CITY OF TOMBALL
ADMINISTRATIVE POLICIES, RULES AND PROCEDURES

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City of Tomball
Statement of Financial Goals and Policies
Finance Department

Version 1.0

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Finance Department
501 James St., Tomball, TX 77375

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Statement of Financial Goals and Policies

1.1 ORGANIZATIONAL GOAL STATEMENT

The overall financial and service goals of the City of Tomball are to provide the full range of statutorily required services to its citizens while maintaining the lowest prudent property tax rate. The City of Tomball intends to continue to expand non-tax revenues to allow for budgetary growth as dictated both by the growth in the City of Tomball population and the growth in the demand for the City's services. The City of Tomball will ensure that budgetary growth is balanced by increases in demand for services. The City of Tomball will provide for expansion and renewal of the infrastructure through the use of long-term debt when it is considered appropriate and fiscally responsible.

1.2 GENERAL POLICIES

The City of Tomball will operate on a fiscal year which begins on October 1 and ends on September 30.

The City of Tomball will conduct its financial affairs in conformity with State and Federal laws, and this Statement of Financial Policy, which shall be approved by and reviewed on an annual basis as part of the budget process.

1.3 ACCOUNTING, AUDITING, AND FINANCIAL PLANNING

The City of Tomball Finance Department will continue to maintain records on a basis consistent with accepted principles and standards for local government accounting, as determined by GASB and GFOA.

Regular quarterly and annual financial reports are issued summarizing financial activity by funds and department, and comparing actual resources and expenditures with budgeted amounts, as required by Articles 14.022, 114.024, 114.025, 111.091, and 111.092.

A financial audit will continue to be conducted annually by an independent public accounting firm, and an official opinion and annual financial report will continue to be published and issued, as authorized by Article 115.043.

The City of Tomball will continue to identify areas for evaluation efforts, by either staff, committees, or consultants, in order to judge the effectiveness and efficiencies of City of Tomball services.

Cost benefit studies will be conducted, where appropriate and applicable, on non-recurring expenditures and capital projects.
Full disclosure will continue to be provided in the annual financial and budget reports and bond representations, in accordance with Articles 115.045,

114.025, 111.091, and 111.092 of the Revised Statutes of Texas.

1.4 BUDGETING POLICIES

Budgetary Basis – The City of Tomball's budgetary basis and accounting records are maintained on a modified accrual basis and organized and operated on a fund basis in accordance with generally accepted accounting principles. Encumbrance accounting is utilized for materials, goods and services documented by purchase orders or contracts. The City of Tomball will increase the subsequent year's appropriations, but only, if necessary, to complete these transactions. The approved annual budget with amendments as approved by the City Council is the management control device utilized by the City of Tomball. Annual appropriated budgets are adopted for the General, Special Revenue, and Debt Service funds. All annual appropriations lapse at fiscal year-end. Encumbrance accounting, under which funds are reserved from purchase orders, contracts, and other commitments, is employed in these funds and as of September 30, encumbrances are subject to re-appropriations in the budget of the subsequent year.

The City of Tomball budgets resources on a fiscal year which begins on October 1 and ends on the following September 30.

Budget manuals are distributed, and budget module training sessions are held for annual budget preparation~~,~~ this includes forms, and instructions which are distributed to the City of Tomball Departments in March each year. Departments must return their proposals no later than April.

The recommended budget shall be prepared and distributed to the City Council members on or before July of the current fiscal year.

The proposed budget estimate shall be presented in the following format:

A. Revenue projections from all funding sources.
B. Operating and maintenance expenditures by object code, major expense categories, functionally related departments, and program summaries.
C. Debt Service is summarized by issues detailing principal, interest, and reserve amount by fund.

The proposed budget estimate shall also contain information regarding:

A. Proposed personnel staffing levels.
B. A detailed list of capital equipment to be purchased by each department.
C. A detailed schedule of capital projects.
D. Any additional information, data, or analysis requested by the City Council.

The proposed budgeted revenues shall be provided by the Finance

Department, including ad valorem taxes, grant revenues, and inter-fund transfers.

The City Council shall adopt the budget by Ordinance prior to October 1.

The City of Tomball budgeting procedures attempt to identify distinct functions and activities performed by the City of Tomball and to allocate budget resources adequate to perform these functions and activities at a specified level of service.

The City of Tomball will continue to integrate performance measurement and productivity indicators with the budget process where appropriate.

The encumbered, but not yet received purchases, as of September 30 will be re-appropriated in the subsequent fiscal year by a list prepared by the Finance Department with appropriate Budget Amendment.

City Council shall grant the authority to the City Manager to transfer expenditure appropriations from any department category of object codes to any other department or non-departmental major object code category. Transfers of such funds amount to a new appropriation and therefore must be adjusted prior to expenditure of such amounts.

Any transfer shall ONLY be made when it is submitted on the appropriate Budget Amendment Request or Intra-Departmental Operating Transfer forms. Each amendment request must be signed by an authorized departmental representative with review in the Finance Department. All transfer requests are submitted to the City Council for final approval.

1.5 BUDGET AMENDMENT POLICY

The City of Tomball allows the City Manager to request budget amendments throughout the fiscal year as follows:

BUDGET AMENDMENT STATUTE:

Pursuant to Local Government Code Section 111.070, the City Council may spend City of Tomball funds only in strict compliance with the budget. The City Council by order may amend the budget to transfer an amount budgeted for one item to another budgeted item without authorizing an emergency expenditure.

INTRA-DEPARTMENTAL OPERATING TRANSFER:

Transfers may be made between operating line items and surplus funds from capital items within an individual departmental budget. The City Manager has the authority to complete intra-departmental operating transfers when identified and requested.

ROUTINE BUDGET AMENDMENTS:

Includes transfer of funds within the maintenance and operation line items within departmental budgets. These items can be placed directly on the consent agenda.

NON-ROUTINE BUDGET AMENDMENTS:

Inter-Departmental – Any amendment which moves funds from budget to another budget, the request must be made to City Management and can be approved by the City Manager.

Inter-Fund – Where permitted by law, any amendment which moves funds from one fund to another fund must be presented to City Council for consideration and action.

Personnel – Requests to transfer funds from any salary or benefit account are allowed for the specific purpose of salary related expenditures such as contract labor. Budget-amendment requests for capital and operating accounts from personnel line items are allowed if there are no other funds available in that department's budget and the City Council deems it to be necessary.

Capital – Any request for additional capital equipment must be justified and specified in detail with cost estimates. Requests for additional capital items not included in the adopted budgeted or substitution of one item for another also require approval from the City Council. Surplus funds in a budgeted capital item can be transferred to cover a shortage up to $1,000 in another budgeted line item with an Intra-Departmental Operating Transfer.

Computers – Any request including computer equipment, software, computer maintenance or technological requests requires a written recommendation from Technology Services when submitting the Budget Transfer / Amendment Request Form.

The re-appropriation at the beginning of a fiscal year of funds committed under valid Purchase Orders of the City of Tomball but unspent by or the prior fiscal year requires a budget amendment from fund balance. These budget amendments have no net effect on spending but simply change the accounting year for expenditures.

Pursuant to Local Government Code, Section 111.014, the City Council may authorize a contingency item. The item must be included in the itemized budget under Section 111.004(a) in the same manner as a project for which an appropriation is established in the budget. Budget amendment(s) may be made against this item during the year in case of grave public ***necessity*** to meet an unusual and unforeseen condition that could not have been included in the original budget through the use of reasonably diligent thought and attention.

Pursuant to Local Government Code, Sections 111.0105 through 111.0108, when revenues not included in the original budget are received, such as proceeds of bonds or other obligations, grant or aid money, revenue from intergovernmental contract, and pledging revenues as security for bonds and other obligations, a budget amendment is required to expend those funds. The adopted City of Tomball-wide budget will increase however the revenues should exceed or equal the expenditure. This type of amendment must be submitted to the City Council for consideration and action.

Any transfer that creates an increase in budgetary commitment for the next fiscal year must be presented to the City Council for consideration and action.

New employee positions cannot be created without City Council consideration and action. Creation of a new position within a departmental budget will require that the City Council declare an emergency unless the actual line item under which that new position would be categorized currently exists within that specific budget. New employee requests outside of the budget must include substantial written justification for the position.

New line items can only be created for Contracts or Grant-based programs. For any other department, the creation of a new line item that has not been previously created for the specific department will require that the City Council declare an emergency in order to establish a new line item.

RESTRICTED LINE-ITEM TRANSFERS:

Certain line items have restrictions, which are only allowed for specific purposes.

City Council ordered expenditure can only be transferred to other City Council ordered line items.

Vehicle related expenditures can only be transferred to other vehicle-related line items.

Salary related expenditures – See Non-Routine Budget Amendments / Personnel.

Only excess funds from items requested and purchased can be transferred to another line item.

PROCEDURES:

Any request for a budget amendment must be justified and submitted to the Finance Department for review and submission to City Management. The Finance Department may hold a request that is not complete until clarified with the appropriate department.

The City Council reserves the right on a case-by-case basis, where legally permissible, to curtail a departments right to make Intra-Departmental Operating Transfers if the budget transfers appear to be making a programmatic change that was not approved by the City Council in budget hearings or if the financial condition of the department and/or the City of Tomball warrants such a curtailment.

Notification of approved Budget Amendments and Intra-Departmental Operating Transfers will be provided to the appropriate department(s) after the amendment is posted. The Finance Department is responsible for posting budget amendments once the Ordinance has all signatures and is received from the City Secretary's Office.

Budget Amendment Requests other than capital requests for the current fiscal year must be submitted to the Finance Department no later than August 1. Exceptions to the deadlines will be placed on the agenda for consideration by the City Council.

1.6 REVENUES AND TRANSFERS POLICIES

City of Tomball will maintain a diversified and stable revenue system to protect it from short-term fluctuations in any one revenue source by completing the following:

A. Establishing user charges and fees as permitted by law at a level related to the cost of providing that service including indirect costs.
B. Pursuing legislative changes and fees as permitted by law at a level related to the cost of providing that service including indirect costs.
C. Aggressively collecting property tax revenues, including the filing of lawsuits where appropriate and necessary, as authorized by the Texas Property Tax Code.

City of Tomball will pay for all current expenditures with current resources as required by Article XI, Section 7 of the Constitution, and by Article 111.091-111.092 of the Revised Statutes of Texas.

The City of Tomball will support the majority of operations of the road and Bridge districts from the vehicle registration fee authorized by the Texas Legislature, and property taxes.

1.7 CONTINGENCY FUND POLICIES

The City of Tomball will maintain an unappropriated contingency to provide for small increases in service delivery costs as well as unanticipated needs that may arise throughout the year.

THEREFORE, IT WILL BE NECESSARY FOR OFFICALS AND DEPRTMENT HEADS TO REVIEW AND CONTROL EXPENDITURES SUCH THAT THE RATE OF EXPENDITURE DOES NOT EXCEED THE APPROVED BUDGET.

Cases of anticipated material deviation should be covered by a request for a budget amendment. This request shall be from the Department Head in writing and include justification for such action.

Such requests should be submitted to the Budget Office for initial review, they will then process the request and forward to the City Council for their consideration and approval.

1.8 PERSONNEL POLICIES

The number of employees on the payroll shall not exceed the total number of positions approved unless authorized by City Council. All personnel actions shall at all times be in strict conformance with applicable federal, state, and City of Tomball policies.

Deletion and downgrades of positions may occur at any time during the fiscal year at City Management and the Department Director's request or if a review of workload statistics indicates that a reduction in force is practical in a department.

Additions, position reclassifications, reorganizations, and equity adjustments must be presented with the initial budget request. Exceptions to this policy will only be allowed with City Council approval.

The City Council may institute a freeze during the fiscal year on hiring, promotions, transfers, and capital equipment purchases. Such action will be used arbitrarily and will allow for exceptions in appropriate areas to comply and emergency needs such as natural disasters and/or loss of major revenue sources.

1.9 FIXED ASSET POLICIES

All purchases of physical assets with a value of $20,000 and an estimated useful life in excess of one year, except computer software, shall be placed on the City of Tomball inventory.

The City of Tomball will maintain these assets at an adequate level to protect City of Tomball's capital investment and to minimize future maintenance and replacement costs by providing for adequate maintenance of capital equipment and equipment replacement under the above stated amount in the annual operating budget.

Capital expenditures for projects and equipment are budgeted by item or project and must be spent accordingly. Any request for unbudgeted capital equipment or projects throughout the fiscal year must be submitted to the Finance Department and approved by the City Council as a budget amendment prior to a requisition being requested.

Where possible, items in good useable condition placed in surplus and will be used:

A. To supplement expenditure for new, budgeted capital purchases.
B. To supplement expenditure for replacement/budgeted capital purchases.
C. To supply needed unbudgeted new and replacement equipment.

1.10 DEBT MANAGEMENT POLICIES

City of Tomball recognizes the foundation of any well-managed debt program is a comprehensive debt policy. A debt policy sets forth the parameters for issuing debt and managing outstanding debt, and it provides guidance to decision makers regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt, method of sale that may be used and structural features that may be incorporated.

POLICY SUMMARY:

The City of Tomball will adhere to the following specific policy statements with regards to (1) conditions for debt issuance; (2) restrictions on debt issuance; (3) debt service limitations; (4) limitations on outstanding debt; (5) debt structure; (6) the debt issuance process; and (7) debt maintenance procedures.

Conditions for Debt Issuance – The City of Tomball will consider the use of debt financing only for capital improvement projects. Long-term borrowing will not be used to finance current operations or normal maintenance. Debt financing may include general obligation bonds, revenue bonds, certificate of obligation, certificates of participation, tax notes, lease/purchase agreement, and other obligations permitted to be issued or incurred under Texas law. The City of Tomball shall consider refunding outstanding bonds if one or more of the following conditions exist: (1) present value savings are at least 3% with certain exceptions of the par amount of the refunding bonds; (2) the bonds to be refunded have restrictive or outdated covenants; or (3) restructuring debt is deemed to be desirable.

Restrictions on Debt Issuance – Proceeds from long-term debt will not be used for current ongoing operations.

Debt Service Limitations – In evaluating debt capacity, general-purpose annual debt service payments should generally not exceed 20% of the City of Tomball total budgeted expenditures for all funds.

Limitations on Outstanding Debt – As provided in the Constitution of the State of Texas, the Net Bonded Debt of the City of Tomball shall not exceed twenty-five percent (25%) of the net value of the taxable real property of the City of Tomball.

Characteristic of Debt Structure – The City of Tomball will design the repayment of its overall debt so as to recapture rapidly its credit capacity for future use. The City of Tomball shall strive to repay at least 20 percent of the principal amount of its general obligation debt within five years and at least 40 percent within ten years. The scheduled maturity of individual debt issued shall not exceed the expected useful life of the capital project of asset(s) financed. Also, the City of Tomball may consider purchasing bond insurance for debt issues when the present value of the estimated debt service savings from insurance (to be derived)) is equal to or greater than the insurance premium.

Debt Issuance Process – The City of Tomball shall use a competitive bidding process in the sale of debt unless market conditions of the nature of the issue, such as refunding bonds, warrants a negotiated sale. The City of Tomball will employ outside financial specialists, including financial advisors and bond counsel, to assist it in developing a bond issuance strategy, preparing bond documents and marketing bonds to investors.

Debt Maintenance Responsibilities – The City of Tomball will seek to maintain and, if possible, improve our current bond ratings to minimize borrowing costs and preserve access to credit. The City of Tomball will adhere to a policy of full public disclosure with regard to the issuance of debt, and the City of Tomball will meet all requirements for continuing disclosure on debt of the City of Tomball.

1.11 BONDED DEBT COMPLIANCE MANAGEMENT POLICY

City of Tomball acknowledges and will abide by any federal or state law regarding tax-exempt bonds.

POLICY SUMMARY

City of Tomball will adhere to the following specific policy statement with regards (1) separate record keeping per bond issuance; (2) not mingling bond issuance money; (3) the use of bond proceeds only for their approved purposes; (4) the intent to use bond funds within three (3) years of issuance; (5) meeting post-issue reporting requirements; (6) keeping interest earning with bond principal or debt service; (7) maintaining an interest and sinking fund for all tax-exempt debt; and (8) maintaining the tax-exempt status of all outstanding bonded debt of the City of Tomball.

Separate Accounting – The City of Tomball will keep separate financial records of each bond issuance. A construction fund will be maintained for each bond issuance in the City of Tomball's general ledger, the fund will be accounted for separately from all other funds of the City of Tomball, and the fund will be used solely to pay costs of the projects for which the debt obligations were issued.

Not Mingling Bond Funds – Bond proceeds will not be co-mingled with any other City of Tomball funds.

Approved Purposes – Bond proceeds will only be used for allowable purposes as specified by bond election and bond order authorizing the issuance of the bonds.

Intent to Use within Three Years of Issuance – City of Tomball intends to use bond proceeds for their approved purposes within three (3) years of their issuance.

Post-Issue Reporting Requirements – The City of Tomball will adhere to all reporting requirements and deadlines that are applicable to tax exempt bonds. Specifically, the City of Tomball will comply with the requirements of Securities and Exchange Commission Rule 15c2- 12 which requires the filing of annual financial reports and other financial data and the filing of any required material events or notices with each agency designated as an information repository. The City of Tomball will also comply with US Treasury Regulation Section 148 which requires the computation and payment of any arbitrage rebate owed no less frequent than five (5) years after issuing any tax-free debt.

Interest Earned Remains with Principal or Debt Service – Interest earned on bond proceeds will remain with the bond principal and will be used only to pay any cost overruns on approved projects, to fund new projects meeting the usage criteria in the original bond indentures, or it will be specified to go towards the payment of Debt Service.

Interest and Sinking Fund – City of Tomball will levy a tax on all taxable property in the City of Tomball to pay principal of and interest on bonds or debt instruments issued. Amounts collected from the tax levied will be deposited to the credit of the Interest and Sinking Fund maintained in the accounting records of the City of Tomball. The City of Tomball will maintain its Interest and Sinking Fund in a manner to a proper matching of revenues and debt service payments on its debt issues. Specifically, the Interest and Sinking fund will be depleted at least once each bond year to the amount of the allowable carryover, all amounts deposited to the fund will be expended within twelve months of receipt, and all amounts received from the investment of the fund will be deposited to the fund and expended within twelve months.

Maintenance of Tax-Exempt Status – The City of Tomball shall not use, permit the use, or omit the use the gross proceeds of any debt issuance in a manner which if allowed or omitted would cause the interest on any bond or debt instrument of the City of Tomball to become includable in the gross income of the owner of the bond for federal income tax purposes The City of Tomball specifically will comply with bond covenants which prohibit: (1) private use or private payments of assets constructed or acquired with debt proceeds; (2) private loans of bond proceeds to any person other than a state or local government; (3) investment of bond proceeds in any investment with a yield that exceeds that of the bonds; (4) taking any actions that would cause the bonds to be federally guaranteed within the meaning of section 149(b) of the Internal Revenue Code; and (5) taking any unauthorized action having the effect of diverting arbitrage profits from payment to the US Treasury, the City of Tomball will maintain its financial records until three (3) years after final payment of all bonds to show compliance with federal and state laws regarding tax-exempt debt.

1.12 BONDED DEBT COMPLIANCE MANAGEMENT POLICY

The Treasurer’s Office will continue to collect, disburse, and deposit all funds on a schedule which insures optimum cash availability, in accordance with Article 113.043, 113.065, 113.901, 113.001-005, 113.021-024, and 113.041-047.

The City Finance Director shall handle all original reconciliations of the City of Tomball bank accounts with the Depository Bank and shall resolve any financial difference between the City of Tomball and the Depository Bank.

The City Manager and Finance Director, Co-Investment Officers of the City of Tomball, as authorized by the City Council shall invest the funds of the City of Tomball to achieve the highest and best yield, while at the same time maintaining the security and integrity of said funds.

The City of Tomball shall maintain a written City of Tomball Investment Policy, as approved by the City Council, to achieve the highest and best yield, while at the same time, maintaining the security and integrity of said funds.

The Finance Director will maintain an original copy of all security and/or surety pledges made by the Depository Bank on behalf of City of Tomball funds.

The Finance Director will maintain an original copy of all security advice for all City of Tomball investment transactions.

The Finance Director will provide quarterly investment updates to City Council concerning the cash position and investment performance as required by Articles 114.025, 111.091, and 111.092.

The City of Tomball conducts its treasury activities with financial institution(s) based upon written contracts which specify compensating balances, service charges, term, and other conditions as authorized by the Local Government Code inclusive of the Revised Statues of Texas.

1.13 GENERAL FUND UNRESERVED FUND BALANCE POLICY

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning. In most cases, discussions of fund balance will properly focus on a government's general fund.

Credit rating agencies carefully monitor levels of fund balance and unreserved fund balance in a government's general fund to evaluate a government's continued creditworthiness. Likewise, laws and regulations often govern appropriate levels of fund balance and unreserved fund balance for state and local governments.

POLICY

The Governmental Accounting Standards Board (GASB) released Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement is intended to improve the usefulness of the amount reported in fund balance by providing more structured classifications.

The purpose of this policy is to establish operating and reporting guidelines for the fund balances of the governmental funds for the City of Tomball, Texas. The City of Tomball governmental-fund financial statements will present fund balances classified in a hierarchy based on the strength of the constraints governing how those balances can be spent. These classifications are listed below in descending order of restrictiveness:

Non-spendable Fund Balance: This classification includes amounts that cannot be spent because they: (a) are not in spendable form (e.g., inventories and prepaid items); (b) are expected to be converted into cash within the current period or at all (e.g., long-term receivables); or (c) are legally or contractually required to be maintained intact (e.g., the non-spendable corpus of an endowment).

Restricted Fund Balance: This classification includes amounts subject to usage constraints that have either been: (a) externally imposed by creditors (e.g., through a debt covenant), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance: This classification includes amounts that are constrained to use for specific purposes pursuant to formal action of the City Council. These amounts cannot be used for other purposes unless the City Council removes or changes the constraints via the same a type of action used to initially commit them.

Assigned Fund Balance: This classification includes amounts intended by the City of Tomball for use for a specific purpose, but which do not qualify for classification as either restricted or committed. The intent can be expressed by City Council or by a City Council designee (e.g., City of Tomball Auditor). This classification applies to the positive unrestricted and uncommitted fund balances of all governmental funds except the General Fund.

Unassigned Fund Balance: This classification applies to the residual fund balance of the General Fund and to any deficit fund balance of other governmental funds.

Order of Spending: Where appropriate, the City of Tomball will typically use restricted, committed, and/or assigned fund balances, in that order, prior to using unassigned resources, but it reserves the right to deviate from this general strategy.

Minimum Fund Balance: City of Tomball generally aims to maintain an unassigned fund balance of approximately 2.5 to 4.5 months of budgeted expenditures for the fiscal year, to be utilized for unanticipated needs.

A commitment of fund balance requires formal action as to the purpose but not as to the amount; the amount may be determined and ratified by City Council at a later date. This is often important near year-end, when a purpose or need is identified but the cost is not known.

As assignment of fund balance implies an intent of the City Council, but operationally, the ability to implement the intent may be delegated to the City Manager.

PROCEDURES:

The goal of each year's budgeting process will be to adopt a budget that maintains compliance with the stated General fund unreserved fund balanced policy.

Specific City of Tomball financial conditions, economic conditions, or special initiatives may be considered reasons for temporary non-compliance with this policy.

In the event of either planned or unplanned non-compliance, it is the City of Tomball's intention to take action during the annual budget process to reach compliance within two (2) annual budget cycles.

Actions in the budget process to increase the unreserved General Fund balance may include increasing taxes, decreasing spending in specific areas, dedicating one-time revenues to fund reserves, or making transfers of excess fund balances form other funds.

In the event that the level of unreserved General Fund balance is judged to be in excess of the amount acquired by this policy, amounts over that required may be used to fund one-time, non-recurring expenditures such as acquisition of capital items. Excess fund balances will not be used to fund recurring operating expenditures.

1.14 CAPITAL BUDGET IMPACT ON OPERATING BUDGET

All Capital Improvement Program requests must include the operating budget impact of the request including but not limited to additional staffing, operating expenses as well as any cost savings anticipated if the request is approved and funded.

A Capital Improvement request form must be submitted with the overall capital project justification and operating expenses data. Projects without sufficient data will not be considered.

Operating expenses for capital projects will be funded on a pay-as-you-go basis for annual, recurring maintenance type expenses.

1.15 INTERNAL GUIDELINES FOR MANAGEMENT OF FEDERAL AND/OR STATE FUNDS

All costs charged by the City of Tomball must be necessary, reasonable, allowable, and allocable to Federal and/or State grant programs received and administered by the City of Tomball. The City of Tomball must assure that all costs are appropriate and eligible including but not limited to the following areas of concern:

A. Administrative requirements - Including duplication of benefit requirements, provisions related to charging pre-award costs, conflict of interest, reporting fraud, and distinction between agencies/government components, contractors, developers, and beneficiaries.
B. Recordkeeping and Reporting requirements - Including records retention and financial reporting requirements.
C. Procurement requirements - Including requirements related to bonding, insurance, suspension, and debarment.
D. Contract conditions.
E. Force Account - Including requirements for tracking, documenting, and charging personnel costs and applicable fringe benefits and classification, purchasing, tracking, insuring, and disposing of equipment, supplies, and federally purchased tangible and intangible property.
F. Contract amendments.
G. Contract closeout.
H. Monitoring and Quality Assurance - Including requirements related to preventing fraud, waste, and abuse.
I. Audit - Including Single Audit or program-specific audit requirements.

The following is a list of key Federal and State regulations governing financial management of grant programs:

A. 24 CFR § 570 Subpart I- governs the state CDBG-DR program
B. 24 CFR § 200, including all of Subpart E Cost Principles
C. Uniform Grant Management Standards (UGMS) - Texas Comptroller of Public Accounts and guidance under 2 CFR § 200
D. Texas Local Government Code Chapter 171

It is the City of Tomball's responsibility to be knowledgeable and compliant with these requirements to ensure the appropriate, effective, timely, and eligible use of all funds related to Federal and/or State Programs. The City of Tomball is responsible for monitoring vendors and projects and compliance with applicable financial management standards, for processing payment requests for funds, and for audit review.

A cost objective is a pool of related costs, which could be related based on the City of Tomball departments, function, eligibility, activity, agreement with State and/or Federal agencies or any other basis. The term is used to capture a variety of scenarios in which costs may be categorized for purposes of cost allocation or eligibility determinations.

Per 2 CFR § 200.303, the City of Tomball has established this and other written policies and procedures for internal controls and guidance documentation for responsible financial management of Federal and/or State funds and include the adherence to the following:

A. All Federal, State, and local conflict of interest provisions, including the requirements of Texas Local Government Code Chapter 171.
B. The City of Tomball has an established internal control system and documented segregation of duties. Including the appropriate segregation of duties as follows:
    1. No person has complete control over every phase of a significant transaction. For example, the person who authorizes payments to contractors should not draft and issue the payment check and the person who writes a payment check should not reconcile associated bank records.
    2. Monthly bank reconciliation and/or direct deposit monthly statements are reviewed by someone who is not responsible for handling cash or issuing checks.
    3. The person issuing checks for grant expenses does not also handle payroll preparation/issuance of paychecks.
C. The City of Tomball will take prompt action when an instance of noncompliance is identified internally or through audit findings.
D. The City of Tomball takes reasonable measures to safeguard protected personally identifiable information (PII) and other information that the City of Tomball considers sensitive consistent with applicable Federal, state, and local laws regarding privacy and obligations of confidentiality.

Per 24 CFR § 570.502, through established budgets and accounting records, the City of Tomball is responsible for ensuring all Federal and/or State expenditures are authorized in an approved, documented budget and do not exceed the total budget amount and do not exceed the amount in the City of Tomball's grant agreement(s).

The City of Tomball will use one of two general methods available to draw Federal and/or State grant funds to pay for project and vendor costs: the reimbursement method and the cash advance method.

A. The reimbursement method entails a transfer of grant funds to the City of Tomball based on actual expenditures already incurred by the City of Tomball before it requests a draw.
B. The cash advance method entails the transfer of grant funds from the Federal and/or State agency based upon the City of Tomball's

received invoices before the actual cash disbursements have been made by the City of Tomball.

The City of Tomball establishes a separate account for each cash advance basis grant it receives. When using a cash advance basis process, the City of Tomball will ensure that all received grant funding is held in an insured, interest-bearing account (2 CFR § 200.305(b)). Distinct accounting information for each grant is created. Accurate records of encumbrances/obligations against distinct line items within each grant for vendor contracts are made. Accurate records on grant awards, unobligated balances, assets, liabilities, expenditures, program income (if any) and applicable interest are kept and supported by sources documentation, including vendor contracts, invoices, and purchase orders.

Pursuant to 2 CFR § 200.302(a), the City of Tomball's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, are 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 of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the City of Tomball's Federal and/or State grant agreement(s).

The City of Tomball through its annual audit process has proven effective control over, and accountability for, all funds, property, and other assets in its possession. The City of Tomball makes every effort to adequately safeguard all assets and assure that they are used solely for their intended purpose.

Financial Records for all Federal and/or State grant programs include the following:

A. Transaction registry documenting:
    1. All invoices associated with each Request for Payment.
    2. Source of funds for each invoice (grant funds by activity, matching funds, and/or other funds).
B. Source documentation, including the following:
    1. Copies of Requests for Payment
    2. Addendum record of direct deposit payments
    3. Verification of deposits
    4. Monthly bank statements
    5. Check register/transaction ledger
    6. Employee time sheets (as applicable)
    7. Equipment time record sheets (as applicable)
    8. Property inventory
    9. Purchase orders, invoices, and contractor requests for payment
    10. Electronic Transfer Form (ETF)

11. All original source documents

The City of Tomball, for each grant agreement received, establishes Responsible Persons. Through resolution, the City of Tomball identifies the Responsible Persons (at least 2, preferably 4 by job title) responsible for both contractual documents (executed City of Tomball agreement(s), associated amendments, and various program certifications) and financial documents (requests for payment, issuance of check).
The City of Tomball, where allowable by the Federal and/or State funding programs, will authorize direct deposit to receive payments from the agency(ies) to post directly to the City of Tomball's local bank account.

The City of Tomball will ensure that there exists staff and contractor capacity necessary to manage all grant funds under its control. The City of Tomball may procure a Grant administrator to assist with management of grant compliance, subject to 2CFR200 procurement guidelines and requirements.

Eligible/Allowable Costs: All costs charged to the City of Tomball's grant agreement(s) will be deemed eligible as identified in each Grantor's agreement/implementation manual. Eligible costs are those that conform to the Federal/State requirements, including limitations and waivers described in applicable Federal Register Notices, comply with Federal cost principles, and align with all associated cross-cutting Federal requirements (Davis Bacons and Related Acts, Environmental requirements, etc.) and State and Local law.

The City of Tomball will assure pursuant to 2 CFR § 200.403, costs meet the following general criteria to be allowable as a charge against any Federal award:

A. Cost must be necessary and reasonable for the performance of the Federal award and be allocable to that award and not to a different award.
B. Costs must conform to any limitations or exclusions set forth in 2 CFR § 200 or in the Federal award as to types or amount of cost items.
C. Costs must be consistent with policies and procedures that apply uniformly to both Federally financed and other activities of the City of Tomball.
D. Costs must be accorded with consistent treatment.
E. 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.
F. Costs must be determined in accordance with generally accepted accounting principles (GAAP).
G. Cost must be adequately documented.

Reasonable Costs (2 CFR § 200.404): 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. In determining the reasonableness of a given cost, consideration will be given to:

A. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the City of Tomball or the proper and efficient performance of the Federal and/or State award.
B. 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 and/or State award.
C. Market prices for comparable goods or services for the geographic area.
D. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the City of Tomball, its employees, the public at large, the Federal Government and/or State Government.
E. Whether the City of Tomball significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the cost.

The City of Tomball will insure that all grant reimbursement requests meet the definition of Allocable Costs (2 CFR § 200.405 and § 200.406) A cost is allocable to a particular grant, the City of Tomball agreement, vendor contract, program or other cost objective if the goods or services involved are chargeable or assignable to that cost objective in accordance with relative benefits received. This standard is met if the cost:

A. Is incurred specifically for that cost objective.
B. Benefits both that cost objective and other work of the City of Tomball and can be distributed in proportions that may be approximated using reasonable methods.
C. Is necessary to the overall operation of the City of Tomball and is assignable in part to the specified cost objective in accordance with 2 CFR § 200.

Any cost allocable to a particular cost objective may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons. However, this prohibition would not preclude the City of Tomball from shifting costs that are allowable under two or more cost objectives in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.

If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because if the interrelationship of the work involved, then the costs may be allocated or transferred to benefited projects on any reasonable documented basis. Costs should only be charged net of all applicable credits. Applicable credits refer to those receipts or reduction-of-expenditure-type transactions that offset or reduce expense items allocable to the cost objective. Examples include:

A. Purchase discounts
B. Rebates or allowances
C. Recoveries or indemnities on losses
D. Insurance refunds or rebates
E. Adjustments of overpayments or erroneous charges

To the extent that such credits accruing to or received by the City of Tomball relate to allowable costs, they must be credited to the Federal and/or State award either as a cost reduction or cash refund, as appropriate. These credits do not constitute program income.

The City of Tomball will submit a draw request for eligible costs as often as is needed, subject to limitations in grant agreements and at least quarterly throughout the life of a project. The City of Tomball will submit costs to a Grantor for draw within 60 days of receipt of invoices as allowable. The County will ensure Draw requests are submitted timely to the granting agencies.

Pursuant to 24 CFR § 570.489(c), 2 CFR § 200.305(b), and 31 CFR § 205, the City of Tomball when utilizing the cash advance method will minimize the time elapsing between the transfer of funds from the Federal or State agency and the disbursement by the City of Tomball for eligible costs. This period must not exceed 3 business days from the date of receipt/deposit of funds.