

Northeast South Dakota Head Start Program, Inc.
Procurement Policies and Procedures

Overview

*NOTE*** DUE TO TRAINING NEEDS, ADJUSTMENTS AND TIME RESTRAINTS NEEDED TO COMPLY AND IMPLEMENT "PROCUREMENT STANDARDS" AS OUTLINED IN 45 CFR PART 75.327 – 75.335, THE NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC. SHALL UTILIZE THE "THREE YEAR GRACE PERIOD" EXTENDED TO NON-FEDERAL ENTITIES FOR PROCUREMENT. AS A RESULT, THE NEW EFFECTIVE DATE FOR IMPLEMENTING AND ADOPTING THE NEW "PROCUREMENT REQUIREMENTS" SHALL BE NOVEMBER 1, 2018 FOR THE NORTHEAST SOUTH DAKOTA HEAD START PROGRAM, INC.

The Northeast South Dakota Head Start Program, Inc. requires the practice of ethical, responsible and reasonable procedures related to purchasing, agreements and contracts and related forms of commitment. The Policies in this section describe the principles and procedures that all staff shall adhere in the completion of their designated responsibilities.

The goal of these Procurement Policies is to ensure that materials and services are obtained in an effective manner and in compliance with the provisions of applicable federal statutes and grant requirements. (45 CFR Part 75.327 – 75.335)

Responsibility for Purchasing

All department heads or their designees shall have the authority to initiate purchases on behalf of their department, within the guidelines described here. Managers shall inform the Finance Office of all individuals that may initiate purchases or prepare purchase orders.

The Accounting Office shall be responsible for processing purchase orders. The Executive Director has approval authority over all purchases and contractual commitments and shall make the final determination on any proposed purchases where budgetary or other conditions may result in denial.

Code of Conduct

Ethical conduct in managing the Program's purchasing activities is absolutely essential. Staff must always be mindful they represent the Board of Directors and they share a professional trust with other staff and funding sources.

- No employee, officer, or agent shall participate in the selection, award, or administration of a contract if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or any member of his or her immediate family, his or her

spouse or partner, or an organization, which employs or is about to employ any member of the parties indicated herein, has a financial or other interest in the contractor selected.

- Staff shall discourage the offer of, and decline, individual gifts or gratuities of that might influence the purchase of supplies, equipment, and/or services.
- No employee, members of the Grantee Governing Board or Policy Council of the Program shall solicit or accept personal gratuities, favors or anything of significant monetary value from contractors, potential contractors or outside agencies or businesses.
- Staff shall notify their immediate supervisor, Executive Director, or Human Resource Manager if they are offered such gifts
- Unsolicited gifts with a value of \$25 or less (IRS rule) may be accepted. (Examples: refreshments and food provided at conferences, giveaways at conferences, lunch, cup of coffee, etc.)
- All procurement transactions, whether negotiated or advertised, and regardless of dollar value must be conducted in a manner providing maximum open and free competition.
- Requests for bids will contain clear specifications and the requests for bids will not contain features, which unduly restrict competition.
- Positive efforts will be made to use area small and minority owned businesses.

Employees who do not comply with the Procurement Code of Conduct will be subject to disciplinary action, which may include termination of employment. NESDHS will disclose, in a timely manner, in writing to the awarding agency or pass-through entity violations of Federal criminal law involving fraud, bribery or gratuity violations.

Competition

In order to promote open and full competition, purchasers will:

- All procurement transactions, whether negotiated or advertised, and regardless of dollar value shall be conducted in a manner to provide, to the maximum extent practical, open and free competition;
- Be alert to any internal potential conflicts of interest;
- Recipient shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict or eliminate competition;
- Awards shall be made to the bidder or offeror whose bid is responsive to the solicitation and is most advantageous to the recipient, price, quality and other factors considered;
- Solicitations shall clearly set forth all requirements that the bidder or offeror shall fulfill in order for the bid or offer to be evaluated by the recipient;
- Any and all bids or offers may be rejected if it is in the program's best interest to do so;
- Not permit contractors who develop specifications, requirements, or proposals to bid on such procurements;
- Not give preference to state or local geographical areas unless such preference is

- mandated by federal statute;
- “Name brand or equivalent” description may be used as a means to define the performance or requirements.

Nondiscrimination Policy

All contractors who are the recipients of Program funds or who propose to perform any work or furnish any goods under agreements with the Northeast South Dakota Head Start Program, Inc. shall agree to these important principles:

1. Contractors will not discriminate against any employee or applicant for employment because of race, religion, color, sexual orientation, or national origin, except where religion, sex, or national origin is bona fide occupational qualification reasonably necessary to the normal operation of the contracts.
2. Contractors agree to post in conspicuous places, available to employees and applicants for employment, notices setting forth the provisions of this nondiscrimination clause. Notices, advertisements, and solicitations placed in accordance with federal law, rule, or regulation shall be deemed sufficient for meeting the intent in this section.

Procurement Policies

The following are the Northeast South Dakota Head Start Program, Inc.’s Procurement Procedures:

1. Northeast South Dakota Head Start Program, Inc. shall avoid purchasing items that are not necessary or for the performance of the activities required by a federal award. *45 CFR Part 75.327*.
2. Where appropriate, an analysis shall be made of lease and purchase alternatives to determine which would be the most economical and practical procurement for the federal government. This analysis should only be made when both lease and purchase alternatives are available to the Program.
3. Purchasers are encouraged to enter into state and local inter-governmental or inter-entity agreements where appropriate for procurement or use of common or shared goods and services.
4. Purchasers are encouraged to use federal surplus property in lieu of purchasing new equipment and property whenever feasible. To search for federal excess and surplus property, go to www.gsa.gov and the GSA auctions website.
5. Solicitations for goods and services provide for all of the following:
 - 1) A clear and accurate description of the technical requirements in terms of functions to be performed or performance required, including the range of acceptable characteristics or minimum acceptable standards.
 - 2) The specific features of "brand name or equal" descriptions that bidders are

required to meet when such items are included in solicitation.

- 3) The acceptance, to the extent practicable and economically feasible, for products and services that conserve natural resources and protect the environment and are energy efficient.
- 4) Positive efforts shall be made by recipients to utilize small businesses, minority-owned firms, and women's business enterprises, and labor surplus firms whenever possible and used to the fullest extent practicable.
- 5) The type of procuring instrument used shall be determined by the recipient but shall be appropriate and for the best interest of the program.
- 6) Contracts shall be made only with responsible contractors who possess the potential ability to perform successfully under the terms and conditions of the proposed procurement. Consideration shall be given to such matters as contractor integrity, record of past performance, and accessibility to necessary resources.
- 7) No contract shall be made to the parties listed on the General Services List of Parties Excluded from Federal Procurement or Non procurement programs. A list of "Excluded Parties" can be found at www.sam.gov
- 8) Program will make available all procurement documents to HHS, upon request
6. Some form of cost or price analysis shall be made and documented in the procurement files as described in procedures.
7. Procurement records and files for purchases in excess of the simplified acquisition threshold shall include the following at a minimum: a) basis for contractor selection or rejection, (b) justification for lack of competition when competitive bids are not obtained, (c) basis for contract price, (d) Rational for the method for procurement, and (e) selection of contract type.
8. Purchases will be made from vendors in Program service area whenever possible
9. Northeast South Dakota Head Start shall make all procurement files available for inspection upon request by a federal or pass-through awarding agency.
10. Northeast South Dakota Head Start shall not utilize the cost-plus-a- percentage-of – costs or percentage of construction cost methods of contracting.
11. All staff members with the authority to approve purchases will receive a copy of , , and be familiar with, 2 CFR Part 200.400-475, Cost Principles

All pre-qualified lists of persons, firms or products which are used in acquiring goods and services will be current and include enough qualified sources to ensure maximum open and full competition.

Informal

Under \$10,000 - Informal purchasing procedures will be used for purchases under \$10,000. Approved vendor lists and supply item catalogs will be consulted and compared. Small everyday purchases (i.e., food, cleaning supplies, etc.) will not be subject to competitive purchasing. Purchases are authorized by the Executive Director.

\$10,000 - \$49,999 the purchaser will obtain a minimum of two price quotes (oral, catalogue, internet, written or verbal). The purchase decision will be made on the basis of price, all other features being equal. Purchases are authorized by the Executive Director and/or the dept. manager.

\$5,000 and up- Equipment purchased per unit will have approval from the Regional office

\$50,000 - \$100,000 – The purchaser will obtain and maintain a record a minimum of three written quotations (catalogue, internet, or written) from an approved vendor list. The purchase decision will be made on the basis of price, all other features being equal. Purchases are authorized by the Executive Director and approved by the Board of Directors.

Formal

\$100,001 or Greater – Purchase of items costing over \$100,001 will be subject to the formal bidding process. Invitation for bids and/or requests for proposals are solicited. Solicitations will contain all the requirements that a bidder must comply with in order to be considered and will not contain features which restrict competition or contain unreasonable requirements. It will also contain specific feature of "brand name or equal" descriptions that bidders are required to meet if applicable, and the acceptance if economically feasible or practical, of products and services dimensioned in the metric system measurement. Preference, to the extent practicable and economically feasible, will be given to products and services that conserve natural resources and protect the environment and are energy efficient. It will also contain a statement that it is the right of the Program to reject any or all bids that is not in the best interest of the agency. The advertisements for bids will be carried in newspapers or mailed to all vendors or dealers in the Program service area.

The selection of the bid will be based on the best price from the supplier that is most responsive to the terms and conditions of the advertisement taking into consideration what is most advantageous to the Program with price and all other factors considered. Purchase is authorized by the Executive Director and approved by the Board of Directors.

These procedures will be reviewed periodically to insure that the best interest of the Program is being met.

A price analysis will be conducted for the purchase of equipment and supplies and a cost analysis will be conducted for consultants and other services for negotiated procurements (those that do not involve the bidding process). The following exceptions to the procedures will be allowed within these limits, but will be reviewed periodically by the next higher authority:

1. The item is only available from one source (following the sole source restrictions).
2. The need is urgent enough not to permit the delay necessary for the competitive purchasing procedures.

3. The items or services are of such nature that long-range purchasing plans cannot be made.

When making non-competitive purchases, a regular review will be made to insure that prices are competitive and suppliers are offering the best possible price for the quantity purchased and are making the Program aware of lower prices when available.

Internal and external audits will be conducted to determine if noncompetitive purchasing exist.

Authorizations and Purchasing Limits

All completed purchase orders must be signed by the preparer and approved by a Department Manager or Executive Director. The following table lists required approval levels and solicitation processes:

Amount of Purchase	Required Approvals	Required Solicitation	Required Documentation
< \$10,000	Purchaser and Dept. Manager or Executive Director	Discretion of Purchaser Purchases will be distributed equitably among qualified suppliers whenever feasible.	<ul style="list-style-type: none">• Receipt or Invoice and approved purchase order
\$10,001 - \$49,999	<ul style="list-style-type: none">• Dept. Manager• Executive Director	2 Price quotes (oral, catalogue, Internet, written, or verbal)	<ul style="list-style-type: none">• Receipt, Invoice, and Purchase order
\$5,000 and up	<ul style="list-style-type: none">• Regional Office• Board of Directors	2 written quotes (catalogue, internet, written) Qualified Vendor	<ul style="list-style-type: none">• Copy of Quotes• Invoice• Purchase Order
\$50,000 to \$100,000	<ul style="list-style-type: none">• Dept. Manager or Executive Director• Board of Directors	3 written quotes from (catalogue, Internet, written) Qualified Vendor	<ul style="list-style-type: none">• Copy of Quotes• Invoice• Purchase Order

Amount of Purchase	Required Approvals	Required Solicitation	Required Documentation
Greater than \$100,000	<ul style="list-style-type: none"> • Executive Director • Board of Directors 	Qualified Vendors, Invitation for Bids, or Request for Proposal	<ul style="list-style-type: none"> • Copy of Written Proposals • Documentation for Selection of Awards • Copy of Bids

Use of Purchase Orders

The Northeast South Dakota Head Start Program, Inc. utilizes a purchase order system. A properly completed purchase order shall be required for each purchase decision (i.e., total amount of goods and services purchased, not unit cost) in excess of \$100, with the exception of travel advances, expense reimbursements and oil changes. A properly completed purchase order shall contain the following information, at a minimum:

1. Specifications or statement of services required
2. Vendor/Contractor name
3. Net price per unit, less discount, if available at time of purchase
4. Total amount of order or estimate provided by vendor for scope of work
5. Authorized signatures by the person ordering and the Executive director
6. Date purchase order was prepared

Purchase orders shall be pre-numbered, kept in a secure area in the Accounting Office, and issued upon request from an authorized purchaser.

At the end of each accounting period, all aged outstanding purchase orders shall be looked at by the purchasing representative and the Business Manager to see what needs to be done to fulfill them.

Solicitation for Goods or Services or RFPs

Solicitations for goods and services, or RFPs, should provide for all of the following:

1. A clear and accurate description of the technical requirements for the material, product, or service to be procured. Descriptions shall not contain features which unduly restrict competition.
2. Requirements which the bidder/offerer must fulfill and all other factors to be used in evaluating bids or proposals.
3. Technical requirements in terms of functions to be performed or performance required, including the range of acceptable characteristics or minimum acceptable standards.

4. The specific features of "brand name or equal" descriptions that bidders are required to meet when appropriate.
5. The acceptance, to the extent practical and economically feasible, of products and services dimensioned in the metric system of measurement.
6. Preference, to the extent practical, for products and services that conserve natural resources, protect the environment, and are energy efficient.
7. Positive efforts shall be made by recipients to utilize small businesses, minority-owned firms, and women's business enterprises, whenever possible.
8. Preference for recycled products pursuant to EPA Guidelines.
9. A description of the format, if any, in which proposals must be submitted, including the name of the person to whom proposals should be sent.
10. The date by which proposals are due.
11. Required delivery or performance dates/schedules.
12. Clear indications of the quantity (ies) requested and unit(s) of measure.

Extension of Due Dates and Receipt of Late Proposals

Solicitations should provide for sufficient time to permit the preparation and submission of offers before the specified due date. However, an extension may be granted if a prospective offerer so requests.

Contractor proposals are considered late if received after the due date and time specified in the solicitation. Late proposals shall be so marked on the outside of the envelope and retained, unopened, in the procurement folder. Contractors that submit late proposals shall be sent a letter notifying them that their proposal was late and could not be considered for award.

Evaluation of Alternative Contractors

Contractors shall be evaluated on a weighted scale that considers some or all of the following criteria as appropriate for the purchase:

1. Adequacy of the proposed methodology
2. Skill and experience of key personnel
3. Demonstrated experience
4. Other technical specifications designated by the department requesting proposals
5. Compliance with administrative requirements of the request for proposal (format, due date, etc.)
6. Contractor's financial stability

7. Contractor's demonstrated commitment to the nonprofit sector
8. Results of communications with references supplied by vendor
9. Ability/commitment to meeting time deadlines
10. Cost
11. Minority- or women-owned business status of vendor
12. Other criteria (to be specified by the department requesting proposal)

Not all of the preceding criteria may apply in each purchasing scenario. However, the department responsible for the purchase shall establish the relative importance of the appropriate criteria prior to requesting proposals and shall evaluate each proposal based on the criteria and weighting that have been determined.

After a contractor has been selected and approved by the Program Manager, the final selection shall be approved by others according to Northeast South Dakota Head Start Program, Inc.'s purchasing approval policies.

Contract Administration

A system for contract administration shall be maintained to ensure contractor conformance with the terms, conditions and specifications of the contract and to ensure adequate and timely follow up.

The Northeast South Dakota Head Start Program, Inc. is required to have policies and procedures on contract administration. Therefore, all contract managers will adhere to the following procedures:

1. Contract administration files shall be maintained:
 - a. For each contract greater than [\$10,000] a separate file shall be maintained.
 - b. For contracts less than [\$10,000], contract records may be combined in a single file by grant or other funding source.
2. Contract administration files shall contain:
 - a. The required documentation specified in the authorizations and purchasing limits table for the original scope of work and for all amendments.
 - b. Where the contract work is identified in the grant award or budget, the identification and scope of the work contained in the award or budget, and all approved changes.
3. Authorization of work:
 - a. No work shall be authorized until the contract for the work has been approved and fully executed.
 - b. No change in the work shall be authorized until an amendment to the contract for the work has been approved and fully executed, except as permitted for Special Purchasing Conditions.
 - c. No amendment of a contract for work shall be executed until it has been approved and authorized as required in the Authorizations and Purchasing Limits table and, where required by the terms of the grant award or budget, approval by the funding source.

4. Conformance of work:
 - a. For each grant award, based on the applicable laws, regulations and grant provisions, the Executive Director shall establish and maintain a system to reasonably assure contractor:
 - i. Conformance with the terms, conditions, and specifications of the contract, and
 - ii. Provides timely follow-up of all purchases to assure such conformance and adequate documentation.
5. The Executive Director will authorize payment of invoices to contracts after final approval of work products.

Provisions Included in All Contracts

The Northeast South Dakota Head Start Program, Inc. includes all of the following provisions, as applicable, in all contracts charged to federal awards with contractors and sub grants to grantees:

1. **Contracts** for more than the simplified acquisition threshold currently set at \$150,000 must address administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as appropriate.
2. All contracts in excess of \$10,000 must address termination for cause and for convenience by the non-Federal entity including the manner by which it will be effected and the basis for settlement.
3. **Equal Employment Opportunity:** All contracts shall contain a provision requiring compliance with E.O. 11246, "Equal Employment Opportunity," as amended by E.O. 11375, "Amending Executive Order 11246 Relating to Equal Employment Opportunity," and as supplemented by regulations at 41 CFR Part 60, "Office of Federal Contract Compliance Programs, Equal Employment Opportunity, Department of Labor."
4. **Davis-Bacon Act, as amended (40 U.S.C. 276a to a-7):** When required by Federal program legislation, all prime construction contracts of more than \$2,000 awarded by the Northeast South Dakota Head Start Program, Inc. and its sub recipients shall include a provision for compliance with the Davis-Bacon Act (40 U.S.C. 276a to a-7) and as supplemented by Department of Labor regulations (29 CFR part 5, "Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction").

5. The contracts must also include a provision for compliance with the **Copeland “Anti-Kickback” Act (40 U.S.C. 3145)**, as supplemented by Department of Labor regulations (29 CFR part 3). The act provides that each contractor or sub recipient must be prohibited from inducing, by any means, any person employed in the construction, completion, or repair of public work, to give up any part of the compensation to which he or she is otherwise entitled.
6. **Contract Work Hours and Safety Standards Act (40 U.S.C. 327-333):** Where applicable All contracts awarded by the Northeast South Dakota Head Start Program, Inc. in excess of \$2,000 for construction contracts and in excess of \$2,500 for other contracts that involve the employment of mechanics or laborers shall include provisions concerning overtime pay and working conditions in compliance with Sections 102 and 107 of the Contract Works Hours and Safety Standards Act (40 U.S.C. 3702 and 3704), as supplemented by Department of Labor regulations (29 CFR part 5).
7. **Rights to Inventions Made Under a Contract or Agreement:** Contracts or agreements for the performance of experimental, developmental or research work shall provide for the rights of the Federal Government and the recipient in any resulting invention in accordance with 37 CFR Part 401, "Rights to Inventions Made by Nonprofit Organization and Small Business Firms Under Government Grants, Contracts and Cooperative Agreements," and any implementing regulations issued by the award agency.
8. *Clean Air Act (42 U.S.C. 7401 et seq.) and the Federal Water Pollution Control Act (33 U.S.C. 1251 et seq.), as amended:* Contracts and sub grants of amounts in excess of \$150,000 shall contain a provision that requires the recipient to agree to comply with all applicable standards, orders, or regulations issued pursuant to the Clean Air Act (42 U.S.C. 7401 et seq.) and the Federal Water Pollution Control Act, as amended (33 U.S.C. 1251 et seq.). Violations must be reported to the federal awarding agency and the Regional Office of the Environmental Protection Agency (EPA).
8. **Mandatory** standards and policies relating to energy efficiency which are contained in the state energy conservation plan issued in compliance with the Energy Policy and Conservation Act (42 U.S.C. 6201).
8. **Byrd Anti-Lobbying Amendment (31 U.S.C. 1352):** For all contracts or sub grants of \$100,000 or more, the Northeast South Dakota Head Start Program, Inc. shall obtain from the contractor or sub grantee a certification that it will not and has not

used federal appropriated funds to pay any person or organization for influencing or attempting to influence an officer or employee of any agency, a member of Congress, officer or employee of Congress, or an employee of a member of Congress in connection with obtaining any federal contract, grant, or any other award covered by 31 U.S.C. 1352.

8. Debarment and Suspension: The Northeast South Dakota Head Start Program Inc. must not make a contract award to the parties listed on the government-wide exclusions in the System for Award Management (SAM), in accordance with E.O.'s 12549 and 12689, "Debarment and Suspension." SAM Exclusions contains the names of parties debarred, suspended, or otherwise excluded by agencies, as well as parties declared ineligible under statutory or regulatory authority other than E.O. 12549. A list of excluded parties can be found at www.sam.gov.

Special Purchasing Conditions

Emergencies:

Where equipment, materials, parts and/or services are needed, quotations will not be necessary if the health, welfare, safety, etc. of staff and protection of Program property is involved. The reasons for such purchases will be documented in the procurement file.

Single distributor/Source:

Sole source purchases may be made when one or more of the following circumstances apply:

- The item or service is only available from a single source;
- The situation is an emergency and will not permit a delay resulting from competitive solicitation;
- The awarding agency expressly authorizes a noncompetitive proposal in response to a written request; or
- After solicitation, competition is deemed inadequate (insufficient bidders).

Approval from the awarding agency may be required.

Right to Audit Clause

The Northeast South Dakota Head Start Program, Inc. requires a "Right to Audit" clause in all contracts between the Organizations and vendors that either:

1. Take any form of temporary possession of assets directed for the Organization, or
2. Process data that will be used in any financial function of the Organization.

This Right to Audit clause shall permit access to and review of all documentation and processes relating to the contractor's operations that apply to the Northeast South Dakota Head Start Program, Inc., as well as all documents maintained or processed on behalf of

the Northeast South Dakota Head Start Program, Inc., for a period of three years. The clause shall state that such audit procedures may be performed by the Northeast South Dakota Head Start Program, Inc. employees or any outside auditor or contractor designated by the Organization.

Verification of New Contractor

The Business Manager will perform additional procedures to validate the legitimacy of new contractors that shall be paid one-time or cumulative payments in excess of \$25,000. For such contractors, the Business manager shall perform a public records search and shall contact the contractor to validate its existence

Procurement Grievance Procedures

Any bidder may file a grievance with the Northeast South Dakota Head Start Program, Inc. following a competitive bidding process. Once a selection is made, bidders must be notified in writing of the results. The written communication mailed to bidders must also inform them that they may have a right to appeal the decision. Information on the organization's appeal procedures must be made available to all prospective contractors or sub grantees upon request, including the name and address of a contact person, and a deadline for filing the grievance.

Grievances are limited to violations of federal laws or regulations, or failure of the Organization to follow its own procurement policies.

Receipt and Acceptance of Goods

The office assistant shall inspect all goods received. Upon receipt of any item from a vendor/contractor, the following actions shall immediately be taken:

1. Review bill of lading for correct delivery point.
2. Verify the quantity of boxes/containers with the bill of lading.
3. Examine boxes/containers for exterior damage and note on the bill of lading any discrepancies (missing or damaged boxes/containers, etc.).
4. Sign and date the bill of lading.
5. Remove the packing slip from each box/container.
6. Compare the description and quantity of goods per the purchase order to the packing slip.
7. Examine goods for physical damage.
8. Count or weigh items, if appropriate, and record the counts on the purchase order.

This inspection must be performed in a timely manner to facilitate prompt return of goods and/or communication with vendors/contractor.

Dispositions of Equipment & Other Items

If equipment is sold, scrapped, donated, or stolen, adjustments need to be made to the fixed asset listing and property log. If money is received for the asset, then the difference between the

amount received and the "book value" (purchase price less depreciation) of the asset will be recorded as a loss (if the money received is less than the book value) or a gain (if the money received is more than the book value). Federal Regulations require prior written approval from our funding source to dispose, trade, or sell equipment with a fair market value of greater than \$5000.

For equipment (or residual inventories of supplies) with a remaining per unit fair market value of \$5,000 or less, the Northeast South Dakota Head Start Program, Inc. shall retain the equipment without any requirement for notifying the federal agency.

If the equipment and other items are to be sold, the monies realized from the sale must be credited to the expense account from which the items were purchased.

Capitalization Guidelines

These guidelines have been established for the purpose of stating the Capitalization Criteria in determining, distinguishing, and recording equipment purchased by the NESD Head Start Program, Inc.

Physical assets acquired with unit costs in excess of \$5,000.00 are capitalized as property and equipment on the Program's financial statements. Items with unit costs below this threshold shall be expensed in the year purchased in accordance with awarding agency regulations.

If an awarding agency requires a lower amount for equipment, Northeast South Dakota Head Start Program, Inc. will adhere to that dollar amount only for that program or contract.

Capitalized property and equipment additions are accounted for at their historical cost and all such assets, except land, are subject to depreciation over their estimated useful lives.

Capitalized assets will be reported as expensed for grants if they were so budgeted in the grant application. These assets will be capitalized and depreciated according to these policies.

A record shall be kept of all capitalized equipment purchased. Physical inventories of capitalized equipment shall be performed annually with any discrepancies reported to the Executive Director.

Determining Allowability, Allocability, and Reasonableness of Cost

These written procedures have been established to demonstrate that the Program implements the requirements of Federal Standards which state that Grantee agencies are directed to use Federal funds to purchase items and services in the most economical way, and to buy only what they need to complete the approved project (Grant Application).

The Business Manager and Executive Director must determine the reasonableness, allocability, and allowability of cost prior to obligating federal funds for all project costs. This determination will be made by considering the following:

FACTORS AFFECTING THE ALLOWABILITY OF COSTS:

All costs must meet the following criteria from 45 CFR Part 75.402 – 45 CFR Part 406, Basic Considerations, in order to be treated as an allowable cost under a federal award:

To be allowable under an award, cost must meet the following criteria:

1. The cost must conform to any limitations or exclusions of the federal award itself.
2. Treatment of costs must be consistent with policies and procedures that apply to both federally financed activities and other activities of the Program.
3. Costs must be consistently treated over time.
4. The cost must be determined in accordance with generally accepted accounting principles (GAAP).
5. Costs may not be included as a cost of any other federally financed program in the current or prior periods.
6. The cost must be adequately documented.

DETERMINE REASONABLENESS

The cost must be “reasonable” for the performance of the award, considering the following factors:

1. Whether the cost is of a type that is generally considered as being necessary for the operation of the Program or the performance of the award.
2. Restraints imposed by such factors as generally accepted sound business practices, arm’s length bargaining, federal and state laws and regulations and the terms and conditions of the award.
3. Whether the individuals concerned acted with prudence in the circumstances.
4. Consistency with established policies and procedures of the Program, deviations from which could unjustifiably increase the costs of the award.
5. In order to comply with this requirement, the following must be completed:
 - a) Price analysis for supplies and equipment over the micro-purchase threshold – comparing marketplace prices;
 - b) Cost analysis for contracts – examine all the elements used in contract’s total estimated cost.

DETERMINE ALLOCABILITY

The cost must be “allocable” to an award by meeting one of the following criteria:

1. The cost is incurred specifically for the federal award;

2. The cost benefits the federal award and is reasonable to the benefits received, or
3. The cost is necessary to the overall operation of the Program
4. Program must then identify such cost between categories within the Program (e.g. Program cost, training cost, food cost, and administration cost).

If the request for obligating federal funds meets all of the above criteria and costs are reasonable, the Business Manager and Executive Director will approve the transaction and a purchase order or contract will then be issued.

Revised: February 11th, 2020

Approved: February 11th, 2020