

**RESOLUTION NO. R-040824-1**

**AMERICAN RESCUE PLAN ACT**

**STATE & LOCAL FISCAL RECOVERY FUNDING**

**FINANCIAL MANAGEMENT  
POLICIES & PROCEDURES**

**City of Port Lavaca**

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## SECTION 1 – ARPA-SLFRF KEY RESOURCES

- The ARPA-SLFRF Award Terms & Conditions
- 31 CFR 35.6 – Eligible uses
- Uniform Guidance: 2 CFR 200, Parts A-F
- Final Rule Jan 2022 & Final Rule Overview
- 2022 Final Rule FAQs
- Compliance & Reporting Guidance
- Project & Expenditure Report User Guide
- 2023 Interim Final Rule
- Compliance Supplement
- Alternative Examination Engagement (ACEE) Guide

## SECTION 2 – OVERVIEW & PURPOSE OF ARPA FUNDING

This Financial Management Policy and Procedures guidance provides an overview of the requirements applicable to the financial management of the American Rescue Plan Act – State and Local Fiscal Recovery Funding (ARPA – SLFRF) and related City procedures. This document covers critical aspects of internal controls, reporting and monitoring, audits, procurement and cost principles, and the City’s related policies and procedures, specifically as it relates to ARPA-SLFRF (often referred to as “ARPA” hereafter in this document).

All local governments that have received ARPA State and Local Fiscal Recovery Funds (ARPA-SLFRF) are responsible for ensuring that they establish and maintain effective internal controls that provide reasonable assurance that funds are being managed in compliance with all applicable federal statutes, regulations, and the terms and conditions of the federal award. The City will comply with the ARPA Award Terms and Conditions and the Uniform Guidance requirements, particularly as outlined in [2 CFR 200.302](#).

ARPA funds must be spent on allowable activities and expenses, with consideration of equity and negative economic impacts which include:

- Supporting public health expenditures
- Addressing negative economic impacts caused by the public health emergency
- Replacing lost public sector revenue (government services)
- Providing premium pay for essential workers
- Investing in water, sewer, and broadband infrastructure
- Expanded surface transportation, Emergency disaster relief, and Title I projects
- SLFRF allowable projects (both enumerated and non-enumerated) and related expenditure categories are outlined in greater detail in the Treasury’s Final Rule, Project & Expenditure Guide, 31 CFR 35.6 -- Eligible uses, and other resources.

SLFRF is considered “other financial assistance” per 2 CFR section 200.1 and is administered as direct payments for specified use. ARPA-SLFRF may be used for direct and indirect administrative expenses involved in administering the program. Cost-sharing/matching is not a requirement of ARPA-SLFRF.

SLFRF allocations made to ARPA Recipients are not subject to the requirements of the Cash Management Improvement Act and Treasury’s implementing regulations at 31 CFR part 205 or 2 CFR 200.305(b)(8)(9).

As such, recipients can place funds in interest-bearing accounts, do not need to remit interest to the Treasury, and are not limited to using that interest for eligible uses under the SLFRF award.

The Assistance Listing for the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) was published May 28, 2021, on SAM.GOV under Assistance Listing Number (“ALN”), formerly known as CFDA Number, 21.027.

The Assistance Listing includes helpful information including program purpose, statutory authority, eligibility requirements, and compliance requirements for recipients. The ALN is the unique 5-digit number assigned to identify a federal assistance listing and can be used to search for federal assistance program information, including funding opportunities, spending on USASpending.gov, or audit results through the Federal Audit Clearinghouse.

The City will adhere to generally accepted accounting principles (GAAP) and adequately trace all obligated/ budgeted funds, expenditure categories, disbursements, and balance data back to the source. In addition to tying all procurements, agreements and subawards to SLFRF, the City will add source or identification codes as part of its chart of accounts and reporting records for ease of tracking cost details.

### **SECTION 3 – PERIOD OF PERFORMANCE & OBLIGATIONS**

In accordance with Treasury requirements, ARPA-SLFRF funds must be used to cover “costs incurred/obligated” between March 3, 2021, and December 31, 2024, and funds must be expended by December 31, 2026.

As outlined in the Interim Final Rule (August 2023), SLFRF costs incurred for expanded surface transportation and Title I projects must also be obligated by December 21, 2024, but must be expended by September 30, 2026.

As indicated in the *Reporting & Compliance Guidance*, any funds not obligated or expended for eligible uses by the timelines above must be returned to the Treasury, including any unobligated (Dec 2024) or unexpended (Dec 2026) funds that have been provided to subrecipients and contractors as part of the award closeout process pursuant to 2 CFR 200.344(d).

For the purposes of determining expenditure eligibility, the Treasury’s final rule provides that “incurred” means the recipient has incurred an obligation, which has the same meaning given to “financial obligation” in 2 CFR 200.1:

*Financial obligations, when referencing a recipient’s or subrecipient’s use of funds under a federal award, means orders placed for property and services, contracts and subawards made, and similar transactions that require payment.*

### **SECTION 4 – INELIGIBLE USES & RECOUPMENT**

The following uses of SLFRF funds are NOT allowable:

- Deposits into any pension funds,
- Offsetting a reduction in net tax revenue,
- Non-federal match for other federal programs whose statute or regulations bar the use of federal funds to meet matching requirements,

- Contributions to rainy day funds, financial reserves, or similar funds as such payments constitute savings for future spending needs of the City,
- Payment of interest or principal on outstanding debt instruments, including, for example, short-term revenue or tax anticipation notes, or other debt service costs. Fees or issuance costs associated with the issuance of new debt would also not be covered using payments from the Fiscal Recovery Funds because such costs would not themselves have been incurred to address the needs of the pandemic response or its negative economic impacts,
- Satisfaction of any obligation arising under or pursuant to a settlement agreement, judgment, consent decree, or judicially confirmed debt restructuring plan in a judicial, administrative, or regulatory proceeding, except to the extent the judgment or settlement requires the provision of services that would respond to the COVID-19 public health emergency.

Any project that conflicts with or contravenes the purpose of the American Rescue Plan Act, (e.g., uses of funds that undermine COVID-19 mitigation practices in line with CDC Guidance and recommendations) or violation of the Award Terms and Conditions or conflict of interest requirements under the Uniform Guidance, and other federal, state, and local laws and regulations is not allowed.

Pre-award costs, as defined in 2 CFR § 200.458, may not be paid with funding from this award.

Funds used in violation of the final rule are subject to remediation and recoupment. As outlined in the Final Rule, Treasury may identify funds used in violation through reporting or other sources. While not anticipated, the City understands, that if any amount of the ARPA-SLFRF allocation is considered at risk, the City will be provided with an initial written notice of recoupment with an opportunity to submit a request for reconsideration before the Treasury provides a final notice of recoupment. If the City does not submit a request for reconsideration, the initial notice will be deemed the final notice. Treasury may also pursue other forms of remediation and monitoring in conjunction with or as an alternative to, recoupment.

In addition to Treasury-specified guidelines, a more comprehensive list of unallowable or restricted costs can be referenced under 2 CFR 200 Subpart E. This list is also summarized in *Section 12 – Cost Principles* of this document in greater detail.

*ARPA-SLFRF funding classified under Revenue Loss expenditures have reduced requirements as outlined within Treasury Guidance (re: Final Rule updates and, specifically, FAQ 13.15).*

## **SECTION 5 – ACCOUNTING SYSTEMS & INTERNAL CONTROLS**

### **ACCOUNTING SYSTEMS**

The City is responsible for ensuring all expenditures are equitable, eligible, proportionate, and authorized in an approved, documented budget.

Pursuant to 2 CFR § 200.302(a), the City’s financial management system (Project Management Software System), including records documenting compliance with federal statutes, regulations, and the terms and conditions of the federal award, must be sufficient to permit the preparation of reports required to demonstrate compliance with general and program-specific terms and conditions; and the tracing of funds to a level adequate to establish that such funds have been used according to the federal statutes, regulations, and the ARPA-SLFRF terms and conditions.

The City’s financial management system includes the following:

1. Accurate, current, and complete disclosure of financial results,

2. Records that identify adequately the source and application of grant funds,
3. Comparison of actual outlays with amounts budgeted under ARPA-SLFRF,
4. Procedures to minimize the time elapsed between approval and disbursement of funds throughout the performance period,
5. Procedures for determining reasonableness and allowable costs,
6. Accounting records that are supported by appropriate source documentation, and
7. A systematic method to assure timely and appropriate resolution of audit findings and recommendations.

## **INTERNAL CONTROLS – 2 CFR§200.303**

An internal control is a process, carried out by an entity’s oversight body, management, and other personnel that provides reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

Internal controls are the combination of policies, procedures, job responsibilities, personnel, and records that together create accountability of the financial system and safeguard its cash, property, and other assets.

Through its system of internal controls, the City can ensure that:

- Resources are used for authorized purposes and consistent with applicable laws, regulations, and policies.
- Resources are protected against waste, mismanagement, or loss.
- Evaluation and monitoring of compliance is integrated into processes.
- If applicable, prompt action is taken on audit concerns or findings.
- Information on the source, amount, and use of funds is reliable, secure, up-to-date, and disclosed in the appropriate reports and records.

In accordance with [2 CFR § 200.303](#), the City ensures internal controls through a number of local procedures, including ensuring to the extent practicable that the duties of the staff are divided so that no one person handles all aspects of a transaction from beginning to end. Some effective techniques and best practices that the City follows include:

- An **organizational chart** and/or written definitions setting forth the actual lines of responsibility of personnel involved in financial transactions and that clarifies all key roles and an adequate segregation of duties.
- Maintaining City **accounting policy and procedures** that includes specific approval authority for financial transactions and guidelines for controlling expenditures, as typically followed for local funds. (This guide will include written procedures for recording transactions; maintaining a chart of accounts, a general ledger and other typical internal controls established by the City that will also be applied to ARPA-SLFRF.)
- **Bank Depository:** The City maintains funds in a bank, designated as its depository for banking services. The City Council reviews the selection in accordance with the City’s charter or financial procedures, or otherwise every five (5) years unless circumstances deem otherwise. The Mayor and City Council follows the internal financial procedures for all expenditures unless an individual funding agency/source prescribes specific (and more stringent) requirements.
- **Accounts Payable:** Three (3) individuals are authorized to sign checks written on the bank depository account: Mayor, City Secretary, and Finance Director. All checks require two (2) authorized signatures- one Elected Official signature and one Authorized Employee signature. No exceptions.
- **Accounting:** The City Finance Director is responsible for establishing the structure for the City Chart of Accounts and for assuring that procedures are in place to properly record financial transactions and report to the City Council. The Finance Director shall provide financial reports to the Mayor, City Council, and City Manager monthly. The Finance Director meets with the City’s Committee on a quarterly basis to review financial statements, investment reports and the status of current audit activities and/or results.
- **Audit of Accounts:** An independent audit of City accounts is performed annually. The Auditor is retained by and is accountable directly to the Mayor and the City Council. The City Council

reviews the selection every five (5) years unless circumstances deem otherwise. The City will follow the audit requirements as outlined in the audit section of this document.

- **Internal Controls:** Whenever possible, written procedures will be established, maintained, and assessed per 2 CFR 200.303 by the City Manager and Finance Director for all functions involving cash handling and/or accounting throughout the City. These procedures will embrace the general concepts of fiscal responsibility set forth in this policy statement.

Other internal controls the City follows include the following:

- A chart of accounts will include account names and the numbers assigned to each and provides the following categories: assets, liabilities, net assets/fund balance, revenues, and expenses.
- Maintaining journal entries that are properly approved and supported by adequate source documentation and note the effective period of the agreement, list disbursement amounts paid out (or properly accrued); expended on eligible items; and approved by the appropriate official(s) within the organization.
  - Adequate documentation is not limited to but includes signed purchase orders with invoices to support authorizations, timecards to support labor, detailed receipts to support spending, periodic monitoring reports with support of review, and approval by management.
- Maintaining hiring policies (City of Port Lavaca HR and Workplace Policies. October 8<sup>th</sup>, 2018) that ensure financial staff qualifications are equal to job responsibilities and that individuals hired are competent to do the job.
- Adequately controlling access to accounting records, assets, blank forms, and confidential records, such that only authorized persons may access them.
- Conducting periodic comparisons of financial records to actual assets and liabilities (i.e., reconciliation).
  - Monthly reconciliation and verifications of cash balances with bank statements shall be made by employees who do not handle or record cash, or sign checks.
- Maintaining accounting records indicating the amounts budgeted for eligible activities and establishing Budget Controls (i.e. procedures to compare and control expenditures against approved budgets throughout the period of performance).
- Comparing actual obligations and expenditures to date against planned obligations and expenditures, and against projected accomplishments.
- Reporting deviations from budget and program plans and requesting approval for budget and program plan/scope revisions.
- Monitoring updated ARPA-SLFRF related regulations and guidance to continue integration into local implementation and/or financial management procedures.
- Reviewing, investigating, and/or reporting all claims of fraud, waste, or abuse related to ARPA-SLFRF addressing identified control risks and remediating plans while targeting continuous process improvements.

## **PROCEDURES FOR INVOICE REVIEWS & PAYMENTS**

- An invoice is received and, if necessary, a request for payment is prepared by a grant consultant and proper signatures obtained from Mayor, City Manager, Finance as authorized in the most updated grant signatory form.
- The Finance Department reviews the invoice and compares it to the grant budget.



- Invoices must be approved by The Mayor, City Manager, or Finance Director. Approval is acknowledged by initialing the original invoice or through City Council action
- All checks require two (2) signatures- one Elected Official signature and one Authorized Employee. Authorized signatures are the Mayor, City Secretary, and Finance Director. The two (2) signatures appear on the approved checks. Checks are then distributed to the appropriate vendors. The Finance Director is responsible for ensuring that checks are signed and distributed within five (5) calendar days.
- Copies of the request for payment, invoice, canceled check copy, and bank statement showing receipt of grant money are retained in the grant file in the Finance Department.
- The Finance Department is responsible for reconciling the monthly bank statements.

## **SECTION 6 – PROPERTY MANAGEMENT & DISPOSITION**

The City provides safeguards for all property, whether cash or other assets. Personnel duties will be segregated to the extent practicable for the City such that the individual or personnel responsible for the physical custody of an asset will be distinct from the designated personnel keeping the records related to assets.

The City will continue to monitor, track, and assess that all assets are being used solely for authorized purposes. The City will provide proper reporting and resolve discrepancies according to Treasury and applicable Uniform Administrative requirements.

As outlined in the ARPA Final Rule FAQ, *except* for property, supplies, or equipment acquired using *revenue loss funds (EC 6.1)*, the City must follow the applicable provisions of the Uniform Guidance regarding property standards (2 CFR 200.310-316), subject to the requirements set out in the Final Rule FAQ (13.16). During the period of performance, a recipient may use property, supplies, or equipment purchased or improved with ARPA funds for a purpose other than the purpose for which it was purchased or improved if such other purpose is also consistent with the eligible use requirements.

If the City changes the use of an asset to an ineligible use or sells the asset prior to the end of the period of performance, then the City will follow the disposition procedures in the Uniform Guidance. See 2 CFR 200.311, 200.313, 200.314, and 200.315.

After the period of performance, the property, supplies, or equipment must be used consistent with the purpose for which it was purchased or improved or for any other eligible purpose in the same category as the purpose reported to Treasury as of the final reporting period, as set forth in the table below:

<b>Category</b>	<b>Use Requirements</b>
Public Health and Assistance to Households and Individuals	Property, supplies, or equipment last reported as being used to respond to the public health impacts of the public health emergency, as outlined in 31 CFR 35.6(b)(3)(i) or being used for the provision of services to households provided in 31 CFR 35.6(b)(3)(ii)(A), are authorized to fulfill any eligible use of funds provided in these subparagraphs of the Final Rule.

Category	Use Requirements
Assistance to Small Businesses, Nonprofits, and Impacted Industries	Property, supplies, or equipment last reported as being used for the provision of services to small businesses, nonprofits, and impacted industries outlined in 31 CFR 35.6(b)(3)(ii)(B)-(D) are authorized to fulfill any eligible use of funds outlined in the public health and negative economic impacts eligible use category.
Water, Sewer, or Broadband Infrastructure	Property, supplies, or equipment last reported as being used to make investments in water, sewer, or broadband infrastructure pursuant to 31 CFR 35.6(e) are authorized to fulfill any eligible use of funds outlined in the water, sewer, and broadband infrastructure eligible use category.
Government Services/Revenue Loss	Property, supplies, or equipment acquired with revenue loss funds are exempt from the use and disposition requirements of the Uniform Guidance, regardless of award size.
Premium Pay	N/A

If an asset’s use shifts within the parameters of the eligible purpose according to the above table after the period of performance, no repayment would be required. For example, converting a hospital to a behavioral health facility would qualify as being used for the eligible purpose because both expenditures respond to the public health impacts of the public health emergency, as outlined in 31 CFR 35.6(b)(3)(i), so reimbursement to Treasury would be unnecessary.

If an asset’s use shifts outside the parameters of the eligible purpose according to this table after the period of performance, then the City will follow the disposition procedures in the Uniform Guidance. See 2 CFR 200.311, 200.313, 200.314, and 200.315.

## SECTION 7 – AUDITS

The City follows all prescribed federal, state, and local audit requirements. Specifically, for all federal funds, the *Uniform Guidance, Subpart F* provides additional standards for non-federal entities that expend \$750,000 or more in federal awards during each fiscal year, including the requirement to have a single audit or program-specific audit.

- Single audits (or alternative audits, if applicable) are to be performed by independent public accounting firms engaged by the City.
- Costs for single audits are borne by the City and are allowable expenditures under ARPA-SLFRF.
- A program-specific audit may be conducted in lieu of a single audit only when ARPA funds are the only federal expenditures represented in a given fiscal year.

More specifically to ARPA-SLFRF and in lieu of a single audit, an “Alternative Compliance Examination Engagement” (ACEE) may also be applicable to the City for each fiscal year during the period of performance, if other (non-ARPA) federal expenditures *did not* exceed \$750,000 beyond the ARPA expenditures.

If the City (and any of its subrecipients) expends less than \$750,000 in a fiscal year in federal funds, a single audit or program-specific audit will NOT be required for that year.

As agreed upon in the ARPA-SLFRF Award Terms and Conditions, all City records pertinent to the financial and programmatic aspects of the ARPA-SLFRF allocation will be fully accessible. The City (and its selected auditors) will consult the most up-to-date *Compliance Supplement* which provides information on the existing, important compliance requirements that the federal government expects to be considered for either the single audit or the alternative audit.

If single audits or program-specific audits are required, the City will submit the requisite audit reports to the Federal Audit Clearinghouse (FAC) thirty (30) to sixty (60) days after receipt of the auditor's report(s), or nine (9) months after the end of the fiscal year-end date, whichever comes first.

Alternative audits have the same completion timelines as single audits, but the audit report will be required to be uploaded to the Treasury's portal (as outlined in the Treasury's *Alternative Compliance Examination Engagement Report User Guide*) rather than to the FAC.

At the completion of the audit, the City will prepare, in a document separate from the auditor's findings as described in the Audit Findings section, a corrective action plan to address each audit concern or finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for the corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons.

Corrective action means action taken by the City that:

- a. Corrects identified deficiencies.
- b. Produces recommended improvements; or
- c. Demonstrates that audit findings are either invalid or do not warrant auditee action.

The City considers continuous process improvement as critical to operations and will respond to all audit concerns in a timely manner.

**Best Practice:** To demonstrate a commitment to financial accountability and transparency, the City may also decide to obtain an annual independent financial statement audit, when practical. The City also produces internal financial statements at least quarterly, at minimum, income statements and statements of financial position (balance sheet), which are monitored by leadership and the board.

## **SECTION 8 – STANDARD OF CONDUCT & CONFLICT OF INTEREST POLICY**

The City will maintain a conflict-of-interest policy consistent with 2 CFR § 200.318(c) and that such conflict-of-interest policy will be applicable to each activity funded under this award.

City officials, employees, and affiliates may not have a direct or indirect interest, including financial and other interests, engage in a business transaction or professional activity, or incur an obligation of any nature that is in substantial conflict with the proper discharge of the officer or employee's duties in the public interest. By statute, officers and employees must comply with certain ethical responsibilities and disclosure obligations. The consequences for noncompliance may include a void contract, personal liability for ultra vires acts, or a criminal penalty. For specific information regarding the professional standards applicable to a particular business transaction, City employees or officers will consult with the City's legal counsel or other designated representative.

## **SECTION 9 – FINANCIAL RECORDS MANAGEMENT & RETENTION**

The City will adhere to the following record-keeping policies, as agreed upon in the CLFRF Award Terms and Conditions and as outlined in 2 CFR 200.334-337.

- a. The City will maintain records and financial documents sufficient to evidence compliance with section 603(c) of the Act and all Treasury's regulations and guidance related to implementing that section.
- b. The Treasury Office of Inspector General and the Government Accountability Office, or their authorized representatives, will have the right of access to records (electronic and otherwise) of the City to conduct audits or other investigations.
- c. Records will be maintained by the City for a period of five (5) years after all funds have been expended or returned to Treasury, whichever is later.

Accounting records will be maintained to adequately identify the source and application of funds provided for ARPA-funded activities. Accounting records should also be fully supported by source documentation.

Source documentation should explain the basis of the costs incurred and the actual dates of the expenditure. For example, source documentation on payments to contractors would include a request for payment, proof of inspection to verify work and materials, and canceled checks.

Financial records include, but are not limited to the following:

- Transaction registry documenting:
  - All invoices associated with each Request for Payment; and
  - Source of funds for each invoice (disbursed funds by activity, matching funds, and/or other funds)
- Although not limited to the list below, source documentation will typically include the following:
  - Executed contract/purchase agreements, with terms and conditions
  - Purchase orders, invoices, and contractor requests for payments
  - Purchase vouchers/receipts
  - Payrolls
  - Time and attendance records
  - Addendum record of direct deposit payments
  - Verification of deposits
  - Monthly bank statements with canceled checks
  - Check register/transaction ledger
  - Employee time sheets; if applicable
  - Equipment time record sheets
  - Property inventory
  - Performance/milestone reports or other status reports
  - Electronic Transfer Form (ETF), etc.

Additional documentation examples related to financial management include a chart of accounts, financial statements, audit reports and corrective action plans, procurement records (micro-small through formal competitive procurements), etc.

## **SECTION 10 – MONITORING & REPORTING**

The City will comply with all Treasury reporting requirements and submit all expenditure data in a timely manner. Financial statements and reporting will be complete, current, and reviewed periodically to provide complete disclosure of the financial results of all federally sponsored projects or programs.

All recipients of federal funds must complete financial, performance, and compliance reporting. Expenditures may be reported on a cash or accrual basis, as long as the methodology is disclosed and consistently applied.

Reporting must be consistent with the definition of expenditures pursuant to 2 CFR 200.1. The City will appropriately maintain accounting records for compiling and reporting accurate, compliant financial data, in accordance with appropriate accounting standards and principles.

Financial reporting will include Treasury-required data and will be aligned in accordance with [2 CFR 200.302], to include budgeted project amounts, advances/reimbursements received to date, actual expenditures/ disbursements, current encumbrances/obligations, program income (if applicable), and other miscellaneous receipts, and any unpaid requests for payments.

The City will report **obligations** and **expenditures** by project according to the corresponding Expenditure Category (EC). As noted in the Treasury’s Compliance & Reporting Guidance, there are a wide range of eligible uses of the SLFRF funds, and the Treasury must be able to track how funds are used by recipients for oversight and transparency purposes.

ARPA reporting will follow the schedule and guidance outlined by the Treasury (shown below) and be accurate and specific in describing the project activity within the ARPA-SLFRF approved period of performance.

For the SLFRF program, reporting requirements vary by recipient type, as shown in the table that follows. Detailed instructions for the completion and submission of each report are covered in Part 2 of the *Compliance & Reporting Guidance*.

The reporting phase is anticipated to end once the ARPA funds are fully expended with a 0 balance, or April 30, 2027 (whichever is sooner).

### Reporting Requirements by Recipient Type

Tier	Recipient	Interim Report	Project and Expenditure Report	Recovery Plan Performance Report
1	States, U.S. territories, metropolitan cities and counties with a population that exceeds 250,000 residents	By August 31, 2021 or 60 days after receiving funding if funding was received by October 15, with expenditures by	By January 31, 2022, and then the last day of the month after the end of each quarter thereafter.  <i>Note: NEUs were not</i>	By August 31, 2021 or 60 days after receiving funding, and annually thereafter by July 31.

2	Metropolitan cities and counties with a population below 250,000 residents that are allocated more than \$10 million in SLFRF funding, and NEUs that are allocated more than \$10 million in SLFRF funding	category.  <i>Note: NEUs were not required to submit an Interim Report.</i>	<i>required to submit a Project and Expenditure Report on January 31, 2022. The first reporting date for NEUs was April 30, 2022.</i>	
3	Tribal Governments that are allocated more than \$30 million in SLFRF funding.			
4	Tribal Governments that are allocated less than \$30 million in SLFRF funding.		By April 30, 2022, and then annually thereafter.	
5	Metropolitan cities and counties with a population below 250,000 residents that are allocated less than \$10 million in SLFRF funding, and NEUs that are allocated less than \$10 million in SLFRF funding.			

Note: Based on the period of performance, reports will be collected through April 30, 2027.

### Monitoring Subrecipient Activities and Compliance

The City understands the requirements to manage and monitor their subrecipients to ensure compliance with requirements of the SLFRF award pursuant to 2 CFR 200.332 regarding requirements for pass-through entities.

Projects funded under the 6.1 Revenue Loss category are not subject to subrecipient designations or monitoring.

Except for projects classified under the revenue loss expenditure category, the City will clearly identify to the subrecipient: (1) that the award is a subaward of SLFRF funds; (2) any and all compliance requirements for use of SLFRF funds; and (3) any and all reporting requirements for expenditures of SLFRF funds.

The City will also evaluate each subrecipient’s risk of noncompliance based on a set of common factors. These risk assessments will include factors such as prior experience in managing federal funds, previous audits, personnel, and policies or procedures for award execution and oversight. Ongoing monitoring of any given subrecipient should reflect its assessed risk and include monitoring, identification of deficiencies, and follow-up to ensure appropriate remediation.

The City will develop and adhere to written policies and procedures for subrecipient monitoring and risk

assessment and maintain records of all award agreements identifying or otherwise documenting subrecipients' compliance obligations (City of Port Lavaca Procurement policies and Procedures for Federal Grants).

## **SECTION 11 – PROCUREMENT**

The City as an ARPA Recipient will comply with the applicable requirements of the Uniform Guidance regarding procurement, contracting, and conflicts of interest and follow the applicable laws and regulations of our jurisdiction. When policies are overlapping or duplicated, the most stringent version will be followed.

Projects funded under the 6.1 Revenue Loss category are not subject to the procurement requirements outlined under 2 CFR 318-326 but are still required to follow the state and local requirements that the City typically adheres to for all local purchases.

Except for projects classified under the revenue loss expenditure category, the City will follow the ARPA required procurement requirements as prescribed, specifically in the uniform guidance 2 CFR 318-2 CFR 326.

To the extent practicable, the City will adapt established and standardized procurement materials and will ensure the ARPA-SLFRF provisions are included, as applicable. Authorized procurement specialists, legal, or other authorized City representatives will review all procurement and related contract content for quality prior to publication and execution.

Additionally, the City has written guidance outlining all procurement-related roles (Purchasing Policy and Procedures The City of Port Lavaca, July 2022, 1.06, p 9-10) including levels of authorization and approvals necessary for all purchasing and contracting transactions.

Important procurement and contracting regulations from 2 CFR Part 200 that the City will follow include:

- Maintaining records to sufficiently detail the history of the procurement. These records include but are not necessarily limited to, the rationale for the method of procurement, selection of contract type, contractor selection or rejection, basis for the contract price, the contract document, and any contract modifications with signatures of all parties.
- Setting up procurements in a manner providing full and open competition, outside of justifiable emergency purchases and/or sole source scenarios.
- Performing a cost or price analysis in connection with every procurement action in excess of the Simplified Acquisition Threshold, including contract modifications. The method and degree of analysis is dependent on the facts surrounding the procurement situation, but as a starting point, non-federal entities must make independent estimates before receiving bids or proposals.
- Ensuring “Cost Plus a Percentage of Cost and Percentage of Construction Costs” are avoided as these methods of contracting are not allowed under the Uniform Guidance (2 CFR § 200.324).
- Using time-and-materials-type contracts only after determining that no other contract is suitable and including a ceiling price that the contractor exceeds at its own risk.
- Maintaining oversight to ensure contractors perform according to the terms, conditions, and specifications of their contracts or purchase orders.

## SECTION 12 – COST PRINCIPLES

The Uniform Guidance (2 CFR 200 Subpart E) requires recipients of federal assistance to have written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the federal cost principles and the terms and conditions of the award.

The 2 CFR Part 200, Subpart E is applicable to expenditures under SLFRF unless stated otherwise. Given the purpose and very broad scope of eligible uses of the *revenue replacement funds* ( $\geq$ \$10M allocation), only a subset of the requirements in 2 CFR Part 200, Subpart E applies to the use of such funds, as follows:

- 2 CFR 200.400(a) - (c), and (e) Policy Guide
- 200.403(a), (c), (d), (g), and (h) Factors affecting allowability of costs; and
- 200.404(e) Reasonable costs.

**Allowable:** As outlined in 2 CFR § 200.403, a cost is allowable when it is compliant with the terms and conditions of the federal award and implementing agency regulations, and the Uniform Guidance (UG).

**Allocable:** As outlined in 2 CFR § 200.405, a cost is allocable if either (1) it is incurred solely to benefit an ARPA-SLFRF-eligible project, or (2) it benefits both an ARPA-SLFRF-eligible project and another ARPA-SLFRF-eligible project or other work of the local government, in proportions that can be approximated using reasonable methods. A local government must use a consistent method for allocating costs. Some costs will be charged directly to the grant award and other costs may be included in an indirect cost pool.

**Reasonable:** As described in 2 CFR § 200.404 cost is reasonable when, 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. In determining the reasonableness of a given cost, consideration must be given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-federal entity or the proper and efficient performance of the federal award.
- The restraints or requirements imposed by such factors as sound business practices; arm's-length bargaining; federal, state, local, and other laws and regulations; and terms and conditions of the federal award;
- Market prices for comparable goods or services for the geographic area.

**Consistently applied:** A cost is consistently applied when it is applied uniformly to both federally funded and other activities of the local government.

**Properly documented:** A local government must document its allocation method and its system of internal controls that provide reasonable assurance that amounts charged are accurate, allowable, and properly allocated.

Below is a list of allowable costs, allowable costs with restrictions, and unallowable costs that will be considered prior to project selection, obligations, and subsequent disbursement approvals.





## Unallowable Activities & Costs

In addition to the Treasury’s specifically stated ineligible costs, listed in **Section 4 – Ineligible Costs and Recoupment**, other unallowable costs include unnecessary costs that are not needed or required to achieve the objectives of the ARPA Terms and Conditions, 31 CFR Part 35 – the Final Rule, and the Project & Expenditure Guidance.

Fiscal Recovery Funds are also subject to the provisions of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR 200 – the Uniform Guidance), including the cost principles and restrictions on general provisions for selected items of cost. These cost principles include restrictions that would apply to all federal awards unless otherwise stated.

The following are example cost types that are not allowed (or unallowed with some exceptions) according to 2 CFR 200.400, Subpart E:

Selected Items of Cost	Uniform Guidance General Reference	Allowability
Alcoholic Beverages	<a href="#">2 CFR §200.423</a>	Unallowable
Bad Debts	<a href="#">2 CFR §200.426</a>	Any losses arising from uncollected accounts and other claims, and related costs are unallowable
Contingency Provisions	<a href="#">2 CFR § 200.433</a>	Unallowable with exceptions
Contributions and Donations	<a href="#">2 CFR §200.434</a>	Costs of contributions and donations, including cash, property, and services from the recipient to other entities is unallowable
Certain Depreciation or Use Allowances	<a href="#">2 CFR §200.436</a>	Unallowable on any portion of the buildings and equipment purchased with Federal funds or contributed to meet statutory matching requirements
Funds to Benefit Political Campaigns	NA	Unallowable
Entertainment	<a href="#">2 CFR §200.438</a>	Although minor exceptions may apply, costs for amusement, social activities, ceremonials, hospitality, and activities relating thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable
Fines and Penalties	<a href="#">2 CFR §200.441</a>	Resulting from violations of, or failure to comply with Federal, State, and local laws and regulations are unallowable. Some exceptions apply
Fundraising	<a href="#">2 CFR § 200.442</a>	Includes costs of organized fundraising, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable. Some exceptions apply
*General Costs of Government	<a href="#">2 CFR § 200.444</a>	Exceptions apply, most particularly under <i>EC 6.1 Revenue Loss cost allocations under ARPA – SLFRF</i> , but otherwise unallowable

Selected Items of Cost	Uniform Guidance General Reference	Allowability
Goods and Services for Personal Use	<a href="#">2 CFR § 200.445</a>	Goods and services for personal use are unallowable although some exceptions may apply for housing
Idle Facilities and Idle Capacity	<a href="#">2 CFR § 200.446</a>	Idle facilities – unallowable with exceptions; Idle capacity – allowable with restrictions
Lobbying Costs – includes direct legislative lobbying and grassroots lobbying	<a href="#">2 CFR §200.450</a>	Unallowable
Losses on Other Awards or Contracts	<a href="#">2 CFR § 200.451</a>	Unallowable
Organization Costs	<a href="#">2 CFR § 200.455</a>	Unallowable unless federal prior approval
Participant Support Costs	<a href="#">2 CFR § 200.456</a>	Only allowable with prior approval of the federal awarding agency
Selling and Marketing Costs	<a href="#">2 CFR § 200.467</a>	Unallowable with exceptions
Student Activity Costs	<a href="#">2 CFR § 200.469</a>	Unallowable unless specifically provided for in the federal award

### Allowable Costs

In addition to the enumerated expenditure categories and other generally allowable activities/costs outlined in 31 CFR Part 35 – the Final Rule, the Project & Expenditure Report User Guide, the FAQs, and other Treasury source guides, the following summarized costs are typically allowable federal costs (although most of the following cost categories have *restrictions*) according to 2 CFR 200.400, Subpart E:

Selected Items of Cost	Uniform Guidance General Reference	Allowability
<b><i>* All expenditures using Revenue Loss funds (EC 6.1) should follow local policies for prudent spending and may have a broader coverage of allowable costs.</i></b>		
Advertising and Public Relations	<a href="#">2 CFR § 200.421</a>	Allowable with restrictions
Advisory Councils	<a href="#">2 CFR § 200.422</a>	Allowable with restrictions
Bonding Costs	<a href="#">2 CFR § 200.427</a>	Allowable with restrictions
Collection of Improper Payments	<a href="#">2 CFR § 200.428</a>	Allowable
Compensation – Personal Services	<a href="#">2 CFR § 200.430</a>	Special conditions apply [e.g., § 200.430(i)(5)]
Compensation – Fringe Benefits	<a href="#">2 CFR § 200.431</a>	Allowable with restrictions
Conferences	<a href="#">2 CFR § 200.432</a>	Allowable with restrictions
Defense and prosecution of criminal and civil proceedings, claims, appeals, and patent infringements	<a href="#">2 CFR § 200.435</a>	Allowable with restrictions
Depreciation	<a href="#">2 CFR § 200.436</a>	Allowable with qualifications
Employee Health and Welfare Costs	<a href="#">2 CFR § 200.437</a>	Allowable with restrictions
Exchange Rates	<a href="#">2 CFR § 200.440</a>	Allowable with restrictions
Insurance and Indemnification	<a href="#">2 CFR § 200.447</a>	Allowable with restrictions

Selected Items of Cost	Uniform Guidance General Reference	Allowability
<i>* All expenditures using Revenue Loss funds (EC 6.1) should follow local policies for prudent spending and may have a broader coverage of allowable costs.</i>		
Intellectual Property	<a href="#">2 CFR § 200.448</a>	Allowable with restrictions
Interest	<a href="#">2 CFR § 200.449</a>	Allowable with restrictions
Maintenance and Repair Costs	<a href="#">2 CFR § 200.452</a>	Allowable with restrictions
Materials and Supplies Costs, including costs of computing devices	<a href="#">2 CFR § 200.453</a>	Allowable with restrictions
Memberships, Subscriptions, and Professional Activity Costs	<a href="#">2 CFR § 200.454</a>	Restrictions apply and unallowable for lobbying organizations
Plant and Security Costs	<a href="#">2 CFR § 200.457</a>	Allowable; capital expenditures are subject to 2 CFR § 200.439
Professional Services Costs	<a href="#">2 CFR § 200.459</a>	Allowable with restrictions
Proposal Costs	<a href="#">2 CFR § 200.460</a>	Allowable with restrictions
Publication and Printing Costs	<a href="#">2 CFR § 200.461</a>	Allowable with restrictions
Rearrangement and Reconversion Costs	<a href="#">2 CFR § 200.462</a>	Allowable (ordinary and normal)
Recruiting Costs	<a href="#">2 CFR § 200.463</a>	Allowable with restrictions
Relocation Costs of Employees	<a href="#">2 CFR § 200.464</a>	Allowable with restrictions
Rental Costs of Real Property and Equipment	<a href="#">2 CFR § 200.465</a>	Allowable with restrictions
Specialized Service Facilities	<a href="#">2 CFR § 200.468</a>	Allowable with restrictions
Taxes (including Value Added Tax)	<a href="#">2 CFR § 200.470</a>	Allowable with restrictions
Termination Costs	<a href="#">2 CFR § 200.472</a>	Allowable with restrictions
Training and Education Costs	<a href="#">2 CFR § 200.473</a>	Allowable with restrictions, for employee development
Transportation Costs	<a href="#">2 CFR § 200.474</a>	Allowable with restrictions
Travel Costs	<a href="#">2 CFR § 200.475</a>	Allowable with restrictions

The City understands funds may be used for administering the SLFRF program, including costs of consultants to support effective management and oversight, including consultation for ensuring compliance with legal, regulatory, and other requirements. Costs must be reasonable and allocable as outlined in 2 CFR 200.404 and 2 CFR 200.405. Pursuant to the SLFRF Award Terms and Conditions, direct and indirect costs may be charged to their ARPA award as administrative costs as long as they are accorded consistent treatment per 2 CFR 200.403.

Direct costs are those that are identified specifically as costs of implementing the ARPA program objectives, such as contract support, materials, and supplies for a project.

Also review **Section 15 – Match, Braided Funds & Loans** for more specific details on allowable and unallowable cost scenarios.

Below are the City's procedures for determining reasonableness, allocability, and allowability of costs:

- A. **Review and understand the Treasury's Award Terms and Conditions** as well as the federal cost principles that govern the project funding.
- B. **Determine allowability, allocability, and cost reasonableness of all activities funded by ARPA-SLFRF and associated costs.** The initial assessment will be conducted at the project identification or selection stage to ensure eligibility, and then ongoing reviews and evaluations will continue throughout the course of the project prior to each invoice approval or disbursement.
  - a. Measures to assess (City of Port Lavaca Procurement Policies and Procedures for Federal Grants 2019 June, 10<sup>th</sup>) reasonableness will vary based on the items and context of the purchase. Micro and Small purchase types will be informal whereas formal purchases may require more analysis. The City will use approaches such as individual itemized cost analysis or total price comparisons when multiple vendors bid on items. Independent cost estimates and market research will often be conducted to assess and compare prices. Historical price data and pricing based on prior competitions for similar purchase types may also be used as a means to assess cost reasonableness.
- C. **Monitor, track, and report funds** routinely against approved budgets, obligations, and expenditures and identify direct and indirect costs. Keep all records organized and easily accessible for potential audits or reviews.
- D. **Document the process.** The City will maintain thorough documentation to support determinations and all associated costs.
- E. **Seek Guidance.** The City will seek guidance when there is uncertainty or complexity in the determination process by consulting with appropriate personnel such as financial officers, legal advisers, internal auditors, or grant administrators. Also, the City will seek clarification from the funding agency as needed to ensure that costs meet the necessary standards.
- F. **Implement Corrective Actions.** If any costs are later found to be unreasonable, unallocable, or unallowable, the City will assess for most appropriate actions and ensure process improvements are documented and implemented into ongoing operations. This may involve reallocating costs, adjusting budgets, or seeking approval for cost transfers or other remedies per the requirements provided by the Treasury and outlined in the Uniform Guidance.

## **SECTION 13 – CASH MANAGEMENT & DISBURSEMENTS**

The City will budget, forecast, and routinely analyze cash flow statements. In addition to the City's established financial management procedures and related internal controls, efficient cash management ensures that funds are used optimally, and timely disbursements are made for all ARPA-SLFRF-funded activities. This City will ensure that all disbursements align with federal, state, and local policies.

While not stated specifically in the Final Rule, the Treasury does not require or have a preference as to the payment structure for recipients that transfer funds to subrecipients (e.g., advance payments, reimbursement basis, etc.). Ultimately, it is the City's responsibility to comply with the eligible use requirements and any other applicable laws or requirements and are responsible for the actions of their subrecipients or beneficiaries.

The City may first opt for reimbursement-based payments, when feasible. However, the City will ultimately determine the most effective approach to accomplish the objectives of the project. All disbursements will be for allowable, allocable, and reasonable costs and will be supported by legal agreements and/or other relevant source documentation.

Not limited to the following examples but as part of internal control policies related to cash management and disbursements, the City uses prenumbered checks for all disbursements made by check. Unused check supplies are stored in a secure location with only authorized representatives having access. Blank checks are not to be signed in advance, checks are never made payable to cash, and checks are made only by representatives who are not also authorized to sign them. Authorized check signers must thoroughly review invoices and supporting documents and verify the receipt of all goods and services. Disbursements are only made to authorized vendors and all employees have a secure personnel file that at a minimum includes hiring authorization, salary history, hours authorized to work, federal and state withholding forms, health insurance and retirement deduction information, and authorization for all other payroll deductions.

## **SECTION 14 – PROGRAM INCOME**

Program income policies and procedures under the American Rescue Plan Act’s State and Local Fiscal Recovery Fund (ARPA-SLFRF) help ensure fiscal responsibility and regulatory compliance while maximizing the impact of federal assistance. Program Income, when applicable to the project, will be identified, tracked, reported, and appropriately utilized.

*As clarified in the Final Rule FAQ 13.15, program income requirements of 2 CFR 200.307 do not apply under the revenue loss (EC 6.1) eligible use category. As such, recipients may maintain program income, which will not be considered an addition to the federal award.*

Per Uniform Guidance definitions in 2 CFR 200.1, Program Income means gross income earned by the non-federal entity (the ARPA Recipient and its subrecipients) that is directly generated by a supported activity or earned as a result of the federal award (ARPA-SLFRF allocation) during the *period of performance* except as provided in § 200.307(f).

The U.S. Department of the Treasury has clarified in its Final Rule FAQs that recipients may add program income to the federal award. Any program income generated from SLFRF funds must be used for the purposes and under the conditions of the federal award.

Program income includes but is not limited to income from fees for services performed, the use or rental of real or personal property acquired under federal awards, the sale of commodities or items fabricated under a federal award, license fees and royalties on patents and copyrights, and principal and interest on loans made with federal award funds. For any SLFRF funded loans, the City will follow Treasury’s guidance on tracking and disposing of program income from loans, consistent with the statutory requirements and timing of SLFRF expenditures.

Program income does *not* include:

- Interest earned on advances of federal funds, rebates, credits, discounts, or interest on rebates, credits, or discounts;
- Income earned from the investment of initial proceeds of a grant advance from the U.S. Treasury;
- Proceeds from subrecipient fundraising activities;

- Taxes, special assessments, levies, fines, and other such revenues raised by a non-federal entity are not program income unless the revenues are specifically identified in the federal award or federal awarding agency regulations as program income;
- Proceeds from the sale of real property, equipment, or supplies are not program income; such proceeds will be handled in accordance with the requirements of the Property Standards [§§ 200.311, 200.313](#), and [200.314](#), or as specifically identified in federal statutes, regulations, or the terms and conditions of the federal award.

## **SECTION 15 – MATCH, BRAIDED FUNDS, & LOANS**

### **LOANS**

SLFRF funds may be used to make loans, provided that the loan supports an activity that is an eligible use of funds, the SLFRF funds used to make the loan are obligated by December 31, 2024, and expended by December 31, 2026, and the cost of the loan is tracked and reported in accordance with the Final Rule.

In using SLFRF funds to make loans, recipients must be able to determine the amount of funds used to make a loan and must comply with Treasury guidance, all restrictions on the timing of the use of funds, and restrictions in the Uniform Guidance.

### **MATCH**

SLFRF funds may be, but are not required to be, used along with other funding sources for a given project. As indicated by Treasury, the City understands that ARPA-SLFRF funds available under the “revenue loss” eligible use category generally may be used to meet the non-federal cost-share or matching requirements of other federal programs.

If the City decides to use SLFRF funds to satisfy match or cost-share requirements for a federal grant program, it will first be confirmed with the relevant awarding agency that no waiver has been granted for that program, that no other circumstances enumerated under 2 CFR 200.306(b) would limit the use of ARPA-SLFRF funds to meet the match or cost-share requirement, and that there is no other statutory or regulatory impediment to using the ARPA-SLFRF funds for the match or cost-share requirement.

SLFRF funds beyond those that are available under the revenue loss eligible use category may not be used to meet the non-federal match or cost-share requirements of other federal programs, other than as specifically provided for by statute. As an example, the *Infrastructure Investment and Jobs Act (IIJA)* provides that SLFRF funds may be used to meet the non-federal match requirements of authorized Bureau of Reclamation projects and certain broadband deployment projects. The final rule will be consulted for further details if the City’s seeks to utilize ARPA-SLFRF funds as a match for these projects.

### **BRAIDED FUNDS**

Blending and braiding refers to using multiple sources of funding for complementary purposes and provided that the costs are eligible costs under each source program and compliant with all other related statutory and regulatory requirements and policies, including restrictions on use of funds, is allowable under ARPA-SLFRF.

The use of ARPA-SLFRF funds on all braided projects would be subject to the (December 31, 2024) deadline on obligating funds and no later than (December 21, 2026), for expending funds and the ARPA

portion of the funding must cover an eligible use of funds. The City will report to Treasury on the date and amount of SLFRF funds obligated and expended for any portion of a project covered by ARPA funds.



## SECTION 16 – CLOSEOUT

As outlined in § 200.344, the federal awarding agency or pass-through entity will close out the federal award when it determines that all applicable administrative actions and all required work of the federal award have been completed by the City.

The City must submit, no later than one hundred twenty (120) calendar days after the end date of the period of performance, all financial, performance, and other reports as required by the terms and conditions of the ARPA-SLFRF award.

A subrecipient must submit to the City, no later than ninety (90) calendar days (or an earlier date as agreed upon by the pass-through entity and subrecipient) after the end date of the period of performance, all financial, performance, and other reports as required by the terms and conditions of the federal award.

The City must promptly refund any balances of unobligated and/or unexpended funds. See OMB Circular A-129 and see [§ 200.346](#), for requirements regarding unreturned amounts that become delinquent debts.

If the City does not submit all reports in accordance with uniform guidance requirements and the terms and conditions of the federal award, the City is aware the federal awarding agency will proceed to close out with the information available within one (1) year of the period of performance end date.

If the City does not submit all reports in accordance with this section within one (1) year of the period of performance end date, the federal awarding agency must report the non-federal entity's material failure to comply with the terms and conditions of the award with the OMB-designated integrity and performance system (currently FAPIIS). Federal awarding agencies may also pursue other enforcement actions per [§ 200.339](#).

PASSED AND APPROVED by the City Council of the City of Port Lavaca, Texas, this 8<sup>th</sup> day of April, 2024.

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Mayor Jack Whitlow

**ATTEST:**

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City Secretary Mandy Grant