



City of Valley Center Accounting Policies and Procedures for Administration of Grants

Section I – Grant Management Overview

Section II – Finance & Budgeting

Section III – Cash Drawdowns

Section IV – Allowable Costs & Procurement

Section V - Payroll

Section VI - Reporting

Section VII – Records Retention

Section VIII – Fixed Asset Reporting

SECTION I GRANT MANAGEMENT OVERVIEW

CITY OF VALLEY CENTER POLICY OVER GRANTS AND OTHER OUTSIDE FINANCIAL RESOURCES

The City of Valley Center Governing Body encourages city staff to secure federal, state and private grants, or other alternative funding sources for use in all aspects of city operations to achieve the goals and outcomes set forth by the City of Valley Center Governing Body.

The City Administrator or designee shall approve all grant applications before their submission.

This policy provides guidelines and procedures for budgeting and expending grant funds. It is a compilation of State and Federal laws and local policies and procedures that are to be used for processing all financial and budget related items. These guidelines and procedures are supplemental to current City procurement/purchasing policies.

Although it is not all-inclusive and cannot address all situations, the policy does provide general information to assist with normal, everyday financial transactions. Any and all City personnel with financial duties are responsible for the contents.

Key Staff

Title

City Administrator
Assistant City Administrator/Director of Finance
Grant Manager

Responsibilities

Overall responsibility for submitting proposals and for executing and administering awards rests within the Finance and Administration Department.

The City Administrator is the final approval authority for all grant activity.

The overall responsibilities of the Grants Management function include, but are not limited to:

- a. Reviewing all grant applications that have a financial reporting or compliance requirement prior to submission;
- b. Establishing, communicating and promoting policies and procedures consistent with federal, state, and local regulations;

- c. Providing assistance to project managers for the preparation of grant applications;
- d. Exercising budgetary control of grant funds;
- e. Providing overall compliance monitoring to include;
 - Maintaining an adequate internal control structure to ensure compliance with applicable laws and regulations related to the state and federal regulations;
 - Coordinating formal agency audits or interim reviews of grants by federal or state agencies, external/internal auditor(s);
 - Providing support and guidance to City Departments for the effective administration and financial management of grants.

Management of City Assets

The Assistant City Administrator/Director of Finance shall establish and maintain accurate, financial management systems to meet the City's fiscal obligations, produce useful information for financial reports, and safeguard city resources. The Assistant City Administrator/Director of Finance shall ensure the City's accounting system provides ongoing internal controls. The Assistant City Administrator/Director of Finance shall provide regular fiscal reports to the City of Valley Center Governing Body.

Fraud Prevention and Investigation

All employees, City of Valley Center Governing Body members, consultants, vendors, contractors and other parties maintaining a business relationship with the City shall act with due diligence in duties involving the City's fiscal resources. The City Administrator or designee shall develop internal controls that aid in the prevention and detection of fraud, financial impropriety or irregularity.

Reporting Fraud

An employee who suspects fraud, impropriety or irregularity shall promptly report those suspicions to the immediate supervisor and/or the City Administrator. The City Administrator or designee shall have primary responsibility for any investigations, in coordination with legal counsel and other internal or external departments and agencies as appropriate.

Whistleblowers

The City encourages complaints, reports or inquiries about illegal practices or violations of City policies, including illegal or improper conduct by the City, its leadership or by

others on its behalf. Reports could include, but not be limited to, financial improprieties, accounting or audit matters, ethical violations or other similar illegal or improper practices or policies. The City prohibits retaliation by or on behalf of the City against staff members who make good faith complaints, reports or inquiries under this policy or for participations in a review or investigation under this policy. This protection extends to those whose allegations are made in good faith but prove to be mistaken. The City reserves the right to discipline persons who make bad faith, knowingly false, or vexatious complaints, reports or inquiries or who otherwise abuse this policy.

Complaints, reports or inquiries may be made under this policy on a confidential or anonymous basis. They should describe in detail the specific facts demonstrating the bases for the complaints, reports or inquiries. They should be directed to the City Administrator. If the City Administrator is implicated in the complaint, report or inquiry, it should be directed to the City of Valley Center Governing Body. The City will conduct a prompt, review or investigation. The City may be unable to fully evaluate a vague or general complaint, report or inquiry that is made anonymously.

Conflict of Interest

City employees are prohibited from engaging in any activity which may conflict with or detract from the effective performance of their duties. No employee will attempt, during the work day or on city property, to sell or endeavor to influence any citizen or city employee to buy any product, article, instrument, service or other items which may directly or indirectly benefit the city employee. No city employee will enter into a contract for remuneration with the City other than a contract for employment unless the contract is awarded by the City Administrator and approved by the City of Valley Center Governing Body.

Annual Audit of Financial Records

In accordance with local, state, federal and grant requirements, the financial statements of the City undergo an independent audit annually, including the requirements of the Kansas Municipal Audit and Accounting Guide (KMAAG), the Uniform Guidance and other state and federal requirements.

Selection of auditor is based on qualifications and experience with Kansas municipal audits, as well as requirements of the KMAAG, the Uniform Guidance and other state and federal requirements. Selection will not be required to be based on price.

Requirement to rotate auditors via an RFP process is only used in the event that the current auditor can no longer demonstrate their qualifications and experience with Kansas municipal audits, requirements of the KMAAG, the Uniform Guidance and other state and federal requirements.

Upon completion of the audit, but no later than July 31 of each year, the auditor shall make a report directly to the Governing Body regarding audit findings. All audit findings are addressed immediately, and corrective action is taken promptly.

SECTION II: FINANCE AND BUDGETING

Financial Management System

The City's financial management system is established to provide for compliance with federal requirements at 2 CFR Part 200.

The City's financial management systems, that include records documenting compliance with federal statutes, regulations, and the terms and conditions of federal awards, must be sufficient to permit:

- a. The preparation of reports required by general and program specific terms and conditions, and
- b. The tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.

The financial management systems of the City must provide for the following:

- a. Identification – the City must identify, in its accounts, all federal awards received and expended, and the federal programs under which they were received.
- b. Financial reporting - accurate, current, and complete disclosure of the financial results of each federal award or program must be made in accordance with the reporting requirements of the grant or subgrant.
- c. Accounting records – the City must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.
- d. Internal control - effective control and accountability must be maintained for all funds, real and personal property, and other assets. The City must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- e. Budget control - actual expenditures or outlays must be compared with budgeted amounts for each federal award. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

- f. Cash management - procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury, or the pass-through entity, and disbursement by the City must be followed whenever advance payment procedures are used. Advance payments to the City must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the City in carrying out the purpose of the approved program or project. The timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the City for direct program or project costs and the proportionate share of any allowable indirect costs. The City must make timely payment to contractors in accordance with the contract provisions.
- g. Allowable cost - applicable Uniform Guidance cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.
- h. Source documentation - accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

An awarding agency may review the adequacy of the financial management system of any applicant for financial assistance.

Expenditure Account Numbers

The account structure is designed to provide compliance with all grant requirements regarding separation of revenues and expenditures at the line item level. The City's financial accounting system should allow for grants to be tracked at a line item level and be able to separate and report all grant revenues and expenditures separately, including payroll functions. This allows the City to comply with all Federal Uniform Guidance.

Budget Process for Federal and State Grants Funds

The Grant Managers are responsible for overseeing the budget process for Federal Grants.

Depending on the grant, the budget process is either done during the writing of the grant or after amounts have been awarded. In each case, the grant manager must submit the grant budget to the Assistant City Administrator/Director of Finance. Budget amendments are done with the input from the grant manager and the departments involved, with the approval of the Assistant City Administrator/Director of Finance.

If a budget amendment is necessary during the plan year, the Grant Manager will submit an amendment to the Assistant City Administrator/Director of Finance prior to

submission to the appropriate entity. The following reasons are allowable for all Federal Funds:

1. 25% rule
2. Change in the number of funding positions
3. Change in program intent
4. Change in funding amount

Supplement Not Supplant Procedures

The City has implemented guidelines to ensure compliance with the federal fiscal requirement of supplement, not supplant. The purpose of the procedures is to ensure that the level of state and local support for programs remains at least constant and is not replaced by federal funds. Federal funds are used to supplement (add to, enhance, to expand, create something new, increase) the funds available from non-federal sources, and not to supplant (replace or take the place of) the existing non-federal funds.

Federal funds may be used only to provide supplemental services that would not have been provided had the federal funds not been available.

State or local funds which previously funded activities may not be diverted to another purpose simply because federal funds are now available to fund those activities. In other words, the use of federal funds may not result in a decrease in state or local funds for a particular activity, which, in the absence of the federal funds, would have been available to conduct the activity.

Federal funds must supplement or augment that which must be provided by state law, or any activities which have been adopted per City policy.

If federal funds are used to enhance or expand a state mandate, or local City policy, the federal supplementary activities must be separately identified and clearly distinguishable from the activities identified as necessary for implementing a state mandate, or local City policy as outlined in the implementation plan.

Remainder of page intentionally left blank

SECTION III: CASH DRAWDOWNS

Cash Management – Federal Programs

Generally, the City receives payments on a reimbursement basis. In some circumstances, the City may receive an advance of federal grant funds. In either case, the City shall maintain accounting methods and internal controls and procedures that assure those responsibilities are met. The City has established separation of duties in cash management. Funds from federal agencies are requested by the Assistant City Administrator/Director of Finance. Funds are verified by the City Treasurer when received. Grant status is reviewed by the Grant Manager monthly. Bank reconciliations are performed by the City Treasurer. Any discrepancies are resolved promptly.

The City has also established procedures for minimizing the time elapsed between draw down of federal funds and expenditure by the City in accordance with 2 CFR Part 200.305:

Payment Methods

Advances

When the City receives advance payments of federal grant funds, it must minimize the time elapsing between the transfer of funds to the City and the expenditure of those funds on allowable costs of the applicable federal program. (2 CFR Sec. 200.305(b)) The timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay for direct program costs and the proportionate share of any allowable indirect cost. When applicable, the City shall use existing resources available within a program before requesting additional advances. Such resources include program income (including repayments to a revolving fund), rebates, refunds, contract settlements, audit recoveries, and interest earned on such funds. (2 CFR Sec. 305(b) (5))

The City shall hold federal advance payments in insured, interest-bearing accounts.

The City is permitted to retain for administrative expense up to \$500 per year of interest earned on federal grant cash balances. Regardless of the federal awarding agency, interest earnings exceeding \$500 per year shall be remitted annually to the Department of Health and Human Services Payment Management System (PMS) through an electronic medium using either Automated Clearing House (ACH) network or a Fedwire Funds Service payment. (2 CFR Sec. 200.305(b) (9))

Pursuant to federal guidelines, interest earnings shall be calculated from the date that the federal funds are drawn down from the system until the date on which those funds are disbursed by the City. Consistent with state guidelines, interest accruing on total federal grant cash balances shall be calculated on cash balances per grant and applying the actual or average interest rate earned. Remittance of interest shall be the

responsibility of the Assistant City Administrator/Director of Finance.

Reimbursement

Reimbursement shall be the preferred method when the requirements in the advance payment section are not met.

The City will initially charge federal grant expenditures to nonfederal funds. The Grant Manager will request reimbursement for actual expenditures incurred under the federal grants monthly. Such requests shall be submitted with appropriate documentation and signed by the requestor. Requests for reimbursements will be approved by the Assistant City Administrator/Director of Finance.

Consistent with state and federal requirements, the City will maintain source documentation supporting the federal expenditures (invoices, time sheets, payroll stubs, etc.) and will make such documentation available for review upon request.

Reimbursements of actual expenditures do not involve interest calculations.

Direct Grants

All direct federal grant draws shall be made by the Assistant City Administrator/Director of Finance via the required method or website. Draws will be on a reimbursement basis. Direct grant monies shall be drawn down according to grant-specific requirements.

The City may also be paid by reimbursement for any construction grant. Except as otherwise specified in regulation, Federal agencies shall not use the percentage of completion method to pay construction grants. The City may use that method to pay its construction contractor, and if it does, the awarding agency's payments to the City will be based on the City's actual rate of disbursement.

Remainder of page intentionally left blank

SECTION IV: ALLOWABLE COSTS & PROCUREMENT

The City has the responsibility to ensure fiscal integrity with all allocated funds. The Federal Fund Expenditure Guidelines set important protocol and procedures for administration in the expenditure of all allocated federal funds.

Allowable Costs

Federal and Grant Funds must be expended according to all applicable requirements of the Federal and State Grant Funds. Other applicable laws and regulations, and the Uniform Guidance apply to the use of these funds. All costs must be reasonable and necessary to carry out the intent of the program or project.

Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
 - a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
 - b. Be allocable to Federal awards under the provisions of the Uniform Guidance.
 - c. Be authorized or not prohibited under State or local laws or regulations.
 - d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
 - e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
 - f. Be accorded 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.
 - g. Except as otherwise provided for in the Uniform Guidance, be determined in accordance with generally accepted accounting principles.
 - h. 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.

- i. Be the net of all applicable credits.
 - j. Be adequately documented.
- 2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. In determining reasonableness of a given cost, consideration shall be given to:
 - a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the City or the performance of the Federal award.
 - b. The restraints or requirements imposed by such factors as: sound business practices; arm's length bargaining; Federal, State, and other laws and regulations; and terms and conditions of the Federal award.
 - c. Market prices for comparable goods or services.
 - d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.
 - e. Significant deviations from the established practices of the City which may unjustifiably increase the Federal award's cost.
- 3. Allocable costs.
 - a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
 - b. All activities which benefit from the City's indirect cost, including unallowable activities and services donated to the City by third parties, will receive an appropriate allocation of indirect costs.
 - c. Any cost allocable to a particular Federal award or cost objective under the principles provided for in the Uniform Guidance may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

- d. Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required.

Procurement – Federal Programs

General Procurement Standards

The City will use its own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable State and Federal law. Any additional procurement requirements stated in the Federal or State grant terms and conditions or reporting and compliance documents will be incorporated into the procurement procedures for that specific grant.

Remainder of page intentionally left blank

SECTION V: PAYROLL

Time and Effort Requirements

The City, if required per the specific grant requirements, will maintain auditable documentation that shows how each employee paid with grant funds spent his or her compensated time. Such documentation are written, after-the fact (not estimated or budgeted) documentation of how the time was spent. Time and effort reports should be prepared by any staff with salary charged directly to a State or Federal award(s).

Supplemental Pay Procedures

All City employees, full-time or part-time, must be paid through payroll for any type of compensation, EXCEPT reimbursements for travel, fees, dues, etc.

The employee and Department Head must approve the timesheet.

Remainder of page intentionally left blank

SECTION VI: REPORTING and RECORDS RETENTION

The City will comply with all State and Federal guidelines regarding financial reporting. General requirements are outlined in the Uniform Guidance. Grant specific reporting may be added under the requirements of certain State or Federal grant guidelines.

The City will comply with all State and Federal guidelines regarding retention of grant records. If any State or Federal requirements exceed the City's requirements, the City shall retain records for the required time period.

Record retention related to grant funds. (2 CFR Part 200.333 and 200.336)

The City shall keep records that fully show:

- a. The amount of funds under the grant or subgrant;
- b. How the City uses the funds;
- c. The total cost of the project;
- d. The share of that cost provided from other sources; and
- e. Other records to facilitate an effective audit,
- f. Other records to show compliance with federal program requirements,

All records must be retrievable and available for programmatic or financial audit.

The City shall permit timely and reasonable access to the City's personnel for the purpose of interview and discussion related to such documents.

Real property and equipment records. The retention period for real property and equipment records starts from the date of the disposition or replacement or transfer at the direction of the awarding agency.

Expiration of right of access. The rights of access in this section must not be limited to the required retention period but shall last as long as the records are retained.

The City currently does not utilize an asset management system. If the City receives a grant from a Federal, State, or other entity that requires fixed asset tracking for equipment purchased utilizing that grant, the City will follow all recording, retention, and reporting requirements outlined in the grant. Disposal of equipment purchased with Federal, State or other entity grant funds will follow the Uniform Guidance or other specific disposal requirements outlined in the grant.