Assistance Services – These services are accessed by calling the VISA Benefit Administrator at 1-800-VISA-911 any hour of the day or night. If outside the United States, call collect at 0-410-581-9994. These services provide assistance and referral only. The cardholder is responsible for the cost of any actual medical, legal, transportation, or other services or goods provided.
 - c. Travel Accident Insurance – The **cardholder** is automatically insured against accidental loss of life, limb, sight, speech, or hearing while riding as a passenger in, entering, or exiting any licensed common carrier.
 - d. Baggage insurance – The traveler is automatically insured when travel reservations are booked on the traveler’s card. Coverage ONLY applies to the cardholder.

12.2 Internal Controls

Organizations’ written PCard Internal Control Policies and Procedures must address the following topics:

- Detailing segregation of duties
- Tracking cardholders
- Monitoring of program usage
- Reconciliation of accounts

A PCard Roles and Internal Control Policy Form ([PO012](#)) and a Sample PCard Internal Control Policies Form ([PO014](#)) for small and large Organizations are available for guidance in establishing PCard Internal Controls.

12.2.1 Detailing Segregation of Duties

Segregation of duties standards for PCard usage and administration must be strictly enforced when assigning job roles. A list of roles and responsibilities, by employee,

should be listed within the PCard Roles and Internal Control Policy Form ([PO012](#)) and further detailed within each Organization's PCard internal control policy. As detailed in the form, the roles must specify the duties of each employee as they relate to each Organization's PCard processes.

The Payment Net Roles' duties and responsibilities are defined in the First State Financials, PaymentNet Roles, Duties and Responsibilities located on the Division of Accounting Extranet website
http://extranet.fsf.state.de.us/training_jobrole_handbook.shtml.

The FSF Roles' duties and responsibilities are defined in the First State Financials, Job Role Handbook located on the Division of Accounting Extranet website
http://extranet.fsf.state.de.us/training_jobrole_handbook.shtml.

See **Chapter 2 – Internal Controls, Section 2.1.1 Sample Internal Control Plan Elements** for additional guidance on segregation of duties.

12.2.2 Tracking Cardholders

As part of the PCard Internal Control Policies and Procedures, Organizations must indicate their procedures for:

- Implementing and enrolling new cardholders
- Handling changes to cardholders
- Assigning types of cards (purchasing only or travel only)
- Deleting cardholders
- Implementing cardholder security requirements

Additionally, procedures must be stated describing any actions to be taken for misuse of the card. Changes in Organizational processing or approval structure will require an update to the Organization's policy.

12.2.3 Monitoring Program Usage

Organizations must indicate how program participants and usage are monitored. In addition to monitoring the usage of specific accounts, Organizations should describe the management of card usage throughout their various reporting groups.

Although there may be various control practices in use, the following cardholder internal control options must be considered. Organizations may implement more stringent policies when developing the PCard Internal Control Policies and Procedures.

- Holding all cards centrally and distributing the card to the appropriate individual(s) with each approval to purchase a good or service or travel.
- Closing the account and destroying cards that may only be used one time for special travel needs.
- Having authorized staff carry cards independently with suitable controls (e.g., lower spending and transaction limits and verification of possession of the card, to be performed no less than quarterly).
- Monitoring the spending limit of each card. The spending limit should be based on the spending history of the card. DOA will provide the spending limit and available credit to the Organization on an annual basis. The Organization must determine if the spending limit needs to be modified.
- Organization Head review of card transactions on a periodic basis.

12.2.4 Reconciliation of Accounts

Organizations must indicate procedures for account reconciliation, including the frequency of reconciling transactions (recommended weekly, but not less than monthly).

12.3 PCard Administration

With PaymentNet, DOA, under the guidance of the Organization, can control the funds available on a card and the types of places where individual employees can purchase goods or services or travel. These controls enable the Organization to reduce risk, while providing employees the spending power they require.

Transaction information is posted daily to First State Financials (FSF), the State's financial management and accounting system, enabling Organizations to reconcile transactions as the receipts and invoices are presented, rather than waiting until the end of the billing cycle.

12.3.1 General Usage

1. General – Regardless of the reason or type of purchase, all PCard receipts must be kept for reconciliation purposes.
2. Travel – See **Chapter 11 – Travel Policy**

- a. The Travel Card should be used for all common carriers (airlines, rail, or bus), car rental, lodging, occupancy tax, and any authorized miscellaneous expenses.
- b. The Travel Card should be used for meals (food, beverage, tax, and tips) while traveling on official State business. If the Travel Card is used to pay for meals for several employees while traveling, Organizations must require an itemized receipt identifying each meal with each employee to ensure the State standards are followed.
- c. The Travel Card may be used for gasoline purchases, if the traveler is in a location where the Fleet Services fuel access card cannot be used. This applies to State fleet vehicles. If an employee is approved to use their personal vehicle for travel, the Travel Card cannot be used to purchase fuel. The employee must submit a Personal Expense Reimbursement Form ([AP003](#)) for the mileage.

See **Chapter 11 – Travel Policy, Section 11.3.2 Privately-Owned Vehicles** for additional information regarding the use of personal vehicles.

3. Purchasing – All PCard transactions must comply with accounting procedures and State laws governing purchases.
 - a. Purchases of \$5,000 or less
 - The PCard can be used as Direct Payment for all fund types.
 - b. Purchases over \$5,000
 - All current purchasing and accounting procedures remain in effect for purchases over \$5,000. Funds must be encumbered, and purchase orders are required, for all general fund purchases.

12.3.2 Who Should Have a PCard?

PCards may only be issued to State employees. The PHRST 6-digit Employee ID is required and is verified during enrollment. Organizations can request cards for those individuals who have a reasonable need (i.e., individuals who travel on official State business or individuals who make official State purchases). Only one PCard may be issued per employee, regardless of the number of departments for which the employee will be making purchases.

The number of individuals who make official purchases should be kept to a minimum as dictated by Organization requirements and in accordance with each Organization's internal control policy.

12.3.3 Steps for Enrollment

1. Organizations may enroll in the PCard Program by submitting the Organization's PCard Internal Control Policies and Procedures. The Sample PCard Internal Control Policies Form ([PO014](#)) may be used as a guide for the Organization's PCard Internal Control Policies and Procedures.
2. Organizations must designate the Organization PaymentNet Coordinator and Back-up Coordinator, and the FSF PCard Coordinator/Reconciler, PCard Approver, and AP Business Manager in the PCard Roles and Internal Control Policy Form ([PO012](#)). The PCard Roles and Internal Control Policy Form must be signed by the Organization Head.
3. DOA reviews the PCard Internal Control Policies and Procedures and, when approved, a copy is returned to the Organization.
 - DOA also performs an annual review of the Organization's PCard Internal Control Policies and Procedures as documented in the PCard Roles and Internal Control Policy Form ([PO012](#)).
 - Internal Controls are required to be updated as changes occur and submitted to DOA annually.
 - Changes made between annual reporting periods must adhere to Internal Control guidelines and ensure segregation of duties.
4. Organizations must designate the authorized signatories and designees on the PCard Authorized Signature Card Form ([PO013](#)) when someone other than the Organization Head may approve new cards or change requests.
5. Employees must enroll online via the ARM application.

12.3.4 Card Issuance

The following process is applicable for the issuance of all PCards, including new cards and replacement cards.

1. JPMC Bank delivers the PCard to DOA within seven to ten business days of issuance.

2. DOA notifies the Organization when the card is available for pick-up by the Organization's designated personnel or when the card is being mailed to the PCard Coordinator/Reconciler via State mail.
3. The Cardholder or PCard Coordinator/Reconciler emails the JPMC Credit Card Confirmation to DOA at p.card@state.de.us.

NOTE: DOA will deactivate the card if the JPMC Credit Card Confirmation has not been received within ten days of notification. A PCard Change Request Form ([PO003](#)) must be submitted to reactivate the card.

12.3.5 PCard Program Management

1. The ARM application is administered by DOA to promote accountability and to ensure adherence to policies and procedures.
2. Cardholders are assigned to profiles (purchasing or travel) in PaymentNet. The Organization's PaymentNet Coordinator has a profile that provides access to view the activity of all cardholders within the organizational structure.
3. **Organizations must review the following annually (at a minimum).** The review is documented and signed by the PaymentNet Coordinator/Back-up Coordinator and Organization Head/Designee and maintained at the Organization for audit purposes.
 - Usage – frequency, spending patterns, etc.
 - Credit Limits – the Cardholder Status Report, in PaymentNet, may be used to identify cardholder account limits.

12.3.6 Reports

1. An electronic Commercial Card activity report reflecting all cardholder transactions is furnished on a monthly basis to the cardholder's Organization Head/Designee by DOA. The report is also available for download at any time by the Organization. Cardholders are also expected to review their personal Commercial Card Statement.
2. The PaymentNet Internet site (<https://www.paymentnet.jpmorgan.com>) offers secure reporting to Organizational users. The use of the site is highly recommended and is a valuable Internal Controls tool. The site provides a list of available reports along with a description of the information provided in the reports. Users may view and download a variety of merchant, cardholder, transaction and administration reports to monitor and analyze program

participation. The following are examples of how the standard reports can assist the user:

- a. Transaction Reports:
 - **Transaction Detail Hierarchy** reporting summarizes the number of transactions and total dollar amount for each account and hierarchy level. It is used by the PCard Coordinator/Reconciler to reconcile accounts at the end of an accounting period, or more frequently if deemed necessary.
- b. Cardholder/Account Information Reports:
 - **Cardholder Profile** enables PCard Coordinators/Reconcilers to manage cardholder information. The report includes Cardholder Name, Address, Phone, E-mail, Account Status, Account Status Reason, Compromised Indicator, Hierarchy Levels, Account Limits, Account Open and Close Dates, Last Transaction, and Expiration Dates.
 - **Cardholder Status Report** enables PCard Coordinators/Reconcilers to identify cardholder account limits and account status (e.g., Closed, Not Activated, Active, or Suspended).
- c. Administration Reports:
 - **Unusual Activity Analysis** enables PCard Administrators to monitor unusual transaction activity and to determine if the transactions are business-related.

Ad hoc reporting is available for all users with virtually no lead time. These online demand reports may be saved within the user's own separate login and may be run at any time. PaymentNet Coordinators and Back-up Coordinators may limit access to reports based on cardholders' security privileges.

12.4 Authorized PCard Use

12.4.1 Cardholder Responsibilities

1. The PCard is embossed with the cardholder's name and must **only** be used by the cardholder or authorized proxy (for travel only). The cardholder is responsible for all charges to the card. Organizations should refer to **Chapter 11 – Travel Policy** for more information regarding combining travel expenses on a Travel Card.

- a. All travel arrangements MUST be booked on the traveler's card. Insurance coverage on VISA for traveling ONLY applies to the cardholder. See Section [12.1.1 Services of the Travel Card](#) for more information regarding the VISA benefits.

In certain situations, a traveler utilizing the State's Travel card may rely on an administrative liaison to transact and manage travel arrangements. Typically, such relationships are limited to Organization Heads and other officials who are assigned administrative support. If a traveler needs another individual to make travel arrangements on their behalf utilizing the State's credit card, the delegation of responsibility must be memorialized through the proxy process in JPMC's PaymentNet system via DOA. Once assigned the role of proxy, delegates have the ability to perform certain functions on behalf of the traveling cardholder such as activate a card, authorize card transactions, and report a card lost or stolen. All proxies must meet the same policy requirements established for becoming a cardholder and must adhere to the same policies and procedures as a cardholder.

Only one proxy may be assigned to a cardholder. To assign a proxy, the PCard Proxy Request Form ([PO004](#)) must be completed and submitted to DOA.

Note: The cardholder is ultimately responsible for the card and must review transactions and card statements on a regular basis to ensure compliance with all applicable rules and requirements.

- b. All items purchased "in person, over the counter" must be immediately available at the time of credit card use. The PCard shall not be charged for merchandise that must be back ordered for later delivery.
2. The PCard may be used only by authorized State employees and must **not** be used for personal or unauthorized purposes, in accordance with **Delaware Code Title 29 §5112** including, but not limited to:
 - a. Providing personal identification.
 - b. Purchasing alcoholic beverages or any substance, material, or service in violation of policy, law, or regulation.
 - c. Purchasing entertainment or any expense not authorized for State business.

A cardholder who makes unauthorized purchases is liable for the total dollar amount of such purchases. The purchase amount must be reimbursed by the employee within 30 days of the transaction. All such transactions must be

reported to DOA immediately. Upon resolution, a copy of the check, the Organization's deposit slip and the supporting detail on what is being reimbursed must also be submitted to DOA.

3. The PCard may not be used to charge expenses for family members or others who may be accompanying the employee on official State business, even if the intention is to reimburse the State. In certain circumstances Organizations may approve a traveling companion if deemed medically necessary.

NOTE: Failure to comply with these policies may result in disciplinary action (including dismissal by the Organization) and possible criminal action (by the DE Department of Justice or other federal or local regulatory and enforcement entities).

12.4.2 Organization Responsibilities

Organizations may place more stringent restrictions on card use.

1. If an Organization needs to make changes to a PCard a PCard Change Request Form ([PO003](#)) must be submitted and will be processed within 24-48 hours.
2. Organizations must monitor the dollar value, the number of transactions, and all other card activity on a regular basis.
3. Billing statement transactions must be reconciled within 30 days of the end of the transaction billing cycle, so as not to invoke the escalation process.
4. Prior to issuing a PCard to an employee, the Organization must ensure the employee has been trained on and understands the Budget and Accounting Manual and the Organization's PCard Internal Control Policies and Procedures.
5. Organizations must have sufficient controls in place and routinely communicate with cardholders to ensure charges are not incurred that will exceed encumbered or available appropriations or other available funds for payment.
6. Organizations must notify DOA for loss or theft of a card or any indication of fraud, misuse, or negligence. See Section [12.4.1 Cardholder Responsibilities](#) for more information regarding the disciplinary action that may be taken.
7. Travel Authorization Forms, receipts, logs, itineraries and invoices must be maintained for audit purposes.

12.5 Record Keeping and Reconciliation

12.5.1 Record Keeping

1. Whenever a Purchasing Card purchase is made, either over the counter, by telephone or Internet, an **itemized receipt** must be obtained as proof of purchase. The receipt must be legible, itemized (reflecting the good or service purchased), and contain the vendor name, date of purchase, and price of each item. A receipt description which only states “Miscellaneous” or “Merchandise” is not acceptable. If a receipt only includes a merchant’s stock or item number, additional procedures may be necessary to validate the appropriateness of the expenditure and reconcile the transaction. Receipt documentation may be paper or electronic and must be provided to the Organization’s Reconciler within seven days of the transaction.
2. The method of payment for travel expenses is the Delaware Travel Card. The Travel Card must not be used for personal or unauthorized purposes. The Travel Card is to be used for authorized expenses for State personnel only and may not be used to charge expenses for family members or others not on official State business. Employees may not use the Travel Card to charge expenses for others, even with the intent to reimburse the State. The Travel Card may not be used for cash withdrawal. Non-State employees (e.g., Board members, commissioners, etc.) should follow Statewide and Agency specific policies when making payment for a reimbursable travel expenditure.

Employees must obtain an itemized receipt for all Travel Card transactions. The receipt must be legible, itemized (reflecting the good or service purchased), and contain the vendor name, date of purchase, and price of each item. A receipt description, which only states “Miscellaneous” or “Merchandise”, or only includes a vendor’s stock or item number, is not acceptable. Receipt documentation may be paper or electronic. In conformity with the Uniform Electronic Transaction Act (UETA) (**6 Del. C. Chapter 12A**), which permits copies of receipts, electronic documentation includes pictures of receipts taken with a smartphone or other electronic device.

Under extenuating circumstances, the employee may be unable to obtain an itemized receipt. In this case, the employee must complete an Affidavit for Missing and Non-Itemized Receipts ([AP005](#)). The employee must provide a detailed explanation as to why an itemized receipt is not available. The affidavit must be approved and signed by the employee’s immediate Supervisor. The Office of Management and Budget (OMB) and DOA approval is only required for transactions exceeding \$20.00. Agencies shall determine if the Division Director or Section Head approval is required for all affidavits or only those exceeding \$20.00. When required, the affidavit must be submitted to OMB within 30 days of the transaction to be considered for reimbursement. This allows sufficient time for the employee

to exhaust all reasonable measures for obtaining an itemized receipt. See the Affidavit for Missing and Non-Itemized Receipts Flowchart ([Exhibit A](#)) for assistance in determining when an affidavit needs to be completed and when it must be approved by OMB and DOA.

All travel documentation must be submitted to the Organization's Reconciler **within seven (7) business days** after the completion of travel, including all itemized receipts, the Travel Authorization Form ([AP006](#)) and a reconciliation of the estimated versus actual expenses. This action is required in order to document the expenses of the trip. The Travel Reconciliation Form ([AP009](#)) is provided as a tool for Organizations; however, Organizations may choose to use another form of reconciliation. For more information on submitting and reconciling receipts related to travel, reference **Chapter 11 – Travel Policy**.

3. At the end of each billing cycle, a monthly Commercial Card Statement of Account is sent to each cardholder by JPMC Bank. The cardholder must check each transaction listed against the itemized receipts to verify the accuracy of the monthly statement. Itemized receipts should be attached to the monthly bill and kept until an internal audit is completed.
4. There are times when a cardholder is reimbursed for travel from an external/member organization. In these cases, the cardholder is responsible for notifying the coordinator that the reimbursement will be requested. When the reimbursement is received, it should be credited against the expenditures incurred for that specific trip. A copy of the check and deposit slip should be filed with the traveler's paperwork in case of an audit. For more information on processing refunds/reimbursements to the State, reference **Chapter 9 – Receipt of Funds, Section 9.3.5 Refunds to the State**.

NOTE: The Purchase and Travel card must not be used for personal or unauthorized purposes. The purchase amount must be reimbursed by the employee, within 30 days of the transaction if a purchase is for personal or unauthorized purposes or if an itemized receipt is not provided and the Affidavit for Missing and Non-Itemized Receipts is not submitted as required. A copy of the check, deposit slip, and supporting detail on what is being reimbursed should be filed with the monthly statement, and the traveler's paperwork if the purchase pertains to travel, in case of an audit.

12.5.2 Billing and Reconciliation

1. JPMC Bank submits a monthly billing invoice the day after the close of the billing cycle (the Statement Date) into FSF for payment of all charges made against the PCards. DOA pays the JPMC Bank statement within five calendar days from the Statement Date.
2. Organizations process PCard transactions daily in FSF to reimburse DOA for funds used to pay JPMC Bank.
3. Each transaction made on a PCard requires the assignment of a chartfield string or the designation to a specific purchase order and category code.
4. Organizations are required to reconcile and approve the daily transactions in FSF against the cardholder receipts, within 30 days of each billing date. This includes complete approval of the voucher created.
5. Purchase order numbers for purchases exceeding \$5,000 (individually or in aggregate) are required for transactional details within FSF. When using the purchase order details, all the chartfield requirements and category codes default into the specified fields. The purchase order must be established before the transactions are incurred with the merchant. For additional information regarding when a purchase order is required, reference **Chapter 7, Section 7.2 Obligating Funds**.
6. DOA monitors the billing process to ensure timely compliance, using an escalation process. However, if Organizations do not comply with timely payment and reconciliation of PCard transactions in FSF, then card usage and program participation may be revoked. The responsibility is as follows:

PCard Transaction Reconciliation Escalation Timeline

Days After Billing Cycle End Date	Notification Issued To The Organization By:			
	DOA PCard Team	DOA PCard Admin	DOA Management	Secretary of Finance
31	X			
45		X		
55-75			X	
>75				X

12.6 Card Security

12.6.1 Cardholder Responsibilities

The cardholder must:

1. Safeguard the PCard and account number. The full 16-digit account number must not be mailed, emailed (unless via a DTI approved encryption method), or faxed to merchants.
2. Ensure the card is **only** used for legitimate State of Delaware business purposes.
3. Maintain the card in a secure location at all times.
4. Adhere to the purchase limits and restrictions of the card.
5. Obtain all itemized sales slips, register receipts, purchasing card slips, and/or packing slips and provide the same to the Organization PCard Coordinator/Reconciler **within seven (7) business days of the transaction or completion of travel.**
6. Not accept cash, check, or a merchant credit for returned items in lieu of a credit transaction to the PCard account.
7. Be held responsible for all charges to the card.

NOTE: Unauthorized use of the card may result in dismissal from the card program, disciplinary action, and/or termination from employment.

12.6.2 Organization Responsibilities

Organizations must:

1. Develop and follow PCard Internal Control Policies and Procedures.
2. Appoint and monitor activities of all PCard personnel.
3. Keep cards secure. Any cards not used on a frequent basis should be categorized with a “Null” Profile in PaymentNet, until needed. This will prevent any purchases from being made with the card during this period. Cards that have had no activity for 18 months will be purged from PaymentNet.

4. Monitor activity, reconcile, approve, and allocate transactions for the Organization's individual cardholders.
5. Reconcile card activity on a regular basis and in a timely manner.
6. Review spending limits. DOA provides the spending limits and available credit to the Organization on an annual basis. The Organization must inform DOA if the spending limits should remain the same or if any need to be modified.

12.6.3 Lost or Stolen Cards

In the event of a lost or stolen card, the cardholder must:

1. Immediately notify JPMC Bank at 1-800-270-7760 and advise the representative that the call pertains to a State of Delaware Visa PCard. Bank representatives are available 24 hours a day, 7 days a week. JPMC Bank will immediately deactivate the card and issue a replacement card, which is delivered to DOA within seven to ten business days.
2. Notify the Organization PaymentNet Coordinator, Back-up Coordinator, or other approving official immediately during business hours or as soon as practical during non-business hours. The Coordinator must notify DOA.
3. Destroy a previously reported lost card that is subsequently found.

12.7 Disputed Transactions

A disputed transaction is any transaction that was double charged, charged an inaccurate amount, or charged without corresponding goods or services by the cardholder. A transaction may also be in dispute if items purchased with the PCard are found to be faulty or in error.

12.7.1 Cardholder Responsibilities

The cardholder is responsible for attempting to resolve the issue with the merchant as soon as possible. If the merchant has not resolved the issue by the date the cardholder receives the monthly billing statement, the transaction will be in dispute. Cardholders should contact their PaymentNet Coordinator for assistance in resolving disputed transactions with the merchant; however, the cardholder must call the merchant to resolve the dispute as the merchant will only discuss the transaction with the cardholder.

1. Cardholders can dispute any charges in question. Merchants should be the first point of contact for resolution.
2. If a particular transaction is disputed, the employee has 30 days from the end of the billing cycle to notify JPMC. JPMC will assist the State in attempting to obtain reimbursement from the merchant.
3. Organizations should be made aware of all disputed transactions by the time the billing statement is available.

Note: If the dispute is not resolved with the merchant within 30 days from the end of the billing cycle, a PCard Change Request Form ([PO003](#)) must be submitted to DOA via email to p.card@state.de.us.

12.7.2 Organization Responsibilities

1. If a disputed transaction is not resolved with the merchant, the Reconciler must identify the disputed item and “flag” the transaction as disputed in FSF.
2. Disputed transactions must be submitted to DOA for processing.
3. The Organization’s Reconcilers ensure transactions are reconciled and disputes and credits are handled in a timely manner.
4. Debits/Credits/Chargebacks must be reconciled with the same coding. Do not use a Purchase Order when coding disputed transactions debits and credits.
5. A PCard Change Request Form ([PO003](#)) is required for all billing errors and disputed items.
6. Payment must be made in full to JPMC (via DOA), including payment for disputed transactions. Once the dispute is resolved, a credit may be issued and reflected on the JPMC monthly billing statement.

12.7.3 Division of Accounting Responsibilities

1. DOA uses the PCard Change Request submitted by the Organization to populate the necessary dispute information into PaymentNet. The dispute notification is automatically emailed to the JPMC dispute resolution department.

2. DOA verifies the dispute and accompanying credit are received.
3. DOA assists Organizations to resolve the disputed item in a timely manner, as needed.
4. DOA must pay JPMC in full, including payment for disputed transactions. Once the dispute is resolved, a credit may be issued and reflected on the JPMC monthly billing statement.

12.8 Fraud

A fraudulent purchase is any use of the PCard which is determined to be an intentional attempt to defraud the State for personal gain or for the personal gain of others. If a transaction appears on the JPMC monthly billing statement that is not recognized, it is considered fraud.

12.8.1 Cardholder Responsibilities

1. Cardholders must immediately call JPMC at 1-800-270-7760 to report the card lost or stolen. JPMC will issue a replacement card.
2. Cardholders must notify the Organization PaymentNet Coordinator, Back-up Coordinator, or other approving official of the fraudulent transaction.

12.8.2 Organization Responsibilities

1. The Organization's Reconciler must "flag" the transaction as fraud in FSF.
2. Organizations must notify DOA that the card was reported lost or stolen due to fraud. A list of the fraudulent transactions must be submitted to DOA via email to p.card@state.de.us.
3. All types of fraud must be reported:
 - a. External Fraud, also known as third-party fraud:
 - Unauthorized transactions
 - Purchases made with a lost, stolen or counterfeit card or stolen account information

- b. Internal Fraud, also known as employee misuse:
 - Transactions outside the parameters of the Organization policy
 - Purchases made for personal gain
4. The Organization's Reconciler must reconcile and approve the fraudulent transaction after receiving notification from DOA that the fraud has been resolved.

12.8.3 Division of Accounting Responsibilities

1. DOA verifies the fraud and validates the fraud was reported to JPMC.
2. DOA monitors the progress of the fraudulent transaction until resolved to ensure the accompanying credit is received.
3. DOA notifies the Organization to reconcile and approve the transaction once the fraud is resolved.

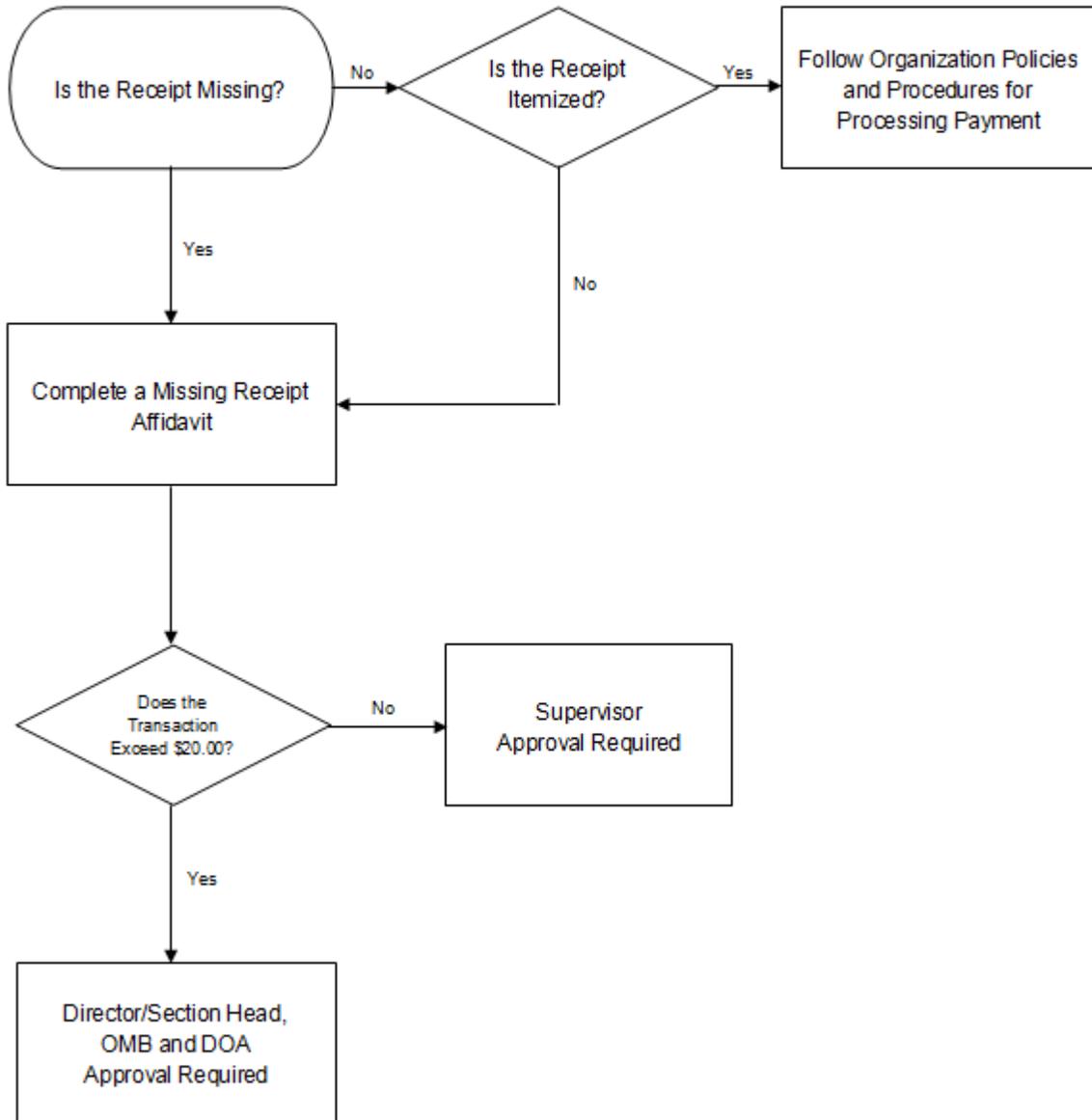
12.9 Cardholder Separation/Transfer

1. Employees separating from State employment (including long-term leave of absence) must surrender the PCard and all receipts to the Organization's appropriate PCard personnel or other approving official, prior to separation from State employment. Upon notification of employee separation, the Organization PCard personnel must notify DOA, by email, to immediately close the card account.
2. Employees transferring to another State Organization must have their account closed, their log-on deactivated, and the card collected and destroyed. The gaining Organization will request a new card, if needed. This process allows cards to be uniquely identifiable to the employee and the Organization, and allows the billing statement and FSF to properly reflect the purchasing activities of each Organization, proxies, and default distribution.
3. Employees transferring between Divisions within the same Organization must have their account closed, their log-on deactivated, and the card collected and destroyed. The gaining Division will request a new card, if needed. This process allows the gaining Division to determine if the employee needs a card and, if so, what the parameters (e.g., type of card, credit limit, etc.) should be.
4. Employees transferring within the same Division must have the credit card profile reviewed by the Organization Head/Designee to determine if any changes are necessary.

NOTE: The Organization must notify DOA via email or a PCard Change Request Form ([PO003](#)) when an employee separates from State employment or transfers to another Organization or Division. When an employee transfers within the same Division, any changes to the credit card profile must be submitted to DOA via the PCard Change Request Form ([PO003](#)).

Exhibit A

**AFFIDAVIT FOR MISSING AND NON-ITEMIZED RECEIPTS
FLOWCHART
(For Travel Card transactions)**



NOTE: All transactions are subject to workflow approvals in FSF. Follow the Organization's document processing and record retention guidelines for ALL Missing Receipt Affidavits.

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Chapter 13 – Asset Management

13.1 Introduction

The State of Delaware has a significant investment in capital assets such as land, land improvements, buildings, machinery, equipment, and infrastructure. These assets have initial useful lives that extend beyond a single reporting period. To improve financial reporting, accountability, and operational efficiencies in managing these capital assets, the State uses the First State Financials (FSF) Asset Management (AM) module.

The State maintains its capital asset management system in accordance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board's (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. GASB 34 requires that governments depreciate their exhaustible capital assets, and that asset reporting is part of the annual GAAP package.

In addition to reporting requirements, complete and accurate capital asset records can help managers identify under-utilized buildings or surplus assets that can be reassigned for more productive use. Accurate records can also help identify replacement and/or renovation needs of existing assets. This type of management information is useful in making budgetary decisions for specific requests and long term capital planning.

13.2 Segregation of Responsibilities for Asset Management

The Division of Accounting (DOA) is responsible for managing capitalized assets in FSF. Individual Organizations are responsible for managing any assets that do not meet the State's capitalization thresholds (non-capitalized assets). However, DOA is available to support Organizations in this effort. Organizations should contact DOA with any asset management questions. Organizations should refer to **Section 13.4** for the State's capital asset capitalization thresholds.

13.2.1 Division of Accounting's Asset Management Responsibilities

DOA develops, implements, and maintains uniform capital asset policies, procedures, reports, manuals, directives, instructions, and systems. All policies are periodically reviewed and updated, as needed.

13.2.2 Organization Asset Management Responsibilities

All State Organizations are responsible for executing and adhering to the State’s capital asset accounting and reporting policies, procedures, guidelines, and standards. While DOA is responsible for managing capital assets, Organizations retain full responsibility for managing non-capital assets. Organization officials must:

1. Establish internal written procedures and controls necessary to implement and monitor applicable asset management accounting and reporting policies, guidelines, and standards. Organizations should refer to Chapter 2 – Internal Controls for more information.
2. Assign responsibilities to specific individuals for the various asset accounting and reporting functions.
3. Ensure the timely, accurate, and complete processing and recording of all asset-related transactions in conformance with applicable State requirements.
4. Ensure proper retention of source documents and records pertaining to assets for audit purposes. Records should be maintained for the life of each asset and for seven years thereafter. Asset documentation is maintained in accordance with standard accounting guidelines and is subject to examination. Refer to section 13.10 for additional information as it relates to construction projects.
5. Establish adequate procedures and controls to safeguard and physically account for general capital assets, including an annual physical inventory of all tracked assets. A physical inventory must be completed and a certification forwarded to DOA by the end of May of the current fiscal year in which the inventory was taken. Documentation must be maintained in support of each year’s physical inventory until three years after the completion of a successful audit.

13.2.3 Inventory Control of Assets

Organizations are encouraged to maintain property listings of “Public Appeal” and other non-capital asset items for the purpose of safeguarding these items against loss or misuse. “Public Appeal” items are those items that are easily misplaced or stolen (e.g., personal computers, printers, tools, office equipment, etc.) Organizations should use the property listings to verify the existence, location, and condition of each asset.

Each Organization may use its own discretion when selecting items to be maintained in its non-capital asset listing. However, when establishing inclusion criteria for non-capital asset listings, Organizations should consider factors such as grant requirements, insurance provisions, and the costs and benefits of maintaining and monitoring the selected items involved.

The federal threshold for asset tracking is usually lower than the State's capital asset threshold. Organizations are responsible for (1) maintaining schedules of assets purchased with federal funds according to grant agreements, and (2) ensuring that all assets purchased under \$25,000 with federal funds are properly accounted for in the Organization's non-capital asset records. Assets valued above \$25,000 that are purchased with federal funds are maintained in the State's capital asset listings.

13.3 Capital Assets

Under accounting rules required by GASB Statement No. 34, all capital assets of a governmental entity must be reported at the entity-wide perspective in the Statement of Net Position at historical cost (or estimated historical cost) less accumulated depreciation.

Capital assets include land and land improvements, buildings and building improvements, vehicles, furniture, equipment, easements, infrastructure, and computer software. Computer Software-Work-In-Process and Construction-Work-In-Progress are included with non-depreciable capital assets in the Statement of Net Position.

1. Capital assets must meet the following criteria:
 - Be tangible (e.g., buildings and equipment) or intangible (e.g., easements);
 - Have an estimated life of more than one year; and
 - Be of significant value. The significant value test relates to the capital asset capitalization thresholds of an individual asset. (**Section 13.4**)
2. Capital assets are not intentionally acquired for resale, nor are they readily convertible to cash.
3. Capital assets can be obtained through direct purchase, installments, capital lease, donation, or confiscation. Capital assets obtained through direct purchase, installments, or capital lease are recorded at cost or historical cost. Capital assets obtained through donations or confiscations are recorded at fair market value, at the time of acquisition.

13.4 Capital Assets Thresholds

The asset capitalization thresholds are for financial reporting purposes only and do not supersede individual Organization policies established to maintain internal control over capital assets using a lower threshold. These thresholds define the amount per asset classification that is required to be reported in the FSF AM Module, and subsequently reported in the CAFR. The thresholds are

further defined by 1) State Capital Asset Thresholds, 2) Medicare Capital Assets Thresholds, and 3) DeIDOT Capital Asset Thresholds. Organizations should contact DOA for assistance or questions pertaining to the thresholds.

13.4.1 State Capital Asset Thresholds

The State's asset reporting/capitalization thresholds are established in compliance with national standards to accurately reflect the assets' respective utilities, any associated administrative and maintenance costs and to determine the relative materiality of the assets or asset groups to the State's consolidated and general purpose financial statements.

State Capital Asset Reporting Thresholds	
Asset Classification	State Requirement
Buildings	All Buildings
Building Improvements	≥ \$100,000
Easements	All Easements
Infrastructure	≥ \$1,000,000
Land	All Land
Land Improvements	≥ \$100,000
Leasehold improvements	≥ \$100,000
Leased Assets	See specific Asset Class
Software	≥ \$1,000,000
Vehicles, Furniture and Equipment	≥ \$25,000
Works of Art and Historical Treasures	Not capitalized

13.4.2 Medicare Capital Asset Thresholds

All Medicare assets with a value of \$5,000 or more are required to be tracked in the Medicare (MCARE) Asset Listing.

13.4.3 DeIDOT Capital Asset Thresholds

DeIDOT Capital Asset Reporting Thresholds	
Asset Classification	State Requirement
Buildings	All Buildings
Building Improvements	≥ \$100,000
Infrastructure	> \$1,000,000
Land	All Land
Land Improvements	≥ \$100,000
Software	> \$1,000,000
Vehicles, Furniture and Equipment	≥ \$25,000

13.5 Capital Asset Classifications

Capital assets are segregated into the following classifications:

Classification *
Buildings
Building Improvements
Easements
Infrastructure
Land
Land Improvements
Leasehold Improvements
Leased Assets
Software
Vehicles/Furniture/Equipment
Works of Art and Historical Treasures

***Asset Category**

13.5.1 Buildings

A *building* is any structure erected to stand permanently and designed for human use or occupancy or as shelter for animals or goods. Each building is comprised of components such as framing, interior finish, roof structure and cover, and building service systems.

Building service systems are those systems and their components that provide plumbing, sewerage, heating, ventilation, air conditioning, lighting, power, elevators or escalators, and fire protection. Building service systems also include special or unique services to specific structures, such as public address or emergency power systems.

The cost of a building includes its construction or purchase costs and the costs of all fixtures permanently attached and made part of the building. Purchase costs include original purchase price, expenses for altering a purchased building to make it ready to use for the purpose for which it was acquired, and any professional fees (legal, architect, inspections, title searches, etc.)

Construction costs are those costs incurred to complete construction projects or additions (extension, expansion, or enlargement to an existing capital asset such as a second floor or new wing on a building). The construction costs should be capitalized if the costs are valued at \$100,000 or more.

Building expenditures have no capitalization threshold. All building expenditures are capitalized, if the expenditures meet the criteria.

Land costs, security systems, furniture, or other equipment to furnish the building **should not** be included in the building costs. These items should be recorded separately by the appropriate asset class. When purchasing land and building together, the value of the land needs to be determined and categorized separately in the FSF Asset Management (AM) module.

Examples of expenditures to be capitalized as buildings:

Purchased Buildings

Original purchase price

Expenses for remodeling, reconditioning or altering a purchased building to make it ready to use for the purpose for which it was acquired

Settlement Costs, including professional fees (sale commission, legal, architect, inspection, appraisal, title search, title insurance, etc.)

Payment of unpaid or accrued taxes on the building at the date of purchase

Other costs required to place or render the asset into operation

Constructed Buildings

Completed project costs

Cost of excavation or grading or filling of land for a specific building

Expenses incurred for the preparation of plans, specifications, blueprints, etc.

Cost of building permits

Professional fees (architect, engineer, attorney, appraiser, financial advisor, management fees for design and supervision, etc.)

Costs of fixtures permanently attached to a building or structure

Insurance premiums and related costs incurred during construction

Any other costs necessary to place the building or structure into its intended location and condition for use

Note: Architect fees are expensed if a decision is made to not proceed with the construction of the building.

13.5.2 Building Improvements

A building improvement's primary purpose is to increase output, lower operating costs, improve working conditions, enhance the original quality, extend the useful life, or otherwise add to the worth of future benefits or utility expected to be received from the asset. The following expenditures are examples of improvements to buildings that are capitalized, if the cost of the improvement is valued at \$100,000 or more:

Building Improvements – Examples of Expenditures to be Capitalized

Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building

Additions to buildings (expansions, extensions, or enlargements)

Conversion of attics, basements, etc. to usable office, clinic, research, or classroom space.

Structures attached to the building such as covered patios, garages, carports, enclosed stairwells, etc.

Structural changes such as reinforcement of floors or walls and installation or replacement of beams, rafters, joists, steel grids, or other framing.

Other costs associated with the above improvements; e.g., architectural fees, construction management fees, etc.

The following expenditures are examples that **are not** capitalized as improvements to buildings and should be recorded as maintenance expenses:

Examples of Maintenance Expenses – Expenditures NOT Capitalized

Adding, removing, and/or moving of walls relating to renovation projects, which are not considered major rehabilitation projects and do not increase the value of the building.

Improvement projects of minimal or no added life expectancy and/or value to the building.

Plumbing or electrical repairs.

Asbestos abatement.

Cleaning, pest extermination, or other periodic maintenance.

Interior decorations, such as draperies, blinds, curtain rods, wallpaper, etc.

Exterior decoration, such as detachable awnings, uncovered porches, decorative fences, etc.

Maintenance-type interior renovation, such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections, sink and fixture refinishing, etc.

Maintenance-type exterior renovation, such as repainting, replacement of deteriorated siding, roof, or masonry sections.

Replacement of a part or component of a building with a new part of the same type and performance capabilities, such as replacement of an old boiler with a new one of the same type and performance capabilities.

Moving of furniture from one building to another during construction.

Any other maintenance-related expenditure, which does not increase the value of the building.

NOTE: Expenditures for alterations are not capitalized, unless they represent extraordinary alterations or the expenditures are so major in value the entire asset is substantially rebuilt. An alteration refers to the modification or modernization of buildings and structures. Examples of alterations include installation of new entry and exit openings;

closing old ones; erecting new walls, windows, and partitions; and removing old ones. Organizations should contact DOA for assistance with any questions in making these determinations.

13.5.3 Infrastructure

Infrastructure is defined as long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples include highways, roads, bridges, dams, and lighting systems. GASB 34 separates infrastructure assets into *networks* and *subsystems*.

A *network* of assets is a group of assets that provide a particular type of service for a government. An example of a network of infrastructure assets would be a dam composed of a concrete dam, a concrete spillway, and a series of locks.

A *subsystem* of a network of assets is composed of all assets that make up a similar portion of segment of a network of assets. Interstate highways, state highways, and rural roads would each be considered a subsystem of the network of all the roads of a government.

Most buildings should not be considered infrastructure assets for purposes of GASB 34, with the exception of buildings that are an ancillary part of a network or infrastructure assets. Examples of buildings that may be an ancillary part of a network or subsystem include road maintenance structures, such as shops or garages associated with a highway system.

Certain assets, which may appear to meet the definition of infrastructure assets, may be more technically considered land or building improvements, which are directly related to a capitalized asset (land or building). These assets include roadways, walks, parking lots, lighting systems, fencing, docks, piers, boat ramps, telecommunications cabling, etc. These assets are ancillary capital assets (ancillary to another asset i.e., land, building or a group of buildings) that increase the level of service of an existing capital asset.

The State has elected to use the modified approach for reporting infrastructure assets. The modified approach is an alternative to reporting depreciation for infrastructure assets that meet the following criteria:

- The assets are managed using a qualifying asset management system.
- The assets are being preserved and documented at or above condition levels established by the government.

Under the modified approach, infrastructure assets are required to be capitalized. However, they do not need to be depreciated if they meet the two requirements noted above. Expenditures made to maintain these assets are to be expensed in the period incurred, while expenditures for additions and/or improvements are capitalized.

The majority of the State's infrastructure assets is maintained by DeIDOT and includes roadways, bridges, and traffic management devices. At the current time, only DeIDOT reports infrastructure assets. DeIDOT is responsible for the written policies and procedures to manage infrastructure assets in conformity with GASB 34. DeIDOT's policies and procedures are to include:

- Identification of eligible infrastructure assets that are comprised of either a network or subsystem. The modified approach shall be applied to all assets within that network or subsystem.
- Establishment and documentation of minimum acceptable condition levels for each element of the network or subsystem.
- Reference documents that detail replicable condition assessments and the frequency in which assessments are completed.
- Reference documents that detail annual estimates to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the State.

In addition to acquisition costs, the following ancillary charges would be included in the cost of infrastructure:

- Professional fees of engineers, attorneys, appraisers, financial advisors, etc.;
- Survey fees;
- Appraisal and negotiation fees;
- Damage payments;
- Site preparation costs; and
- Costs related to demolition of unwanted structures.

13.5.4 Land

Land is considered real property. Land has no minimum dollar threshold. Therefore, all land must be recorded as a capital asset in the FSF AM module. Rights-of-way are not capitalized; however, land purchased for highway construction is capitalized.

Land that is purchased with the intent to resell is accounted for as inventory. Each "parcel" of land owned by the State is recorded as a separate asset (exclusive of buildings). If property is purchased that includes a building(s), the value of the land must be separated from the total cost and recorded as a separate asset.

In addition to acquisition costs, the following charges would be included in the cost of land:

Land – Examples of Expenditures to Capitalize

Legal and title fees
Professional fees of engineers, attorneys, appraisers, financial advisors, etc.
Surveying fees
Appraisal and negotiation fees
Damage payments
Site preparation costs (clearing, filling, and leveling)
Costs related to the demolition of unwanted structures at the time of the acquisition with the intention of using the cleared land
Assumption of any liens, mortgages, or encumbrances on the property

13.5.5 Land Improvements

Land improvements are physical changes or attachments to the land that have limited lives and; therefore, are recorded separately from land and are depreciated. Land improvements meeting the \$100,000 per unit historical cost threshold will be capitalized and entered into the FSF AM module. Land improvements include, but are not limited to:

Land Improvements – Examples of Expenditures to Capitalize

Paving (parking lots, driveways, parking barriers, roadways)
Curbing
Sidewalks
Fences
Retaining walls
Landscaping of non-temporary nature, including signage (A special item is the ongoing cost of landscaping. This is a period cost, not a fixed asset, and so should be charged to expense as incurred.)
Boat ramps, piers and docks
Utility distribution systems
Swimming pools
Septic systems
Paths and trails
Golf course
Playgrounds, recreation areas and athletic fields (including bleachers)
Water impoundment structures or attachments (dam, liner, other water control structures)
Outside sprinkler systems
Fencing and gates
Lighting systems
Fountains

Plazas and pavilions
Tennis courts

13.5.6 Leasehold Improvements

Leasehold improvements are defined as improvements made to leased property that will revert to the lessor at the expiration of the lease. Leasehold improvements include construction of new buildings or improvements made to existing structures by the lessee, who has the right to use these leasehold improvements over the term of the lease. Moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement. For leasehold improvements, the useful life is the estimated service life of the leasehold improvements, or the remaining term of the lease, whichever is shorter. The capitalization threshold for leasehold improvements is \$100,000. Improvements made in lieu of rent should be expensed in the period incurred.

13.5.7 Leased Assets

The State leases some assets through lease purchase agreements. The State has elected not to capitalize these leases due to the relative immateriality of these assets to the financial statements of the State taken as a whole. In many cases, the State does not take possession of the asset at the end of the lease term. If a capital asset is transferred to a State Organization at the conclusion of a lease, the asset is added to the FSF AM module based on the costs incurred to purchase the asset, including interest costs.

Assets purchased via lease purchase agreements are entered into FSF after final payment has been made on the lease. A *lease purchase asset's in-service date* is the date of final payment, when the asset becomes State property. Lease purchase assets valued at or above \$25,000 are tracked in the State's capital asset listing.

13.5.8 Intangible Assets

Intangible assets are governed by GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software (including licenses.) Statement No. 51 identifies an intangible asset as having the following three required characteristics:

- It lacks physical substance – in other words, you cannot touch it, except in cases where the intangible is carried on a tangible item (for example, software on a DVD).
- It is nonfinancial in nature – that is, it has value, but is not in a monetary form like cash or securities, nor is it a claim or right to assets in a monetary form like receivables, nor a prepayment for goods or services.

- Its initial useful life extends beyond a single reporting period.

13.5.8.1 Easements

An *easement* is a non-possessory interest in land owned by someone else, which entitles the owner of the interest to a limited use or enjoyment of the land and to protection from interference with its use. The landowner retains fee title to the property, while the easement holder maintains the rights to control development of the land. The State's purchase of such easements is reported in the FSF AM module.

For example, a conservation easement is a legal agreement between a landowner and a conservation organization. The easement places permanent restrictions on future uses of the property to protect its agricultural character. Conservation easements prohibit residential or commercial development and uses or practices, which would be destructive to the agricultural value and productivity of the land.

In addition to acquisition costs, the following ancillary charges would be included in the cost of easements:

Easements - Examples of Expenditures to Capitalize
Legal and title fees
Professional fees of attorneys, appraisers, financial advisors, etc.
Surveying fees
Appraisal and negotiation fees

13.5.8.2 Software

The State recognizes Organizations purchase computer software for many of the same reasons they purchase other capital assets, including reducing costs, improving efficiencies, strengthening internal controls, and improving customer service. All computer software with a useful life of one year or more and purchased or put in service with a cost of \$1,000,000 or more must be tracked as a capital asset for reporting purposes. The software is amortized over an estimated useful life of five years.

Note: Software maintenance agreements are to be expensed in the period incurred.

13.5.9 Vehicles/Furniture/Equipment

Costs of vehicles/furniture/equipment include the total purchase price after discounts, plus any trade-in allowances, transportation charges, installation costs, and any other costs required to prepare the asset for its intended use.

Vehicles/Furniture/Equipment - Examples of Expenditures to be Capitalized

Original contract or invoice price
Freight charges
Import duties
Handling and storage charges
In-transit insurance charges
Sales, use, and other taxes imposed on the acquisition
Installation charges
Charges for testing and preparation for use
Costs of reconditioning used items when purchased
Parts and labor associated with the construction of equipment
Any other normal or necessary costs required to place the asset in its intended location and condition for use.

Note: Warranties and maintenance agreements are considered annual upkeep costs and are to be expensed in the period incurred. However, if incidental items such as extended warranties or maintenance agreements are included in the total cost of the capital asset on the purchase order or invoice, then the incidental charges are considered part of the asset. If the incidental items are listed as a separate line item on the purchase order or on the invoice, then the incidental charges are expensed in the period incurred.

An asset with associated component parts that are necessary to the functioning of the asset is considered to be one asset when the life and utility of the component parts are mainly dependent on that of the asset.

For example, a mainframe CPU, with a cost of \$24,000 and its associated cables with a cost of \$1,500, would qualify for financial reporting since their combined cost exceeds the \$25,000 financial reporting threshold. Assets with associated component units that qualify for financial reporting are reported as one asset, and the component parts are included in the description of the asset.

Also included are assets with associated attachments (e.g., a collator installed in a copy machine.) Attachments purchased at the same time as the asset are considered part of the asset because their life and utility coincide with that of the asset. Attachments obtained subsequent to the purchase of the asset are not considered to be associated with that asset. Therefore, such attachments are accounted for as separate assets, if they meet the capitalization criteria.

For example, if a copier with a cost of \$26,000 and a collator with a cost of \$12,000 are purchased *at the same time*, they are considered associated assets. Since their combined cost exceeds the \$25,000 threshold, the copier is reported at a cost of \$38,000 and the collator is included in the description of the asset. The same assets purchased at different times are not considered associated assets. The copier is reported at a cost of \$26,000 and tracked as a

capital asset, but the collator is not reported or tracked as a capital asset, since its cost does not meet the \$25,000 threshold. (The collator may, however, need to be tracked in the non-capital asset registry (NOCAP) based upon other Organization or federal requirements.)

Vehicles, furniture, and equipment that cost \$25,000 or more that have a useful life of one year or more are recorded in FSF. Vehicles, furniture, and equipment include, but are not be limited to:

Examples of Vehicles/Furniture/Equipment

Cars

Trucks

Construction machinery

Computers (i.e., processing units, tape drives, disk drives)

Printing presses and reproduction equipment

Tractors

Buses

Telecommunications equipment

Furniture

Equipment vs. Vehicle: A vehicle is a fixed asset that can move itself under its own power. Cars and trucks should be classified as vehicles. Travel trailers, horse trailers, etc. should be classified as equipment. Careful consideration should be given as to whether an asset is a vehicle or equipment.

13.5.10 Works of Art and Historical Treasures

GASB 34 does not define what or how many works of art, historical treasures, and similar assets constitute a “collection.” Therefore, the definition is left to professional judgment. The State of Delaware defines collections of works of art, historical treasures, and similar assets as one or more inexhaustible items, which are held for public education, educational purposes, or research for enhancement of public service, rather than for financial gain.

Each Organization should be diligent in identifying collections that need to be reported. The listing below includes, but is not limited to, examples of possible historical treasures, works of art, and similar assets.

- Paintings, photography, maps, manuscripts, libraries, musical instruments, recordings, film, furnishings, artifacts, tools, weapons, and other memorabilia located at various State museums and office buildings.
- Monuments and statues on display at various sites around the State.

For clarification purposes, the following definitions are used regarding collections of works of art and historical treasures:

- *Exhaustible collections or items* – are items whose useful lives are diminished by display or educational or research applications.
- *Inexhaustible collections or items* – are items where the economic benefit or service potential is used up so slowly the estimated useful life is extraordinarily long. Because of its cultural, aesthetic, or historical value, the holder of the asset applies efforts to protect and preserve the asset in a manner greater than that for similar assets without such cultural, aesthetic, or historical value.

GASB 34 states that capitalized exhaustible collections should be depreciated over their estimated useful lives. Inexhaustible collections do not require depreciation.

GASB 34 states that governments should capitalize works of art, historical treasures, and similar assets at their historical cost or fair value at the date of donation (estimated if necessary), if they are held as a collection. However, GASB 34 provides an option for governments to not capitalize works of art and historical collections (and later additions to those collections) if **all** of the following conditions are met. The collections are:

- Held for public exhibition, education, or researching furtherance of public service, rather than financial gain;
- Protected, cared for, and preserved; and
- Subject to an Organization policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

This exemption does not apply to collections already capitalized as of June 30, 1999, even if they meet the above conditions for exemption from capitalization. These collections will continue to be capitalized, along with all future additions to the collection.

The State of Delaware has elected not to capitalize collections placed in service starting in fiscal year 2010 to expedite the completion of the State's CAFR each year. By not capitalizing collections, the State also has reduced the amount of time and effort required by State Organizations to maintain this information in the FSF AM module.

In order for the State to be exempt from the capitalization requirements in GASB 34 for works of art, historical treasures, and similar assets, all Organizations holding such assets must have in place a policy concerning those assets. These policies should include language stating that all collection items donated to the Organization or purchased with State funds are:

- Held for public exhibition, education, or researching furtherance of public service, rather than financial gain;
- Protected, cared for, and preserved; and

- Subject to an Organization policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

13.6 Property Inventory

The State requires Organizations to conduct a physical property inventory each year. Inventory results are reconciled to the State's property records, and any required adjustments to property records, as a result of the inventory, must be completed by the last working day of May.

State Organizations are required to maintain documentation to illustrate the physical inventory was performed. Organizations are required to submit a certification verifying that such inventory has been conducted to the Director of Accounting no later than the last working day of May of each year.

For property liability purposes, all building acquisitions, new occupancies, improvements, renovations, additions, and demolitions to State-owned property must be reported by Organizations to OMB's Insurance Coverage Office on a Property Inspection Form. The form can be found at <http://inscov.delaware.gov/forms>. The Organization responsible for the asset is responsible for completing and submitting the form to OMB when the asset is placed in or out of service. Coverage of buildings with damage claims may be denied if the Property Inspection Form, documenting the value and details of the property, has not been submitted to the Insurance Coverage Office.

13.7 Depreciation

All capitalized assets are depreciated using the straight-line method of depreciation, except those assets that are considered inexhaustible such as land, works of art, historical treasures, and similar assets. Depreciation is calculated monthly in the FSF AM module, based on the date the asset was available for use or placed in service.

Historically, the State uses its capital assets well beyond their useful lives, and little value, if any, remains when an asset is retired. No residual or salvage value is used in the depreciation calculations.

Depreciation is expensed on a monthly basis. When a capital asset is deemed lost, obsolete, sold, stolen, or otherwise disposed, all accumulated depreciation is expensed and the capital asset is retired from the active capital asset listing.

The estimated useful lives of capitalized assets are as follows:

State Capital Asset Schedule of Useful Life

Asset Classification	Useful Life
Buildings and Building Improvements	40 years
Vehicles	7 years
Furniture/Equipment	10 years
Land Improvements	20 years
Software	5 years
Leasehold Improvements	*

* For leasehold improvements, the useful life is the estimated service life of the leasehold improvements, or the remaining term of the lease, whichever is shorter.

Medicare Capital Asset Schedule of Useful Life **

Asset Classification	Useful Life
Buildings	10 to 40 years
Building Improvements	5 to 40 years
Vehicles	4 to 20 years
Furniture/Equipment	4 to 20 years
Land Improvements	18 to 40 years

** State hospitals within the Department of Health and Social Services and the Veteran’s Home within the Department of State are exempt from usage of the State Capital Asset Schedule of Useful Life. A longer or shorter life assignment may be used by the State hospitals for the purpose of Medicare reimbursement, with the approval of the Medicare fiscal intermediary. Such schedule of useful life is required to be documented and maintained as part of each institution's written property inventory policies.

DelDOT Capital Asset Schedule of Useful Life

Asset Classification	Useful Life
Buildings	40 years
Building Improvements	15 years
Equipment	5 to 40 years
Land Improvements	20 years
Software	5 years
Infrastructure	***

*** Refer to section 13.5.3 for depreciation information related to Infrastructure.

13.8 Asset Transactions

13.8.1 Acquiring a Capital Asset

Purchase orders are required for all assets costing \$5,000 or more, including assets purchased with the PCard. It is recommended that Organizations use FSF's Receiver functionality to record asset information. Organizations should contact DOA for assistance or questions.

1. Capital assets must be recorded at the acquisition cost, which includes the cost on the vendor's invoice (plus the value of any trade-in), sales tax, initial installation costs (excluding in-house labor), modifications, attachments, accessories, and any apparatus necessary to make the asset usable and render it into service. Acquisition costs also include freight and transportation charges, site preparation costs, and professional fees.
 - a. Trade-in allowances do not reduce an asset's cost base. When acquiring an asset with a trade in of an older asset, the capitalized cost is the amount paid to the vendor and the net book value of the asset traded in.
 - b. **The desired method of asset valuation is actual (historical) cost.** Documentation may be in the form of original invoices, purchase orders, check copies, contracts, and/or minutes, etc. If an Organization is unable to establish actual cost after a reasonable amount of effort, estimated cost data may be used. Methods available for ascertaining estimated costs include:

Methods to Ascertain Estimated Costs

Engineering studies
Catalog prices
Vendor price lists
Internal appraisal via the Purchasing Department
External appraisal
Matching to previously purchased items

- c. Capital assets purchased in quantities of two or more are capitalized only after determining the unit cost of each individual asset. Only individual capital assets (quantities of one) are recorded. **Group purchases of assets are not recorded in the aggregate.**
2. Donated or confiscated capital assets are reported at the estimated fair value of the asset at the time of acquisition, plus any ancillary charges. *Donations* are defined as voluntary contributions of resources to a governmental entity by a non-governmental entity. The donated items must have a valuation by a professional to support the fair market value. The cost of the valuation is included in the value of the asset, when the asset is entered into the system.
3. Organizations must include a Vehicle Identification Number, tag number, model number and the manufacturer's name in the asset record in FSF for all vehicle purchases.

13.8.2 Retiring and Disposing of Capital Assets

All equipment, supplies, and materiel, including vehicles, purchased in whole or in part with State appropriated funds are considered assets of the State and not of the state agency which holds or uses the materiel. When assets held or used by a State agency are determined to be in excess of the agency's needs, the agency is responsible for notifying the OMB/GSS for appropriate reallocation or disposal.

29 Del. C. § 7002(a)

State Organizations receiving property from another State Organization must record the carrying value of the property, with any accumulated depreciation recognized from the original date the property was placed into State service. Any fees or other monetary consideration between State Organizations for the transfer of State-owned property is not capitalized.

When disposing of assets, Organizations must submit a Delaware Surplus Services Excess Property Declaration form to OMB/GSS. After all forms are reviewed and approved by GSS, Organizations may submit the capital asset for disposal by using the disposal worksheet within the FSF AM module. The disposal worksheet should not be submitted until the Organization receives notification from OMB/GSS that the item may be disposed of as per State policy

(item has been sold at auction or sold to scrap, and all proceeds/removal costs have been deposited.)

The disposal worksheet will not be approved and processed by DOA until all information is received from OMB/GSS. After all forms are processed by OMB/GSS, DOA personnel will process the system transactions required to dispose or retire the asset(s) listed in the capital asset listing. The disposal of non-capital assets is the responsibility of the Organizations. Organizations are responsible for maintaining documentation to support the retirement or disposal of an asset of any value.

13.8.3 Sale of State-Owned Materials and Trade-Ins

All equipment, supplies, vehicles, and materials purchased in whole or in part with State-appropriated funds are assets of the State and not of the individual Organization. When equipment, supplies, vehicles, or materials are determined by an Organization to be in excess of its needs, the Organization should report the excess to OMB's GSS for reallocation to another Organization or for disposal, using GSS's Excess Property Declaration Form.

The Delaware Surplus Services team within OMB's GSS is responsible for all federal and State surplus property programs for the State of Delaware. This program is responsible for declaring excess property, transferring excess property to another Organization or fire company, removing excess property, and disposing of excess property.

In the event an Organization decides to replace material in-kind (not excess material), the Organization may "trade-in" such material on similar material (with the exception of vehicles), or it may sell the material and credit the receipt in accordance with **29 Del. C. §6102(c) (29 Del. C. §7002(e))**. Use the following guidelines to properly record the financial transactions associated with the trade-in:

- If the purchase precedes the sale, and the sale occurs in the same fiscal year as the purchase, the proceeds of the sale are not shown as revenue. The receipt should be recorded as a decrease in expenditures charged against the appropriation.
- If the sale precedes the purchase, and the sale occurs in the same fiscal year as the purchase, the proceeds must be coded as revenue to either the General Fund, or to the spending line of the Appropriated Special Fund.
 - Cash Receipts (CRs) should clearly indicate the receipt is intended as a reimbursement of a pending purchase.
 - When the purchase of the replacement material is made, the revenue may be recoded as an expenditure reduction.

- Other (NSF) Special Funds may show the sale proceeds as revenue since these funds do not need legislative action to increase their appropriations.

NOTE: No reimbursement is allowed on a purchase made in a previous fiscal year. The receipt is treated as a revenue item.

Collections from the sale of vehicles and vehicle parts are credited to OMB's Office of Fleet Services, unless a non-General Fund authorization exists, requiring the proceeds of the disposal to be returned to the original source of funds (**29 Del. C. §6308A(m)(5)**).

DOF is responsible for the determination of the applicability and equity of in-kind replacements. Examples of an acceptable in-kind exchange are the replacement of a manual typewriter for an electric typewriter, or an adding machine for a calculator. An example of a non-acceptable in-kind exchange is the replacement of a typewriter with a calculator, mimeograph, photocopier, tape recorder, or dictating equipment.

Whether equipment, supplies, vehicles, or materials are "traded-in" or sold, an Equipment Reimbursement Form (AM001) must be filed with and approved by DOF, on or before the date of the purchase or the sale, whichever is earlier. A copy of the form can be found at <http://extranet.fsf.state.de.us/forms.shtml>.

Upon written request by the Organization, OMB's GSS may sell or transfer such material within the State at a mutually agreed value (**29 Del. C. §7002 (a), (e)**). If material sold has a value in excess of \$100, it will be sold by public auction or competitive bids, unless GSS sells the material to another State Organization.

13.9 Impairments

According to GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, *asset impairment* is defined as a significant, unexpected decline in the service utility of an asset. The term *significant* refers to the magnitude of the impairment when compared to the service utility of the asset. An *unexpected decline* refers to a decline in the net book value of an asset that exceeds the amount expected through accumulated depreciation. The *service utility* of a capital asset is the usable capacity at the acquisition of the asset that was expected to be used to provide service (as distinguished from the *level of utilization*, which is the portion of the usable capacity that is currently being used).

13.9.1 Determining Impairment

The determination of whether a capital asset has been impaired is a two-step process. First, capital assets that have experienced events or changes in circumstances that could potentially indicate impairment should be identified. Then, these identified assets should be tested to determine if actual impairment has occurred.

In GASB 42, the emphasis is on events or changes in circumstances that are prominent and known to the government. In other words, State Organizations are not required to perform additional procedures to identify impairment beyond those already performed as part of normal operations.

The five most common indicators of potential impairment include:

1. Physical damage, such as a building damaged by fire or flood, which requires significant costs to restore the asset's service utility.
2. Changes in laws or regulations that limit or curtail the use of a capital asset, such as a water treatment plant that does not meet, and cannot be modified to meet, new standards.
3. Technological development or evidence of obsolescence.
4. A change in a manner or expected duration of use of a capital asset, such as closure of a school prior to the end of its useful life.
5. Construction stoppage due to lack of funding.

A decrease in the use of capital assets is not, in itself, considered a separate indicator of impairment unless it is associated with one of the items listed above.

13.9.2 Measuring Impairment

The amount of impairment for capital assets that are permanently impaired and remain in service must be calculated, net of insurance recoveries, and recognized as an expense. The carrying value must also be decreased by the calculated amount of the asset's impairment.

GASB 42 discusses several methodologies for calculating the amount of a capital asset's impairment. The following are the methods for measuring impairment:

- **Restoration Cost Approach** – Under this approach, the amount of impairment is derived from estimated costs to restore the utility of the capital asset. The estimated restoration cost can be converted to historical cost either by restating the estimated cost using an appropriate cost index or by applying a ratio of estimated restoration cost over estimated replacement cost to the carrying value of the capital asset.
- **Service Units Approach** – This approach isolates the historical cost of the service utility of the capital asset that cannot be used due to the impairment event or circumstance. The amount of impairment is determined by evaluating the service provided by the capital asset before and after the event or change in circumstance.

- **Deflated Depreciated Replacement Cost Approach** – This approach replicates the historical cost of the service produced. A current cost for a capital asset to replace the current level of service is estimated. This estimated current cost is depreciated to reflect the fact that the capital asset is not new, and then is deflated to convert it to historical cost dollars.

The relationships between the types of impairment and the methodology used to calculate the impairments are outlined below:

Type of Impairment	Method Used to Calculate the Amount of the Impairment
Physical Damage	Restoration Cost Approach
Changes in legal or environmental factors	Service Units Approach
Technological change	Service Units Approach
Change in manner or duration of use	Service Units Approach or Deflated Depreciation Replacement Cost Approach

13.9.3 Accounting for Impairments

Assets that are impaired and taken out of service permanently should be carried at the lower of carrying value or fair value, with no further annual depreciation expense. Capital assets impaired from construction stoppage should also be reported at the lower of carrying value or fair value.

State Organizations should assess their capital assets at least annually to determine if they have any impaired capital assets with material carrying values. DOA must be notified if any assets have been determined to be impaired by the common indicators above. DOA will make the determination as to which method will be used to calculate and report the asset values in the State’s CAFR.

Organizations should contact DOA for assistance in identifying and managing impaired assets.

13.10 Work-In-Progress – Future Assets

The State does not capitalize Construction-Work-In-Progress (CWIP) and Software-Work-In-Process (SWIP). The underlying future assets are tracked in the system's Asset Management module only when the assets are put into service.

13.10.1 Construction-Work-In Progress (CWIP)

Paid labor, material, and overhead costs of a construction project may be temporarily tracked and recorded in the FSF Project Costing module or the Organization's internal CWIP policy (**Chapter 4 – Budgeting, Section 4.8 Project Costing**). Cumulative expenditures to all vendors involved in the project are tracked and documented if the expenditures meet the criteria for construction items. When the project is completed, construction costs are aggregated as acquisition costs for the asset(s), and allocated to one or more of the major asset classes, such as buildings and/or land improvements.

Documentation to support Construction-Work-In-Progress must be maintained throughout the project in order to properly value the asset when construction is completed. Construction-Work-In-Progress information is usually maintained by OMB. However, any Organization that has responsibility for construction projects must follow the proper record management procedures. For a complete listing of documents to be maintained for CWIP, Organizations should refer to **Section 13.10.2 External Construction Program Filing System**.

At the close of the fiscal year, Organizations and OMB are responsible for reporting Construction-Work-In-Progress balances to DOA for inclusion in the State's financial statements. Organizations should provide all Construction-Work-In-Progress information for Organization-proprietary projects to DOA in the Organization's annual GAAP package.

Each local school district and Delaware Technical and Community College is responsible for the tracking and reporting of any educational Construction-Work-In-Progress projects, including additions, improvements, and renovations to existing buildings. The school's or college's Business Manager will report Construction-Work-In-Progress balances in the State's annual GAAP Package for inclusion in the State's financial statements. All documentation relating to the school's construction projects will be maintained at each school for audit purposes, until completion of a successful audit.

Completed construction projects are entered into the FSF AM module by DOA. The Organization responsible for the construction project must notify DOA that construction is complete and that the asset is ready to be placed into service. The asset must be added to the State's Capital asset listing in the same fiscal year that the project is removed from the Construction-Work-In-Progress list.

Asset values can be changed after the original capital asset has been added to the Capital asset listing. Any unpaid bills or retainage fees paid after the asset is transferred from the CWIP list to the Capital asset listing may only be added to the recorded value of the asset by DOA personnel. Organizations should contact DOA personnel for assistance.

Projects requiring Construction-Work-In-Progress tracking must meet the following criteria:

- The Project is intended to produce a capital asset upon completion.
- The estimated total cost of the project at completion is \$100,000 or greater.

- The project must not have a final inspection, in service, or occupancy date prior to the close of the fiscal year.

A project is considered **complete** when it is ready for its intended use and the status is changed to “in service” in FSF. For example, when a new building has received an occupancy certificate or the building is ready for its intended use, the Organization should remove the project from Construction-Work-In-Progress list and change the status of the project to “in service”. Organizations should then notify DOA of the change in status, so the asset may be added to the State's capital asset listing.

For example, if a building is ready for occupancy in May, but the employees do not move in until the following April, the building asset should be established in the FSF AM module in May. State Organizations should contact DOA for guidance if employees have questions as to whether or not a project is complete.

Costs not considered Construction-Work-In-Progress are:

Costs Not Considered Construction-Work-In-Progress
Audit Fees
Non-Construction Insurance Costs
Furniture Purchases
Equipment Purchases
Unpaid Bills
Encumbered Funds

13.10.2 Construction-Work-In Progress Program Filing System

Follow the procedures to effectively manage and control the use of funds allocated to construction projects in State Organizations. Keep all paper documents pertaining to construction separate and apart from all other General or Special Fund accounts. All projects within any given year’s program should have a separate, well-identified file.

Establish a centrally located Construction File, external to FSF, to include, but not necessarily be limited to, the following:

1. Copy of authorizing legislation for construction and a copy of any supplemental legislation affecting construction programs.
2. Copy of major capital improvement planning budget, as approved by the Delaware Economic Development Office, the State Architect, and the General Assembly.
3. Construction plans and specifications for projects covered by the Architectural Accessibility Act (**29 Del. C., c73**) must be submitted to the State Architectural Accessibility Board for review and approval prior to the start of construction.

Construction and renovation projects funded through the Capital Improvement Program, General Fund operational monies, or through bonds guaranteed in whole or in part by the State of Delaware fall within the purview of this Act.

4. Paper files and additional supporting documentation for each individual project to be retained include:
 - a. Division of Facilities Management Review and Approval;
 - b. Architectural Accessibility Board Review and Approval;
 - c. Professional Services Contract;
 - d. Legal Determinations;
 - e. Construction Contract;
 - f. Performance, Labor, and Material Bonds;
 - g. Contractors' Insurance Certificates are current by the expiration date, if a job is still in progress at such expiration date;
 - h. Purchase Orders, Payment Vouchers, and Books of Account, including any Department of Technology and Information reports, ledgers, or any other type of accounts used and any significant backup;
 - i. Change Orders, including any significant backup;
 - j. Job Meeting Minutes of any board, commission, committee, etc., having to do with planning, approving, or authorizing use of construction monies, if such entities exist;
 - k. Correspondence Detailing Significant Project Activities;
 - l. Certificate (Substantial Completion) and Permits (Building, Occupancy), including County or Regulatory Organization Signoffs;
 - m. Release of Liens and Affidavit of Contractor's Payment of Indebtedness;
 - n. Guarantees and Warranties;
 - o. Liquidated Damage Assessment;
 - p. Instructions to Bidders and Job Specifications;

- q. Bidders' Proposal;
- r. Subcontractors' Listing;
- s. Letter of Award
- t. Project-Related Shop Drawings;
- u. Code or Specification Required Certificates, Reports, Permits, or Inspections (Concrete, Geotech, Steel, etc.); and
- v. Special Reports (Engineering, Cost Analysis).

13.10.3 Software-Work-In-Process (SWIP)

The standard for capitalizing the costs of software developed or obtained for internal use is the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Uses. Under this standard, software projects are divided into three stages:

- Preliminary Project Stage;
- Application Development Stage; and
- Post-Implementation Operation (or Production) Stage.

Software projects with an estimated value of \$1,000,000 or more are capitalized. Only costs associated with the **Application Development Stage** are capitalized. These costs include the following activities:

Application Development Stage – Examples of Costs

Design of chosen path, including software configuration and software interfaces

Coding

Installation of hardware

Testing, including parallel processing phase

Vendor costs for commercially purchased software

Contractors or employee costs to implement and install commercially purchased software

Contractors or employee cost to design, program, install, and implement internally developed software

Salaries and fringe benefits costs for employee time spent directly coding and testing

External direct costs of material and services consumed in developing or obtaining software, such as fees paid to third parties for services and costs incurred to obtain the software from third parties

If the Project Costing module is utilized, when a project is complete, the State Organization responsible for the project changes the status of the project in the system's Project Costing module to in-service. In-service is when the end user begins using the software. The paid costs in the Application Development Stage must be tracked by the appropriate Organization using a tracking system like Construction-Work-In-Progress. (Organizations should refer to **Section 13.10.1** of this chapter.)

Costs that are associated with the **Preliminary Project Stage** and the **Post-Implementation Operation/Production Stage** are not capitalized. These costs are to be expensed as incurred.

Preliminary Project Stage – Examples of Costs

Conceptual formulation of alternatives

Evaluation of alternatives

Determination of existence of needed technology

Final selection of alternatives

Post-Implementation Operation/Production Stage – Examples of Costs

Training

Application maintenance

Costs of reengineering activities associated with new or upgrade software applications are not to be capitalized. General and administrative costs related to software development **are not** capitalized. These costs include heat, electric, rent, security, building maintenance or secretarial expenses. Cost of upgrades and enhancements to computer software are capitalized only if the upgrades or enhancements provide additional functionality, and the cost exceeds \$1,000,000.

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Chapter 14 – Payroll Compliance

14.1 Introduction

14.1.1 General

A significant percentage of the State of Delaware’s (State) annual operating budget is expended on Salaries and Other Employment Costs (OECs). Therefore, it is vital that the business processes associated with the administration of the State’s Payroll are grounded in strong policy with appropriate focus on regulatory requirements and internal controls.

The Division of Accounting (DOA) Payroll Compliance Group (PCG) provides information and guidance to State Organizations on how to properly administer Payroll functions while complying with applicable laws, rules, and regulations. Instructions in this chapter are in compliance with State of Delaware and Federal laws and regulations. State laws that apply to the administration of Payroll are found in Title 29 of the Delaware Code (Code). Specific Code references on a variety of topics may be found in PCG Bulletins accessible on the DOA website.

14.2 Payroll Expenditure Controls & Authorizations

14.2.1 Controls

DOA sets policies to ensure effective controls are in place governing all State financial activities including the expenditure of funds associated with the State’s Payroll process. For additional information about the payroll authorization process, refer to the PCG Payroll Policy: Payroll Expenditure Authorization (PCG-PRAUTH):

http://www.accounting.delaware.gov/payroll_comp/policies.shtml

Organizations are required to have in place and enforce effective internal controls to monitor Payroll-related transactions. These internal controls must be documented in a Payroll Internal Controls Plan on file with the Division of Accounting, Payroll Compliance Group. Controls must include, but are not limited to, the review and approval of all wage payments, preapproval of overtime, docking, and leave usage for employees.

Organizations should ensure an appropriate segregation of duties and monitoring throughout the payroll process. This includes establishing separate roles within the Organization for payroll approvers and payroll processors. Under no circumstances should an Organization’s payroll expenditures be approved by the individual who processes payroll transactions in the Payroll Human Resource Statewide Technology (PHRST) system for that pay period.

At a minimum, the following activities should be segregated:

- Segregate time-keeping and supervision functions from personnel, payroll processing, disbursement and general ledger functions.
- Individuals responsible for hiring, terminating and approving promotions should not be directly involved in preparing payroll transactions or inputting data.
- Individuals approving time sheets should not prepare or enter payroll transactions.
- Individuals performing payroll data entry should not have payroll approval authority.

Organizations that cannot segregate duties or implement appropriate controls must submit a written notice to the attention of the Director of Accounting acknowledging such control deficiencies. The memo must be signed by the Organization Head or Division Director.

14.2.2 Expenditures

Organizations have recurring biweekly funding expenditures related to the payment of salaries and premium pays (Shift, Hazard, Board Certified, etc.) owed to employees in authorized positions for time worked in the current pay period. These salary expenditures are approved in the annual Budget Appropriation Bill and by local School District authorities. Therefore, biweekly funding expenditures supporting these recurring payments are considered preapproved through those processes. All Organizations are expected to stay within their annual appropriations for salaries as well as authorized positions.

Organizations must use the **Confirm** version of the PHRST DocumentDirect report **DPR003 – Payroll Expenditures by Appropriation** to authorize payroll funding expenditures and certify that there are sufficient appropriated funds to cover the expenditures.

All payroll-related expenditures must be certified by an approving authority that the charges for the current pay period for the Organization meet all federal and state, legal and regulatory requirements and that the represented expenditures do not exceed the remaining balance of funds appropriated by the General Assembly.

Due to processes dependent upon the timely posting of the Payroll Journal to the General Ledger, the Director of the Division of Accounting, with the authority of the Secretary of Finance, approves and processes the Payroll Journal for the State of Delaware, through the State's financial management and accounting system, First State Financials (FSF), prior to the pay date on a biweekly basis with the expectation that Organizations follow the aforementioned laws and policies for the payment of salaries.

14.3 Payroll Signature Cards

Organizations submit new Payroll Signature Cards annually by July 1st. Organizations that fail to submit new Signature Cards by the July 1st deadline risk a negative finding in the annual CAFR audit. Cards are signed by all individuals authorized by the Organization Head to expend funds for the Department IDs listed on the card. The Organization Head is required to sign with a LIVE signature to indicate authorization of all signers to expend funds.

School Districts and Higher Education facilities must submit new signature cards any time new School Boards are organized.

Contact the Payroll Compliance Group for a blank signature card.

The Uniform Electronic Transactions Act, Title 6, Chapter 12A of the Delaware Code, allows for an electronic signature to authorize financial transactions. Authorized signers submit an electronic approval of biweekly payroll expenditures by sending an email to the PCG that includes the verbiage below with a list of the covered Department IDs:

To: PRFUND.AUTH@state.de.us

Subject: Payroll Funding Expenditures Authorization

I, _____ (Signer), certify that the associated charges for the Pay Period ending _____ (Pay Period End Date) for the Department IDs listed below meet all federal and state legal and regulatory requirements and that the represented expenditures **do not exceed** the remaining balance of funds appropriated by the General Assembly to this Organization.

14.3.1 Future Expenditures Considerations

Any State of Delaware Organization paying employees from authorized funding sources (general, local, federal funds or capital improvement debt appropriations) are required by Delaware Code to monitor expenditures against these funding sources to ensure balances do not go into a negative condition.

Authorizers must consider the remaining pay periods in the fiscal year to ensure anticipated expenditures will not exceed appropriated balances.

14.4 Direct Deposit Compliance

Method of payment of State officials and employees:

(f)(1) Notwithstanding any other provision of law, all state wage and salary payments shall be paid to employees who begin to receive such payments on or after January 1, 1996, and recipients of

state retirement payments who begin to receive such retirement payments on or after January 1, 1996, by electronic funds transfer, unless another method has been determined by the Secretary of Finance to be appropriate.

- (2) Each recipient of state wage, salary or retirement payments shall designate 1 financial institution and associated account and provide the payment authorizing information necessary for the recipient to receive electronic funds transfer payments through each institution so designated.
- (3) The Secretary of Finance may waive the requirements of paragraph (f)(1) of this section for any state employee upon request by the head of an agency or school district under standards prescribed by the Secretary of Finance.

(29 Del. C. § 2712)

14.4.1 Components of Direct Deposit Compliance

- Participation in Direct Deposit is a mandatory condition of employment with the State of Delaware.
- New employees must participate in Direct Deposit within 3 pay periods of their hire date.
- Direct Deposit exemptions: Grandfathered employees, attachés, student workers, tutors, aides, substitutes or casual/seasonal employees (term not to exceed two months).
- All other employees must participate in Direct Deposit or submit a request to waive the requirement which must be approved by both the Head of the employing Department and the Secretary of Finance, refer to the PCG Payroll Policy: Direct Deposit Waiver – PCG-DDWVR:
http://www.accounting.delaware.gov/payroll_comp/policies.shtml.
- Organization Human Resources/Payroll representatives are responsible for ensuring employees adhere to the Direct Deposit rule.
- The Payroll Compliance Group (PCG) monitors a master list of all direct deposit non-participants and reviews it for any new entries. The PCG contacts the Organization regarding any employee who is not in compliance with the law, refer to the PCG Payroll Policy: Mandatory Direct Deposit Participation Enforcement & Escalation Process – PCG-DDMPE:
http://www.accounting.delaware.gov/payroll_comp/policies.shtml.

14.5 Non-Resident Employment

The US Department of State administers the J1 Exchange Program under the provisions of the Mutual Educational and Cultural Exchange Act of 1961. The State of Delaware participates in this program by employing teachers and professors who are residents of other countries and are in the United States on a J-1 Visa.

The U.S. has income tax treaties with a number of foreign countries. Under these treaties, pay of professors and teachers who are residents of certain countries is generally exempt from U.S. income tax for 2 or 3 years if the employee temporarily visits the U.S. to teach or do research. These reduced rates and exemptions vary among countries and specific items of income. If there is no treaty between a country and the U.S., employees must pay income tax on the wages.

For detailed information on the exchange program and guidance on employment taxes and OECs for residents of China, France, or Spain, refer to PCG Bulletin #2012_001 – Non-Resident Alien Teachers: http://www.accounting.delaware.gov/payroll_comp/comm/bulletins_archive.shtml.

Contact the PCG for guidance on foreign employees who are residents of other countries.

14.6 Fringe Benefits

Fringe benefits include any compensation other than cash wages. The general rule is that the compensation is taxable; however, the Internal Revenue Code provides exclusions for numerous forms of noncash compensation provided to employees. Taxation rules vary according to the circumstances and business process associated with a specific fringe benefit.

Federal laws and regulations take precedence over any State regulations or employment or union contracts in determining if fringe benefits are taxable income.

Reference: Publication 15-B – Employer’s Tax Guide To Fringe Benefits:
<http://www.irs.gov/publications/p15b/ar02.html>

14.6.1 Clothing/Uniform/Footwear

Some Organizations employ individuals whose specialized job requirements include issuance and/or care and upkeep of uniforms, clothing, or footwear, or cash allowances for the purchase of these items.

- Periodic allowance payments made to employees for the purchase and maintenance of specific articles of employer-required uniforms are not taxable to the employees provided the uniforms are not adaptable to general use, and are not worn for general use. In addition, the employees must substantiate the expenses. If the employer does not

require substantiation, the allowance is taxable as wages and subject to withholding when paid.

- If it is determined that the clothing qualifies as a taxable fringe benefit, then the IRS requires that the fair market value be included on the employee's W-2 and withholdings be deducted.
- **PCG Bulletin 2013_002 – Uniform & Clothing Allowance Fringe Benefits** includes guidance on determining if the Uniform/Clothing is a taxable fringe benefit or a working condition fringe benefit.
http://www.accounting.delaware.gov/payroll_comp/comm/bulletins_archive.shtml
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14.6.2 Commuting Use of a State Provided Vehicle

- Commuting is the only authorized “personal use” of State-owned vehicles, pursuant to the State Policies, Procedures, and Standards, issued by the Government Support Services (GSS), Office of Fleet Management. Delaware Code provides for fines for any violations of this policy.
- Organizations must maintain current and accurate records of employees who are provided a State vehicle. For any part of a vehicle's usage to be considered non-taxable, Organizations should only provide vehicles to those employees whose job duties require the use of a vehicle. If the vehicle is used for both business and personal travel, the employee must account for the business use to the employer.
- Commuting and all other personal use of a State-provided vehicle is a taxable fringe benefit. All passengers commuting in a State vehicle, with the exception of vanpools, are subject to all the same taxable income rules. The IRS requires that the calculated value of commuting use of a State-provided vehicle be included on the employee's W-2 and withholdings be deducted.
- The State uses the Special Accounting Period Rule which makes November 1 - October 31 the taxable year for reporting commuting use.
- For detailed information on Vehicle Usage and guidance on associated employment taxes and OECs, refer to PCG Payroll Policy: Vehicle Usage – PCG-VEHUSE:
http://www.accounting.delaware.gov/payroll_comp/policies.shtml
- For detailed information on entering Vehicle Usage imputed income in the PHRST system, refer to PHRST Payroll Policy: Vehicle Usage – PRU-VEH-01.
<http://extranet.phrst.state.de.us/production/procedures.shtml>

14.6.3 Meal Provisions

To determine if a meal is allowable, Organizations should refer to **Chapter 7 – Purchasing and Disbursements, Section 7.6.6.2**. If the Organization determines the meal or meal reimbursement is allowable, the following must be considered to determine if there are tax implications to the employee.

- To determine if meal reimbursements are excludable from gross income, employers must consider general fringe benefit rules as well as regulations included in several sections of the Internal Revenue Code.
- Provision of infrequent meals of minimal value may be excluded as de minimis fringe benefits if it is unreasonable or impractical to account for the food.
- The value of occasional meals provided during employer-required overtime is excludable from wages. Refer to the Office of Management and Budget (OMB) Meal Reimbursement Policy for guidelines for the reimbursement of meals when working overtime. <http://intranet.omb.state.de.us/policies/index.shtml>
- The value of meals provided for the convenience of the employer is generally excludable from wages.
- Meal expense reimbursements or allowances must meet the accountable plan rules in order to be excludable from wages.
- For detailed information on Meal provisions and guidance on associated taxes and OECs, refer to PCG Bulletin # 2012_004 – Meal Provisions. http://www.accounting.delaware.gov/payroll_comp/comm/bulletins.shtml
- Refer to **Chapter 11 - Travel Policy**, for the policy on reimbursement of meal expenses incurred during out-of-state travel.

14.6.4 Tuition Reimbursement

- Internal Revenue Code (IRC) §132(d) (Education as Working Condition Fringe Benefit) provides an exclusion from gross income of reimbursements of expenses for job-related courses.
- IRC §127 (Qualified Educational Assistance Program) provides an exclusion of up to \$5,250 per calendar year for amounts paid by an employer through a sponsored educational assistance program. Qualified education expenses include tuition, fees, books, and supplies for both undergraduate and graduate education.

- The IRS requires that §127 Education Assistance Programs have a separate written plan. In the absence of a written plan, reimbursements for non-job-related courses are taxable.
- As a benefit to State employees, Organizations may provide Educational Assistance and/or Tuition Reimbursement, provided the funds are available in the budget.
- **PCG Bulletin 2013_001 – Education Assistance/Tuition Reimbursement** includes guidance on determining if the education assistance is a taxable fringe benefit or a [working condition fringe benefit](http://www.accounting.delaware.gov/payroll_comp/comm/bulletins.shtml).
http://www.accounting.delaware.gov/payroll_comp/comm/bulletins.shtml

14.6.5 Definitions

- **De Minimis Fringe Benefit** – any property or service with a value so small it is unreasonable or impractical to account for it.
- **Accountable Plan** – meets the IRS requirements that reimbursed expenses are business related and substantiated with receipts.
- **Nonaccountable Plan** – reimbursements for nonbusiness-related expenses or expenses not substantiated with receipts. These reimbursements are taxable income.
- **In-Kind** – payments made in something other than cash.
- **Working Condition Fringe Benefit** – employer-provided items that would be deductible by an employee as a business expense if they had incurred the cost. These types of benefits are excludable from income per IRC §132(d). The general rules are that the benefit must be provided so the employee can perform his or her job and the allowances and reimbursed expenses must be substantiated with reports and/or receipts.