

CITY OF COOS BAY CITY COUNCIL
Agenda Staff Report

MEETING DATE	AGENDA ITEM NUMBER
April 5, 2016	

TO: Mayor Shoji and City Councilors
FROM: Susanne Baker, Finance Director
THROUGH: Rodger Craddock, City Manager
ISSUE: Financial Management for Federal Awards Policy

BACKGROUND:

At the March 15, 2016 City Council meeting, staff was directed to proceed with the Clean Water State Revolving Fund (SRF) loan award agreement from the Oregon Department of Environmental Quality (DEQ). The loan award agreement will pay for the construction of the new Wastewater Treatment Plant No. 2; provide a favorable interest rate at half of what the City could get from the private market; repayments would start after completion; and the loan would mature in 20 years, as opposed to 10 years on the private market.

The loan award agreement is a Federal award, and it is subject to established requirements as set forth by the federal government in the Uniform Guidance for Federal Awards and other laws and regulations in the loan award agreement and by the granting agency. One of those regulations is to adopt a Financial Management for Federal Awards policy as of June 30, 2016, for non-federal entities receiving more than \$750,000 in federal awards. The policy will also meet one of the requirements for the required "single audit"; a more in depth testing of documents for compliance with Federal Code of Federal Regulations (CFR) rules beyond what the City already complies for the annual audit. The Financial Management for Federal Awards policy is considered a best practice.

ADVANTAGES:

This policy provides for full public disclosure and transparency in government and compliance with Federal and audit regulations.

DISADVANTAGES:

None.

BUDGET IMPLICATIONS:

A single audit will add an expense component onto the City's regular audit.

ACTION REQUESTED:

If it pleases the Council, adopt the policy on Financial Management for Federal Awards.

Attachment: Financial Management for Federal Awards Policy.



City of Coos Bay

Finance Department

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FINANCIAL MANAGEMENT – FEDERAL AWARDS

Administration and Definitions

PURPOSE: To establish policies and procedures over the administration of Federal Awards.

AUTHORITY: The City of Coos Bay City Council may establish rules and regulations in reference to managing the interest and business of the City under ORS 203.010, 203.035, 203.111, and 203.230.

APPLICABILITY: Department heads, elected officials and other employees who have authority to administer Federal Awards.

GENERAL POLICY: All Federal Awards are subject to the established requirements as set forth by the federal government in the Uniform Guidance for Federal Awards (Uniform Guidance) and other laws and regulations as required by the Federal Award Agreement and the granting agency.

DEFINITIONS: Federal Award: Federal Financial Assistance that a non-federal entity receives directly from a federal awarding agency or indirectly from a pass-through entity, or a cost-reimbursement contract under federal acquisition regulations that a non-federal entity receives directly from a federal awarding agency or indirectly from a pass-through entity.

Federal Award Agreement: the instrument setting forth the terms and conditions of a Federal Award. The instrument is a grant agreement, cooperative agreement or any other agreement providing Federal Financial Assistance, or a cost-reimbursement contract awarded under federal acquisition regulations.

Federal Financial Assistance: assistance that non-federal entities receive to administer a Federal Award in the form of: grants, cooperative agreements, non-cash contributions, donations of property, direct appropriations, food commodities, loans, loan guarantees, interest subsidies or insurance.

1. Responsibilities:

Every department head, elected official, employee or agent of the City (public official) who has authority to receive or expend Federal Financial Assistance is responsible for compliance with the policy. Each is responsible for ensuring that Federal Financial Assistance is administered in accordance with the purpose of the Federal Award Agreement and in compliance with all applicable laws and regulations.

1.1. **Allowable Costs** – see Appendix A

1.2. **Sub-recipient Monitoring** – see Appendix B

1.3. **Administrative Requirements** – Each public official that has responsibility for administering a Federal Award shall:

- a. Provide efficient and effective administration of the Federal Award through the application of sound management practices;
- b. Administer federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal Award;
- c. Comply with the cost principles established by the federal government, support the accumulation of costs as required by the cost principles, and provide adequate documentation to support costs charged to the Federal Award;
- d. Apply costs and cost allocations related to indirect costs and administrative charges on a consistent basis and in accordance with federal cost principles and City policy (see also Appendix A, Federal Awards - Allowable Costs);
- e. Ensure that no profit results from the use of Federal Financial Assistance, unless explicitly authorized by the terms and conditions of the Federal Award (i.e. program income); and
- f. Establish a process of internal control, designed to achieve the objectives of the Federal Award, in a manner that also achieves the following:
 - i. Effective and efficient operations;
 - ii. Reliable reporting for internal and external use;
 - iii. Evaluating and monitoring compliance with all applicable laws and regulations;
 - iv. Taking prompt action when instances of noncompliance are identified;
 - v. Taking reasonable measures to safeguard protected personally identifiable information.

1.4. **Payments of Federal Awards** – Payment methods must minimize the time elapsing between the receipt of funds from the federal agency or pass-through entity and the disbursement of those funds by the City, whether the payment is made by electronic funds transfer, issuance or redemption of checks or warrants, or payment by any other means.

- a. Standard practice in the City is to operate Federal Awards on a reimbursement basis, wherein costs are incurred first, then reimbursement of those costs is requested from the federal agency or pass-through entity in order to minimize the time elapsing between transfers of funds.
 - b. When the reimbursement method is not feasible, advance payments may be requested to administer a Federal Award with the following considerations:
 - i. Time elapsing between the receipt of funds from the federal agency or pass-through entity and the disbursement of those funds will be within a reasonable amount of time;
 - ii. Funds will be deposited in an interest-bearing fund and cost center (program, service and/or project). Funds that cannot be disbursed within a reasonable amount of time will be allocated a fair share of monthly interest earnings; and
 - iii. Interest earnings in excess of \$500 per year must be returned to the federal agency or pass-through entity.
- 1.5. **Conflict of Interest** – A public official, including any department head, elected official, employee or agent of the City, shall not participate in the selection, award or administration of a contract supported by a Federal Award if he or she has a real or apparent conflict of interest. Such a conflict of interest would arise when the public official, or any member of his or her immediate family, or an organization which employs or is about to employ any of the parties indicated herein, receives a financial or other personal benefit from an organization considered for a contract supported by a Federal Award. Violations of such standards by a public official will be subject to disciplinary action in accordance with City policies.
- 1.6. **Audit Requirements**
- a. The City must procure or arrange for the City's audit as required by Section 200.508-200.512, under the Uniform Guidance.
 - b. The City will prepare the following statements and schedules:
 - i. Financial statements that reflect its financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year audited;
 - ii. Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the auditee's financial statements which must include the total Federal Awards expended;
 - c. Audit Finding Follow Up – the City is responsible for follow-up and corrective action on all audit findings. The City will prepare a summary schedule of prior audit findings and a corrective action plan for current year findings; and
 - d. Report Submission – the City will complete the data collection form within the earlier of 30 days after receipt of the auditor's report or nine months after the end of the audit period. The reporting package must include items as

listed in the Uniform Guidance Section 200.512 (c).

2. Exceptions:

There are no exceptions to this policy.

3. Implementation:

The City Manager and the Finance Director are authorized to implement this policy, and authorized to record corrections or adjustments if costs are in violation of this policy.

4. Periodic Review:

This policy will be reviewed by the City Manager at least every three years.

5. Resources:

The following are additional resources in relation to this policy:

- a. Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Title 2, Code of Federal Regulations, Part 200 (2 CFR 200))
- b. Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (2 CFR 225)
- c. OMB Circular A-102, Grants and Cooperative Agreements With State and Local Governments
- d. OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations

FINANCIAL MANAGEMENT – FEDERAL AWARDS
Appendix A Allowable Costs

- PURPOSE:** To establish policies and procedures over the allowable costs of Federal Awards, including those passed through from the State of Oregon or other granting organizations.
- AUTHORITY:** The City of Coos Bay City Council may establish rules and regulations in reference to managing the interest and business of the City under ORS 203.010, 203.035, 203.111, and 203.230.
- APPLICABILITY:** Department heads, elected officials and other employees who administer Federal Awards.
- GENERAL POLICY:** All Federal Awards are subject to the established requirements as set forth by the federal government in the Uniform Guidance for Federal Awards (Uniform Guidance) and other laws and regulations as required by the Federal Award Agreement and the granting agency.
- DEFINITIONS:** See Federal Awards – Administration and Definitions, for definitions of Federal Award, Federal Award Agreement, and Federal Financial Assistance.

1. Responsibilities:

Every department head, elected official, employee or agent of the City (public official) who has authority to receive or expend Federal Financial Assistance is responsible for compliance with the policy. Each is responsible for ensuring that costs associated with Federal Awards are allowable in accordance with the purpose of the Federal Award Agreement and in compliance with all applicable laws and regulations.

1.1. Allowable Costs – The total cost of a Federal Award is the sum of the allowable direct and allocable indirect costs, less any applicable credits. Costs must meet the following criteria to be allowable under Federal Awards:

- a. Be necessary and reasonable for the performance of the Federal Award and be allocable (chargeable or assignable) to that Federal Award in accordance with the relative benefits received.
- b. Conform to any limitations or exclusions set forth in the Uniform Guidance or in the Federal Award Agreement as to type or amount of cost items.
- c. Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the City.
- d. Be given consistent treatment. A cost may not be assigned to a Federal Award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal Award as an indirect cost.
- e. Be determined in accordance with generally accepted accounting principles (GAAP).

- f. Not be included as a cost or used to meet cost-sharing or matching requirements of any other federally financed program in either the current or a prior period.
- g. Be adequately documented.
- h. Comply with the general cost provisions of the Uniform Guidance, 2 CFR Section 200.420. Examples of unallowable costs include, but are not limited to: alcohol, bad debts, contributions and donations, entertainment costs, goods and services for personal use, lobbying, organization costs associated with incorporation fees, and selling and marketing costs (except for prior approval of federal awarding agency).
- i. Receive prior written approval for certain items of cost as outlined in the Uniform Guidance, 2 CFR Section 200.407.

1.2. **Classification of Costs** – All costs associated with Federal Awards shall be classified as direct or indirect costs. All allowable costs should be included in the budget or the financial plan of the Federal Award Agreement. Disallowed costs will not be charged to the Federal Award.

- a. **Direct Costs** – Those costs that can be identified specifically with a particular cost objective or that can be directly assigned to such activities easily and with a high degree of accuracy. Examples include, but are not limited to: payroll costs of employees who work directly on the Federal Award, materials and other expenses incurred in direct relation to administering the Federal Award, and sub-recipient expenses.
- b. **Indirect Costs** – Those costs incurred for a common or joint purpose benefitting more than one cost objective and/or not readily assignable to the cost objective benefitted. For example, administrative costs charged to the grant based on a cost allocation plan or approved indirect cost rate would be considered indirect costs.
- c. **Disallowed Costs** - Those costs that the federal awarding agency or pass-through entity determines to be unallowable, in accordance with applicable federal statutes, regulations, and terms and conditions of the Federal Award. To determine whether a cost is allowed or disallowed, refer to: 1) the Federal Award Agreement and 2) section 200.420-475 General Provisions for Selected Items of Cost under the Uniform Guidance for Federal Awards. If unable to determine whether the cost is allowed or disallowed, contact the federal awarding agency or granting agency administering the Federal Award for further clarification.

1.3. **Administrative Charges on Federal Awards** – Administrative charges must be allocated as a reimbursable cost or in-kind cost to maintain consistency in the application of administrative charges.

- a. Departments will include administrative charges in the grant application in accordance with the City's approved cost allocation plan and/or indirect cost rate.
- b. Administrative charges will be included in the budget of the Federal Award approved by the awarding agency.
- c. If the Federal Award Agreement prohibits administrative charges or has a cap on those types of costs, the department will be responsible for including those costs as an in-kind

match against the Federal Award.

- d. The City Manager and Finance Director may grant an exception to the allocation of administrative charges to a federal award.

2. Exceptions:

Other than the exception noted in Section 1.3(d), there are no exceptions to this policy.

3. Implementation:

The City Manager and the Finance Director are authorized to implement this policy, and authorized to record corrections or adjustments if costs are determined disallowed or in violation of this policy.

4. Periodic Review:

This policy will be reviewed by the City Manager at least every three years.

5. Resources:

The following are additional resources in relation to this policy:

- a. Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Title 2, Code of Federal Regulations, Part 200 (2 CFR 200))
- b. Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (2 CFR 225)
- c. OMB Circular A-102, Grants and Cooperative Agreements With State and Local Governments
- d. OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations

FINANCIAL MANAGEMENT – FEDERAL AWARDS

Appendix B Sub-recipient Monitoring

- PURPOSE:** To establish policies and procedures over monitoring Federal Awards and associated sub-recipients.
- AUTHORITY:** The City of Coos Bay may establish rules and regulations in reference to managing the interest and business of the City under ORS 203.010, 203.035, 203.111, and 203.230.
- APPLICABILITY:** Department heads, elected officials and other employees who administer Federal Awards.
- GENERAL POLICY:** All Federal Awards are subject to the established requirements as set forth by the federal government in the Uniform Guidance for Federal Awards (Uniform Guidance) and other laws and regulations as required by the Federal Award Agreement and the granting agency.
- DEFINITIONS:** See Federal Awards – Administration and Definitions, for definitions of Federal Award, Federal Award Agreement, and Federal Financial Assistance.

1. Responsibilities:

Every department head, elected official, employee or agent of the City of Coos Bay (public official) who has authority to expend Federal Financial Assistance is responsible for compliance with the policy. Federal Financial Assistance that is passed through to sub-recipients for the purpose of carrying out a portion of a Federal Award imposes additional responsibilities. Each public official that has oversight responsibility over sub-recipients is responsible for monitoring sub-recipients to ensure that performance is in accordance with the Federal Award Agreement and in compliance with all applicable laws and regulations.

1.1. Sub-recipient and Contractor/Vendor Determinations – The City may pass through or subcontract Federal Financial Assistance to assist in administering the objectives of a Federal Award. Each department will determine if the subcontractor meets the definition of a sub-recipient or contractor/vendor. This determination will occur during the contract review process.

a) Contractor/ Vendor. A contract is for the purpose of obtaining goods and services for the non-federal entity's own use and creates a procurement relationship with the contractor/vendor. Characteristics indicative of a procurement relationship between the City and a contractor/vendor are when the contractor/vendor:

- i. Provides the goods and services within normal business operations;
- ii. Provides similar goods or services to many different purchasers;
- iii. Normally operates in a competitive environment;
- iv. Provides goods or services that are ancillary to the operation of the Federal Award; and
- v. Is not subject to compliance requirements of the Federal Award as a result

of the agreement, though similar requirements may apply for other reasons.

- b. Sub-recipient. A non-federal entity that receives a sub-award from the City to carry out part of a Federal Award is considered a sub-recipient. A sub-recipient's activities may include, but are not limited to:
 - i. Determining eligibility;
 - ii. Having performance measured in relation to carrying out Federal Award objectives;
 - iii. Making programmatic decisions;
 - iv. Adhering to applicable program requirements specified by the Federal Award Agreement; and
 - v. Using Federal Financial Assistance to carry out program services for a public purpose.

1.2. **Sub-recipient Monitoring** – When the City uses a sub-recipient for the purpose of carrying out a portion of a Federal Award, the City must perform the following monitoring activities:

- a. Ensure the sub-award includes the required information as defined in Section 200.331 (a) under the Uniform Guidance;
- b. Evaluate the sub-recipient's risk of noncompliance with federal statutes, regulations and terms and conditions of the sub-award for purposes of determining the appropriate sub-recipient monitoring;
- c. Monitor the activities of the sub-recipient as necessary to ensure the sub-award is used for authorized purposes, is in compliance with federal regulations and goals are achieved as defined by the sub-award;
- d. Verify that the sub-recipient is audited as required by the Uniform Guidance, Subpart F – Audit Requirements, and consider the results of those audits that might necessitate further action. If an audit is not required, ensure adequate documentation is obtained for the reason and is appropriate;
- e. Provide other monitoring as determined necessary by the risk assessment or the Federal Award Agreement; and
- f. Take enforcement action on noncompliant sub-recipients.

2. Exceptions:

The City Manager and Finance Director may grant exceptions to this policy, to the extent the exceptions do not violate federal laws and regulations.

3. Implementation:

The City Manager and Finance Director are authorized to implement this policy.

4. Periodic Review:

This policy will be reviewed by the City Manager at least every three years.

5. Resources:

The following are additional resources in relation to this policy:

- a. Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Title 2, Code of Federal Regulations, Part 200 (2 CFR 200))
- b. Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (2 CFR 225)
- c. OMB Circular A-102, Grants and Cooperative Agreements With State and Local Governments
- d. OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations

Approved: 04/01/2016

Revised: N/A