

Chapter 3: Contract Budget

Topic: Funding Sources

Summary

PHB has more funding sources than most City bureaus. These sources are described in the “Introduction / Funding Sources” section of this manual. Each funding source has unique requirements and limitations, and being cognizant of these aspects and accounting for them appropriately in an executed contract budget can set a good foundation and minimize issues over the life of the contract.

Procedures & Key Information

PHB establishes the majority of subrecipient contract budgets during the annual budget process. (See the “Subrecipient Contract Cycle/Budgeting Phase” section for more details.) Funding decisions are made based upon the resources available. These decisions will also attempt to take into account what the best funding source might be for the specific services to be contracted. Some of the considerations include:

- Which funding sources permit this kind of activity?
- Do limits exist for a particular funding source for this kind of activity?
 - For example, the CDBG grant does not allow recipients to use more than 15% of its funding on “public service” activities, such as homelessness prevention.
 - If limits do exist, is there room in this year’s budget given other activities that are already planned?
- What are the other demands on these funding sources? What is the priority of this activity vis-a-vis other activities according to the strategic plan and the bureau’s stated priorities for contracts?
- Does the funding source require a match from another source? Also, is PHB planning on funding part, or all, of the activity?
 - Whether or not it’s a match requirement, if the overall program budget includes sources beyond the PHB contribution, the program budget should show the total amount budgeted in a separate column from the PHB-funded portion. (See Exhibit A in Appendices B1 and B2 for examples.)
- What types of expenses will be incurred in carrying out this activity? Some expenses may not be permitted under some funding sources, but are permissible under others. For example:
 - Most of PHB’s funding sources permit personnel costs for program delivery, but limit the amount of administrative personnel costs they will cover
 - Some sources prohibit administrative activities such as fundraising.
 - For additional detail, see the “Contract Budget / Allowable Costs” section later in this chapter.

Once the funding source has been determined, the CM must remember that if there is more than one source, it must be separated on the budget breakdown exhibit in the contract and on the invoices the subrecipient submits to PHB to request reimbursement. (See Exhibit A in Appendix B1 for a sample budget breakdown. See Appendices E3 and E4 for sample invoices.)

Chapter 3: Contract Budget

Topic: Budget Format

Summary

For both contract renewals and requests for proposals, the Contract Manager will request a draft budget from the subrecipient for the services described in the contract. It is the CM's job to evaluate the budget for ineligible costs, reasonableness, and completeness.

Procedures & Key Information

The general steps for budget submission are as follows:

- Identify and/or determine the amounts and funding sources for the various activities contracted. Obtain necessary approval from manager-in-charge.
- Contracts will typically be one of two varieties. First and most common is the “renewal” variety, whereby PHB re-engages the subrecipient to provide a scope of services similar to those provided in the prior contract period. Second and less common are “competitively bid” contracts, whereby PHB conducts a Request for Proposals (RFP) to identify one or more subrecipients that will deliver a set of services.
 - **For Contract Renewals** – Send out a Contractor Letter to the subrecipient including the total expected contract amount, broken down by funding source and program as applicable. (More detail is available in the “The Contract / Contractor Letters” section.) In its response to this letter, the organization must submit (amongst other things) a budget breakdown. This budget shows each major expense category for the activity and is divided into two columns showing the PHB-funded portion of the activity and the total amount the organization plans to spend for it. (See budget format template in Appendix A7.)
 - **For Contracts To Bid Out** – The RFP should detail PHB expectations as to the budget format, as it will be up to the organizations that submit proposals to include draft budgets that meet the requirements described above for those activities.
- Once Contract Managers receive budget drafts from the subrecipients, the CM must evaluate the budget for the following:
 - **Allowable Costs** (See the “Contract Budget / Allowable Costs” section for more detail.)
 - **Cost reasonableness** – Do the costs seem to be in line with general accepted parameters for the type of service provided? For example, are personnel costs in line with the norms for the sector? Do any of the amounts stand out as being high? If so, the contract manager can address questions to the contractor, and if necessary, can involve PHB fiscal staff in the discussion.
 - **Completeness** – Does the budget have enough detail to make the determinations of (a) and (b) above? Is there anything not included that you feel should be? For example, if you are paying personnel costs, is there a benefits line item? If you are paying program costs, is there a metric there so you can judge reasonableness (e.g., a per-unit estimation)?

Another consideration in establishing budget format is funding source. Some funding sources – such as HOPWA – have very specific categories of activities that must be used in budget breakdowns. On the other end of the spectrum, the City General Fund does not have specific requirements regarding how to break down the budget, except for certain categories that are used as

service categories (called “functional areas” in SAP) and other categories that have become important politically (such as administration and personnel).

In general, when developing subrecipient program and budget details, the Contract Manager should:

- Review the standard PHB subrecipient contract budget template. [See Appendix A7.]
- Review relevant contracts from the recent past to get ideas. [See Appendices B1 through B5.]
- Take into account funding-source specific requirements that necessitate variations from the standard template.
- Use best judgment and consult with colleagues if the budget submitted by the subrecipient is problematic in any way.

Chapter 3: Contract Budget

Topic: Fiscal Compliance

Summary

The PHB Finance and Accounting team has responsibility for maintaining files that document that subrecipients are compliant with Federal requirements listed below:

- **A-133 audit requirements** – An A-133, also referred to as a “single audit”, is an organization-wide audit that includes both the entity's financial statements as well as its federal awards. Federal regulations stipulate an A-133 audit is required if an agency expends \$500,000 or more of Federal funds in the previous fiscal year. PHB must monitor A-133 Audit status of all subrecipients, including whether or not they are A-133 eligible.
- **Cost allocation plans** – PHB monitors whether or not subrecipients request indirect cost reimbursement in all contracts with PHB. This is a Federal requirement, but PHB requires it for all funding sources. In order to be eligible for indirect cost reimbursement, the subrecipient must provide either: a Federally approved indirect cost rate agreement; or an indirect cost allocation plan that PHB has reviewed and approved.
- **FFATA Subaward Reporting System (FSRS) and Central Contracting Registry (CCR) registration** – PHB monitors that all subrecipient contracts are FFATA (Federal Funding Accountability and Transparency Act) compliant for Federal sources of funds. The FFATA requirement applies only to the Federally-funded portion of a contract.

Procedures & Key Information

PHB Finance and Accounting has designed procedures for complying with the three fiscal requirements described above. These Federal requirements apply to PHB because it administers Federal grant money. The A-133 and cost allocation requirements apply to all contracts, whether federally funded or not. The procedures are as follows:

- The three compliance reporting requirements are combined in a single form letter called the “Combined Fiscal Compliance Letter”. [Sample found in Appendix A8.]
- The Contract Manager will include the Combined Fiscal Compliance Letter when sending out a “contract renewal letter” or an “RFP Proposal Acceptance Letter”. More detail is available in the “The Contract / Contractor Letters” section of this manual and at Appendix A, respectively.
- Subrecipients are required to complete the information requested in this letter and return it to the bureau. The letter contains F&A contact information, so the subrecipient may contact F&A staff directly if any questions arise.
- Letters may be returned by mail, faxed, or sent by email PDF attachment. Contract managers collect the completed forms and the completed A-133 audits from subrecipients and send them to F&A.
- The F&A team saves/archives the returned letters.
 - F&A tracks which subrecipient contractors are subject to A-133 audit requirements and whether the organization has turned in its completed A-133 audit.
 - F&A reviews all indirect cost allocation plans submitted to ensure they meet basic Federal standards. For Federally-approved indirect rate agreements, F&A simply documents that an approved plan is on file.
 - F&A reviews FFATA forms and then sends them to the Grants Office. As part of the FFATA process, the subrecipient must register with the CCR (Central

Contracting Registry) website as a government contractor and must have a Dun & Bradstreet (DUNS) number, a unique nine-digit identification number for each physical location of their business. Both are explained in the form and are easy for the organization to complete.

- The F&A team will follow up at intervals throughout the contract year on this process. The Contract Manager may need to:
 - Ask the organization for its most recent A-133 audit or audits from past years
 - Ask the organization for clarification or changes to be made to its indirect cost allocation plans, or updates about its process in getting a Federally approved indirect cost rate
 - Ask the organization to give more information on any one of the three forms if they were filled out incorrectly
 - Follow up with the organization if its audit findings were problematic and were directly related to a PHB funded activity
- The F&A team will provide Contract Managers with input about the organization based on their monitoring of these fiscal compliance requirements. This may include that:
 - The organization has some inaccuracy in its A-133 audit or in its Schedule of Expenditures of Federal Awards (SEFA)
 - The organization's A-133 audit identified concerns or findings, raising the risk associated with the subrecipient contract.
 - The organization had a "clean" audit and was designated low-risk
 - The organization's indirect cost plan is problematic for some reason and F&A needs the Contract Manager's assistance to work with the organization to modify the plan

Chapter: Contract Budget

Topic: Administrative / Indirect Costs

Summary

PHB's Finance and Accounting team has primary responsibility for collecting and maintaining information on all subrecipients' use of administrative and/or indirect costs. Contract managers are involved in the discussion of these issues. *Administrative cost* is a term that generally refers to those costs that are not specifically concerned with program or service delivery, while *indirect cost* refers to a mode of charging such costs, using a rate applied against program (i.e., direct) costs. Therefore, some subrecipients may charge administrative costs directly to a program, whereas others will use an indirect method to charge them. If there is an indirect method, PHB requires that the subrecipient provide a Cost Allocation Plan or Indirect Rate Agreement describing how the subrecipient arrives at its calculations of indirect costs.

Procedures & Key Information

Certain funding sources limit how much of a given source one may use for administrative activities. The percentage varies with the funding source.

- CDBG: 20% max per year but may be more or less for individual contracts
- HOME: 10%, used for TBRA only
- HOPWA: 7% of each subrecipient contract; 3% of overall grant for PHB program administration
- ESG: 3% of overall contract
- Other Federal grants: Usually 5% or less of overall contract
- TIF: Generally, PHB does not fund administrative expenses with this funding source

Each subrecipient must clearly designate administrative costs in their program budgets. Each subrecipient must also indicate on the cost allocation form (part B of the Combined Fiscal Compliance Letter) whether it will request reimbursement for indirect costs under their PHB contract.

The Contract Manager should:

- Send out the forms with the contractor letter. (See the "The Contract Document / Contractor Letters" section for more detail)
- Provide the letter to F&A if it is not directly returned to that team
- Be a liaison between the F&A team and the contract subrecipient if F&A thinks the cost allocation plan is missing or incomplete
- Ask F&A any questions he or she may have about the indirect cost portion of the contract, the substance of the submitted plan or rate agreement, or any other questions on the subject

Chapter 3: Contract Budget

Topic: Allowable Expenses

Summary

City policy prohibits certain types of expenses. These prohibitions do not apply exclusively to City funding sources, but rather to all funds PHB administers since they all flow through the City of Portland's financial structure. Federal sources have numerous restrictions as well. It is the responsibility of the Contract Manager primarily, and Finance & Accounting secondarily, to ensure the bureau does not reimburse a subrecipient for ineligible expenses.

Procedures & Key Information

The City of Portland employee website has a useful summary of ineligible costs at the following location – www.portlandonline.com/phb/index.cfm?c=52441&a=361816.

This document lists types of expenses and whether they are allowable for different classes of entities (i.e., local governments vs. non-profits vs. educational institutions). Contract Managers and members of the Finance & Accounting team must be familiar with this so as to minimize eligibility issues.

OMB Circular A-122 (“Cost Principles For Non-Profits”) is another useful resource. It describes in detail, amongst other things, what types of costs are allowable for non-profit organizations receiving Federal funds. This OMB circular is available at www.whitehouse.gov/omb/circulars_a122_2004/.

If a subrecipient contractor submits a reimbursement request for ineligible costs, follow these procedures

- **If an unallowable cost is identified prior to payment of the subrecipient invoice**, the Contract Manager will contact the organization, explain which costs are not allowable and request a corrected invoice that does not include reimbursement of those costs.
- **If the unallowable cost is discovered after an invoice has been paid**, the Contract Manager must direct the organization to subtract that amount from its next invoice.
- **If the unallowable cost has been reimbursed by PHB and the contract has ended**, the Contract Manager must direct the organization to repay that expense. If the contract was grant-funded, the F&A department will have to receipt the check and issue one of its own to the grantor (usually HUD).
 - In some past cases, PHB has elected to reimburse the granting agency without requiring repayment from the subrecipient organization because repayment was deemed too arduous for that organization. Such exceptions to the standard procedure are made only at the bureau director's discretion.

Contract Managers can best avoid these situations by carefully reading and understanding the terms of the grant agreements or other funding agreements that apply to the funding sources used by PHB. If there is a question not answered by this manual or other PHB resources, the Contract Manager should ask compliance and fiscal staff or his/her manager for guidance, preferably before a contract is finalized. When a cost is found to be ineligible, it can expose PHB to a substantial risk, since any repayment may come out of another finite source. The more Contract Managers are familiar with their funding sources, the less risk PHB incurs.