



**COMPREHENSIVE FINANCIAL
MANAGEMENT POLICY STATEMENTS**

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Comprehensive Financial Management Policy Statements

Municipal resources must be wisely used to ensure adequate funding for the services, public facilities, and infrastructure necessary to meet immediate and long-term needs. These policy statements safeguard the fiscal stability required to achieve the City's objectives and ensure long-term financial health.

Objectives:

- A. To guide City Council and management policy decisions that have significant fiscal impact.
- B. To employ balanced revenue policies that provides adequate funding for services and service levels.
- C. To maintain appropriate financial capacity for present and future needs.
- D. To maintain sufficient reserves so as to maintain service levels during periods of economic downturn.
- E. To promote sound financial management by providing accurate and timely information on the City's financial condition.
- F. To protect the City's credit rating and provide for adequate resources to meet the provisions of the City's debt obligations on all municipal debt
- G. To ensure the legal use of financial resources through an effective system of internal controls.
- H. To promote cooperation and coordination with other governments and the private sector in financing

I.

ACCOUNTING, AUDITING, AND FINANCIAL REPORTING

Maintain accounting practices that conform to generally accepted accounting principles and comply with prevailing federal, state, and local statutes and regulations. Provide for, prepare and present regular reports that analyze and evaluate the City's financial performance and economic condition.

A. Accounting Practices and Principles

The City will maintain accounting practices that conform to generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB), the authoritative standard setting body for units of local government.

All City financial documents, except monthly interim financial reports, including official statements accompanying debt issues, Comprehensive Annual Financial Reports and continuing disclosures statements will meet these standards. Monthly interim financial reports are on a cash basis and will be reported as budgeted. At year-end, the general ledger and financials will be converted to GAAP and GASB.

B. Financial and Management Reporting

1. Interim Financial Reports will be provided quarterly to City Management and City Council that explain key economic and fiscal developments and note significant deviations from the budget. Budget detail reports will be distributed monthly by the end of each month for the prior month.

2. Quarterly, departments will report on program measures and indicators as compared to target and last year to Finance. A quarterly report will be submitted to the City Manager, highlighting significant variations.

3. As an additional independent confirmation of the quality of the City's financial reporting, the City will annually seek to obtain the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting.

C. Annual Audit

Pursuant to State Statute, the City shall have its records and accounts audited annually and shall have an annual financial statement prepared based on the audit. The audit shall be performed by certified public accounting (CPA) firm, licensed to practice in the State of Texas. The annual financial statement, including the auditor's opinion, shall be filed within 180 days after the last day of the City's fiscal year.

The audit firm shall also provide a Single Audit of Federal and State grants, when necessary. An official Comprehensive Annual Financial Report (CAFR) shall be issued no later than six (6) months following the end of the fiscal year. The Finance Manager shall be responsible for establishing a process to ensure timely resolution of audit recommendations.

D. Audit Committee

The City Council shall appoint or confirm the audit committee, consisting of at least three members of the City Council. The primary purpose of the audit committee is to assist City Council and the City Manager in fulfilling oversight responsibilities for financial reporting, audit processes, and effective internal control systems.

E. Annual Financial Disclosure

As required by the Securities and Exchange Commission (SEC) Rule 15c2-12, the City will provide certain annual financial information to various information repositories through disclosure documents or set of documents that include the necessary information. This will include any periodic materials event notices as required by the SEC.

F. Signature of Checks

Pursuant to the City Charter, all checks shall have two signatures, signed by the City Manager, Mayor, City Secretary, or the Finance Manager. Component unit check signers are officers elected by the board, where applicable. Component unit's checks shall also have two signatures.

G. Compliance with Council Policy Statements

The Financial Management Policy Statements will be reviewed bi-annually and updated, revised or refined as deemed necessary. Policy statements adopted by City Council are guidelines, and occasionally exceptions may be appropriate and required. Exceptions will be identified, documented, and presented by the City Manager to the City Council.

II.

BUDGET AND LONG RANGE FINANCIAL PLANNING

A. Balanced Budget

The City Manager shall file annually, a structurally balanced budget for the ensuing fiscal year with City Council pursuant to prevailing state and local law. A structurally balanced budget is further defined as recurring revenues funding recurring expenditures and adherence to fund balance policies. Short-term loans should be avoided as budget balancing techniques.

B. Current Funding Basis (Recurring Revenues)

The City shall budget and operate on a current funding basis. Recurring expenditures shall be budgeted and controlled so as not to exceed current revenues. Recurring expenses will be funded exclusively with recurring revenue sources to facilitate operations on a current funding basis.

C. Use of Non-Recurring Revenues

Non-recurring revenue sources, such as a one-time revenue remittance of fund balance in excess of policy can only be budgeted/used to fund non-recurring expenditures, such as capital purchases or capital improvement projects. This will ensure that recurring expenditures are not funded by nonrecurring sources.

D. Tax Rate

The City Manager will recommend a tax rate that the City finances require in order to operate efficiently, yet effectively, and pay its debt.

E. Revenue Estimating for Budgeting

1. In order to protect the City from revenue shortfalls and to maintain a stable level of service, the City shall use a conservative, objective, reasonable and analytical approach when preparing revenue estimates. The process shall include historical collection rates, trends, development, and probable economic changes. This approach is intended to reduce the likelihood of actual revenues falling short of budget estimates and should avoid mid-year service charges.
2. The City whenever possible, will seek outside sources of revenue, such as federal, state, and local grants, in order to leverage local dollars.
3. Estimates from grant sources will be projected only to the specific date on which the entitlement will end.

F. Pay Increases

The budget shall include an amount adequate to cover pay increases based on City's financial condition in relation to the overall budget.

G. Budget Preparation

1. The City Manager should prepare and submit the annual budget and CIP plan to the City Council according to the City of Buda Charter. Department Directors have responsibility for formulating budget proposals. New or expanded services should support City Council goals, City

Manager priority direction and department goals. Departments are charged with implementing them once they are approved.

2. All competing requests for City resources will be weighted within the formal annual budget process.

3. Actions on items that come up throughout the year with significant financial impacts should be withheld until they can be made in the full context of the annual budget process and long-range plan, unless unforeseen circumstances present themselves.

4. Annually, the City will seek to obtain the Government Finance Officers Associate Distinguished Budget Presentation Award. The Budget will be presented in a way that not only meets the criteria of the award, but also clearly communicates the budget to the public.

H. Budget Management

In accordance with the City Charter, the City Manager shall manage the budget after it is formally adopted by the City Council.

The City Manager may further delegate levels of authority for the daily operations of the budget. Expenditures/expenses are legally adopted by the fund level. Expenditures/expenses should not exceed the adopted budget, plus subsequent changes approved by the City Council.

I. Amended Budget

In order to preserve fund balances/ending balances based on projected revenues and expenditures/expenses for the current fiscal year, City Council will approve amendments to the annual budget for all funds prior to the end of the current fiscal year when the expenses exceed \$25,000 or more.

J. Performance Measurement

Performance measures will be utilized and reported in department budgets. The City will maintain a measurement system that reports trends and comparisons to targets and previous year as a management tool to monitor and improve service delivery.

K. Operating Deficits

The City shall take immediate corrective action if at any time during the fiscal year expenditure and revenue re-estimates are such that “net income” is lower than budgeted.

Corrective actions may include:

- Deferral of capital equipment purchases
- Deferral of pay-as-you go capital improvements
- Expenditure reductions
- Deferral of certain positions
- Hiring freezes
- Use of fund balance
- Use of volunteers
- Increase fees
- Reduce work hours with subsequent reduction in pay
- Eliminate positions which may require laying-off employees if there are not other vacant positions for which they are qualified.

The use of fund balance, which is a one-time revenue source, may be used to fund an annual operating deficit, only with a subsequent approval of a plan to replenish the fund balance if it is brought down

below policy level.

L. Long-Range Financial Plans

1. The City shall develop and maintain a five-year Capital Improvement Project Financial Forecast for each major operating fund, in conjunction with the annual budget process.

Major operating funds are as follows:

- General Fund
- I & S Funds (Debt)
- Water and Wastewater Utility Funds
- Capital Improvement Funds

2. The forecast should enable current services and current service levels provided to be sustained over the forecast period. Operating impacts from completed capital improvement projects in the City’s five-Year CIP shall be included in the forecast. Commitments/obligations already made that require future financial resources shall also be included.

3. The forecasts should identify impact to property taxes and utility rates.

4. Major financial decisions should be made in the context of the Long-Range Plan. The forecast assesses long-term financial implications of current and proposed policies, programs, and assumptions that develop appropriate strategies to achieve the City’s goals.

The forecast will provide an understanding of available funding; evaluate financial risk; assess the likelihood that services can be sustained; assess the level at which capital investment can be made; identify future commitments and resource demands; and identify the key variables that may cause change in the level of revenue.

III.

REVENUES

Design, maintain and administer a revenue system that will assure reliable, equitable, diversified and sufficient revenue stream to support desired City services.

A. Balance and Diversification in Revenue Sources

The City shall strive to maintain a balanced and diversified revenue system to protect the City from fluctuations in any one source due to changes in local economic conditions, which may adversely impact that source.

B. User Fees - General Fund

1. For services that benefit specific users, the City shall establish and collect fees to recover the costs of those services. Where services provide a general public benefit, the City shall recover the costs of those services through property and sales taxes.

2. At a minimum, the City will strive to cover direct costs.

3. User fees should be reviewed, at a minimum, every two to three years and adjusted to avoid sharp changes.

4. Factors in setting fees shall include, but not be limited to: market and competitive pricing, effect of demand for services, and impact on users, which may result in recovering something less than direct, indirect and overhead costs.
5. The City may set a different fee for residents versus non-residents to cover costs.
6. User fees should be adopted by Council Ordinance and included in the Annual Fee Schedule.

C. User Fees - Enterprise Funds

1. Utility rates and other Enterprise Fund user fees shall be set at levels sufficient to cover operating expenditures (direct and indirect), meet debt obligations and debt service coverage, provide funding for capital improvements, and provide adequate levels of working capital.
2. The City may set a different fee for residents versus non-residents to cover costs.
3. The Five-Year Financial Plan (rate model) and proposed operating budget shall serve as the basis for rate change considerations.
4. When necessary, the Five-Year Financial Plan (rate model) will be built around small rate increases annually versus higher rate increases periodically.

D. One-Time/Unpredictable Revenue Sources

1. One-time, unpredictable revenue sources should not be used for ongoing expenses/expenditures.

E. Revenue Collection

The City shall maintain high collection rates for all revenues by monitoring monthly receivables. The City shall follow an aggressive, consistent, yet reasonable approach to collecting revenues to the fullest extent allowed by law for all delinquent taxpayers and others overdue in payments to the City.

Revenues actually received will be compared to budgeted revenues by the Finance Department and any variances considered to be material will be investigated. This process will be summarized in the monthly financial report.

F. Write-Off of Uncollectible Receivables (excludes property taxes, court fines and warrant)

1. Receivables shall be considered for write-off as follows:
 - a. State statute authorizing the release of extinguishment, in whole or in part, of any indebtedness, liability, or obligation, if applicable.
 - b. Accounts outstanding for 3 years, identified as uncollectible, and all attempts to collect have been taken.
2. Accounts shall be written-off annually near year-end upon approval. Delinquent accounts will be forwarded to a collection agency, and/or a credit reporting agency.
3. The write-off of uncollected accounts is a bookkeeping entry only and does not release the debtor from any debt owed to the City.

IV.

EXPENDITURES

Identify services, establish appropriate service levels and administer the expenditure of available resources to assure fiscal stability and the effective and efficient delivery of those services.

A. Maintenance of Capital Assets

Within the resources available each fiscal year, the City shall maintain capital assets and infrastructure at sufficient level to protect the City's investment, to minimize future replacement and maintenance costs, and to maintain service levels.

B. Periodic Program/Services Reviews

The City Manager and staff shall undertake periodic reviews of City programs and services for both efficiency and effectiveness. Programs or services determined to be inefficient and/or ineffective shall be recommended through the annual budget process to be reduced in scope or eliminated.

C. Purchasing

All City purchases of goods and services shall be made in accordance with the City's purchasing procedures as described in this document.

D. Property/Liability Insurance Expenses

The Property/Liability Insurance Fund accounts for uninsured and deductible claims for the City's property and liability insurance. Claims cannot be reasonably predicted and budgeted for; therefore any extensive expenditures will be presented to City Council and adjusted through budget adjustments as necessary.

V.

FUND BALANCE AND RESERVES

Maintain the fund balance and working capital of the various operating funds at levels sufficient to protect the City's credit worthiness as well as its financial position during emergencies or economic fluctuations.

A. General Fund Unrestricted Fund Balance

The City shall maintain the General Fund unrestricted fund balance equivalent to **3.5** months of recurring operating expenditures, based on current year expenditures. If the fund balance exceeds this amount, funding non-recurring expenditures in the following fiscal year may be used to draw down the balance.

B. Water/Wastewater Unreserved Working Capital

The City shall maintain a working capital sufficient to provide for reserves for emergencies and revenue shortfalls. A cash equivalent of 3 months of recurring operating expenditures will be established and maintained.

C. Use of Fund Balance/Working Capital

Fund balance/Working Capital shall only be used for emergencies, non-recurring expenditures/

expenses or major capital purchases that cannot be accommodated through current year savings. In the event of an emergency such as violent acts of nature or any other extraordinary events that cause damages which require immediate repair or replacement, the City Manager has the authority to approve necessary costs to restore or replace destroyed or lost items, facilities, etc. These expenses will be approved by Council at the next available Council meeting subsequent to the event. Should such use reduce balances below the level established as the objective for that fund, restoration recommendations will accompany the request/decision to utilize said balances.

D. Debt Service Fund Unrestricted Fund Balance

The City shall maintain the debt service fund balance of annual debt service requirements OR a fund balance reserve as required by bond ordinances, whichever is greater.

E. Employee Health Reimbursement Fund Balance

The Employee Healthy Reimbursement Fund is funded through City contributions. Estimated costs shall be determined during each budget year and the contributions adjusted accordingly. There is no minimum balance for this fund.

F. Fund Balance Classification

The governmental fund financial statements will present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor certain constraints on the use of the financial resources within the governmental funds. Fund Classifications and requirements must comply with GAAP and GASB accordingly on a yearly basis.

The classifications used will be as follows:

1. Non-spendable: The portion of the fund balance that cannot be spent because it is either (a) not in spendable form, such as inventories and prepaid items or (b) legally or contractually required to be maintained intact.
2. Restricted: The portion of the fund balance that is restricted to specific purposes due to constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitution provisions or enabling legislation.
3. Committed: The portion of the fund balance that can only be used for specific purposes, as defined by formal action (resolution) by the City Council.
4. Assigned: The portion of the fund balance that is constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed.
5. Unassigned: The portion of the fund balance that has not been assigned to another fund or is not restricted, committed, or assigned to specific purposes.

Restricted fund balances include but may not be limited to:

- Special Court Funds created by State Statute
- I&S Debt Service Funds
- Hotel Occupancy Tax
- State and Federal Forfeitures/Seizures
- Park and City-Wide Donation revenues
- Unspent bond proceeds
- Unspent grant funds
- Unspent Capital Lease proceeds
- Unspent funds received pursuant to funding, developer, and/or TxDOT agreements

3. Unassigned: Is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

G. Commitment of Fund Balance

The City Council is the City's highest level of decision making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is an ordinance approved by the City Council at a regular City Council meeting. The ordinance must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in a subsequent period.

VI.

CAPITAL EXPENDITURES AND IMPROVEMENTS

Annually review and monitor the state of the City's capital equipment and infrastructure, setting priorities for its replacement and renovation based on needs, funding alternatives, and availability of resources.

A. Capitalization Threshold for Tangible Capital Assets

1. Tangible capital items should be capitalized only if they have an estimated useful life of 2 years or more following the date of acquisition or significantly extend the useful life of the existing asset and cannot be consumed, unduly altered, or materially reduced in value immediately by use and have a cost of not less than \$5,000 for any individual item.
2. The capitalization threshold of \$5,000 will be applied to individual items rather than to a group of similar items. (i.e.: desks, chairs, etc.)
3. To maintain adequate control over non-capitalized tangible items, items costing \$250 - \$4,999 will be monitored, tagged, and tracked through the City financial software system. High risk items such as weapons and electronic equipment will be recorded in inventory regardless of cost.
4. Accurate inventories of all tangible items will be maintained to ensure proper stewardship of public property.

B. Five-Year Capital Improvement Plan (CIP)

1. The City shall annually prepare a five-year capital improvement plan based on the needs for capital Improvements; equipment; the status of the City infrastructure; replacement and renovation needs and potential new projects.

Capital projects are improvements or additions to the City's physical plant/facilities/infrastructure and become a part of the City's asset inventory. Capital projects can be further categorized into land, buildings, improvements other than buildings, and infrastructure which includes roads, sidewalks, bridges, utility lines, physical plants, etc.

Capital costs typically consist of preliminary design, final design, and construction, and may involve the acquisition of land or easements. For purposes of the CIP Plan, a Capital Improvement Project should generally exceed a cost of \$20,000.

2. For the most part, projects in the CIP should be based upon master plans or developer agreements. This ensures the City's CIP, which is the embodiment of the recommendations of the individual planning studies, is responsive to the officially stated direction of the City as contained in the Comprehensive Plan and supporting master plans.

Examples of these supporting documents are: Water and Wastewater Modeling Plans, Thoroughfare Plan, Parks Master Plan, Trail Plan, Municipal Facilities Plan, etc.

3. For every project identified in the CIP, a project scope and project justification will be provided. Also, project costs shall be estimated, funding sources identified and annual operation and maintenance costs computed.

4. The City Manager is charged with recommending a Capital Improvement Plan to City Council. The CIP shall be filed and adopted in conjunction with the annual budget.

5. Annually, through the budget process and prior to year-end, projects are to be reviewed. Any expenses that carry over from one budget year to the next will require proper appropriations within the budget.

C. Infrastructure Evaluation and Replacement/Rehabilitation

Water, wastewater, drainage, street lighting, streets and sidewalks, municipal facilities and other infrastructure are fundamental and essential functions for public health and safety, environmental protections and the economic well being of the City. As a result, the City's CIP should be focused on ensuring that infrastructure is replaced as necessary to protect the City's investment, to minimize future replacement and maintenance costs, and to maintain existing levels of service and accommodate growth.

1. High priority should be given to replacing/rehabilitating capital improvements prior to the time that they have deteriorated to the point where they are hazardous, incur high maintenance costs, negatively affect property values, or no longer serve their intended purpose.

2. The decision on whether to repair, replace or to rehabilitate an existing capital asset will be based on which alternative is most cost-effective, which would include life-cycle costing, and provides the best value to the City.

D. Replacement of Capital Assets on a Regular Schedule (Fleet, Technology)

The City shall annually prepare a schedule for the replacement of its fleet and technology capital assets. Funding for the replacement of these assets will be accomplished through the annual budget process, within the resources available each fiscal year.

A variety of funding options will be explored, including but not limited to cash on hand and lease/purchase, based upon a determination of what would be in the best interest of the City.

E. Capital Expenditure Financing

The City recognizes there are three basic methods of financing its capital requirements: Funding from current revenues; funding from fund balance; or funding through the issuance of debt.

VII.

DEBT

Establish guidelines for debt financing that will provide needed facilities, land, capital equipment and infrastructure improvements while minimizing the impact of debt payments on current and future revenues.

A. Use of Debt Financing

Debt financing, to include general obligation bonds, revenue bonds, certificates of obligation, certificates of participation, lease/purchase agreements, and other obligations permitted to be issued or incurred under Texas law, shall only be used to purchase capital assets that cannot be prudently acquired from either current revenues or fund balance and to fund infrastructure improvements and additions.

B. Affordability

The City shall use an objective analytical approach to determine whether it can afford to issue general purpose debt, both General Obligation and Certificates of Obligation, water/wastewater debt, sales tax revenue debt, and any other financing permitted by State law.

The process shall include an internal feasibility analysis for each long-term financing which analyzes the impact on current and future budgets, which would include the tax and utility rates. The process shall also include the benefits of the proposed projects.

The decision on whether or not to issue new debt shall be based on the benefits of the project, current conditions of the municipal bond market, and the City's ability to "afford" new debt.

C. Types of Long-Term Debt

1. General Obligation Bonds (GO)

General Obligation bonds require voter approval and are secured by a promise to levy taxes in an amount necessary to pay annual debt service. General Obligation bonds must be issued for projects that are in accordance with the wording in the bond proposition.

2. Certificates of Obligation

Certificates of Obligation may be issued without voter approval to finance any public works project or capital improvement, as permitted by State law. It is the City's policy to utilize Certificates of Obligation to finance public improvements in certain circumstances and only after determining the City's ability to assume additional debt.

3. Revenue Bonds

Revenue bonds are generally payable from a designated source of revenue. They do not require voter approval. For the City to issue new revenue bonds, revenues, as defined in the ordinance authorizing the revenue bonds in question, shall meet the bond coverage ratio as defined in the ordinance.

Annual adjustments to the City's rate structures for Enterprise Funds will be made as necessary to

maintain the coverage factor. If the City should issue CO's for Water/Wastewater Improvements, the Water/Wastewater Funds will pay the annual debt service associated with the issue.

D. Debt Structures

The City shall normally issue bonds with a life not to exceed 25 years for general obligation bonds and 30 years for revenue bonds, but in no case longer than the useful life of the asset. The City shall seek level or declining debt repayment schedules and shall seek to retire 90% of the total principal outstanding within 20 years of the year of issuance.

The City shall seek to begin making attempts to structure future debt issuances, where affordable, to a declining structure. The City will issue debt based on a fixed rate and will limit use of variable-rate debt due to the potential volatility of such instruments.

E. Debt Refunding

The City's financial advisor shall monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt. As a general rule, the net present value savings of a particular refunding should exceed 3.0% of the refunded maturities unless:

1. Debt restructuring is necessary or
2. Bond covenant revisions are necessary to facilitate the ability to provide services or to issue additional debt or
3. The refunding is combined with a new debt issuance

F. Interest Earnings on Debt Proceeds

Debt interest earnings will be limited to funding changes to the bond financed Capital Improvement Plan in compliance with the voted propositions, cost overruns on bond projects, or be applied to debt service payments on the bonds issued.

G. Bond Elections

1. Timing of general obligation bond elections shall be determined by the inventory of current authorized, unissued bonds remaining to be sold and the Five-Year Capital Improvement Plan.
2. The total dollar amount of bond election propositions recommended to the voters should typically not exceed the City's estimated ability to issue the bonds within a 7-year period.
3. An analysis showing how the new debt combined with current debt impacts the City's tax rate and debt capacity will accompany every future bond issue proposal.

H. Sale Process

The City shall use a competitive bidding process in the sale of debt unless the nature of the issue warrants a negotiated sale. The City will utilize a negotiated process when the issue is, or contains, a refinancing that is dependent on market/interest rate timing, if the interest rate environment or market/economic factors may affect the bond issue, or if the nature of the debt is unique and requires particular skills from the underwriters involved.

I. Underwriting Syndicates

The City's financial advisor shall attempt to involve qualified and experienced firms, which consistently submit ideas to the City and financial advisors and actively participate in the City's competitive sale in

its negotiated underwritings. In conjunction with the City, the City's financial advisor shall recommend the structure of underwriting syndicates, which will be optimal for the type and amount of debt being issued.

J. Bond Ratings

Full disclosure of operations and open lines of communications shall be maintained with the rating agencies. Credit ratings will be sought from one or more of the nationally recognized municipal bond rating agencies, as recommended by the City's financial advisor.

The City will continually strive to maintain or increase the City's current bond ratings by prudently managing its funds and by reviewing and monitoring financial policies, budgets, forecasts and the financial health of the City.

K. Covenant Compliance

The City will comply with all covenants stated in the bond ordinance, including providing for annual disclosure information and providing for material event notices.

L. Lease/Purchase Agreements

The City will use lease/purchase agreements for the acquisition of equipment when it is cost-effective and provides for attractive terms. All lease purchase agreements will be approved by City Manager or City Council depending on dollar amount as stated in the purchasing requirements.

VIII.

CASH MANAGEMENT AND INVESTMENTS

To maintain the City's cash in such a manner so as to ensure the absolute safety of principal, to meet the liquidity needs of the City, and to achieve the highest possible yield.

A. Investment Management

1. All aspects of cash/investment management shall be designed to ensure safety and integrity of the City's financial assets
2. Cash/Investment management activities shall be conducted in full compliance with prevailing local, state, and federal regulations.
3. The City will utilize competitive quotes from approved broker/dealers, affording no special advantage to any individual or corporate member of the financial or investment community.
4. The City will only do business with City authorized broker/dealers and/or financial institutions as approved by Council and who have executed a written certification of their review of the City's investment guidelines.
4. The City shall design and establish policies relating to a variety of cash/investment management issues, such as the eligibility and selection of various broker/dealers, safekeeping requirements, collateral requirements, delivery versus payment requirements, weighted average maturity requirements and other such aspects of the program, which necessitate standard setting in pursuit of appropriate prudence and enhanced protection of assets

5. Investments of the City shall be made with the exercise of judgment and care which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment.

B. Investment Strategy

The City of Buda maintains a consolidated portfolio in which it pools its funds for investment purposes. The City’s investment program seeks to achieve safety of principal, adequate liquidity to meet cash needs, and reasonable yields commensurate with the preservation of principal and liquidity.

C. Interest Income

Interest earned from investments shall be distributed to the funds from which the funds were provided.

D. Depository

The City will select its official bank through a formal bidding process in order to provide the City with the most comprehensive, flexible, and effective banking services available. The City will review the financial health of the City’s depository annually to include but not be limited to earnings, assets, capital, and liquidity.

E. Collateralization of Deposits

1. The City shall have pledged collateral held at an independent third-party institution and evidenced by a written receipt.
2. The value of the pledged collateral should be marked to market monthly par or market value of the investments, whichever is greater.
3. Substitutions of collateral shall meet the requirements of the collateral agreement. Collateral shall not be released until the replacement collateral has been received.

IX.

GRANTS AND INTERGOVERNMENTAL REVENUES

The City will seek, apply for, and effectively administer federal, state and local grants, which support the City’s current priorities and policy objectives. The City should take advantage of opportunities to enhance service delivery through intergovernmental cooperation, shared revenues, and grants.

A. Grant Guidelines

1. The City shall apply and facilitate the application for only those grants that are consistent with the objectives and high priorities identified by Council and management.
2. Grant funding will be considered to leverage City funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs and services.
3. The potential for incurring ongoing costs, to include assumptions of support for grant-funded positions from local revenues, will be considered prior to applying for a grant.

B. Grant Review Process

1. A uniform grants pre-application process will be utilized to assure the City has all the information necessary to make a decision regarding a potential grant. Information to be provided should include, but not be limited to:
 - a. The grant being pursued and the use to which it would be placed
 - b. The objectives or goals of the City which will be achieved through the use of the grant.
 - c. The local match required, if any, plus the source of the local match
 - d. The increased cost to be locally funded upon termination of the grant
2. All grant agreements will be reviewed by the appropriate City staff to ensure compliance with state, federal, and City regulations.
3. The City Manager shall approve all grant submissions and City Council shall approve all grant acceptances over \$50,000.

C. Budgeting for Grant Expenditures

If approved, the expenditure and associated revenue will be appropriated in the proper Fund during the budget process. If there are grant opportunities that arise during the year and are received by the City, the budget will be amended via the projections, if the City can fund the local match required.

D. Grant Termination and/or Reduced Grant Funding

1. In the event of reduced grant funding, City resources will be substituted only after all program priorities and alternatives are considered during the budget process, unless the City is obligated through the terms of the grant to maintain the positions, services, or equipment.
2. The City shall terminate grant-funded programs and associated positions when grant funds are no longer available, and it is determined that the program no longer supports City goals and/or is no longer in the best interest of the City, unless the City has obligated itself through the terms of the grant to maintain the positions, services, or equipment.

X.

FINANCIAL CONSULTANTS

The City will employ qualified financial advisors and consultants as needed in the administration and management of the City's financial function. These areas include but are not limited to audit services, debt administration, delinquent tax collection and financial modeling.

The principal factors in the selection of these consultants will be experience/expertise, ability to perform, the services offered, references, and methodology to name a few. In no case should price be allowed to serve as the sole criterion for the selection.

A. Selection of Auditors

The City shall request proposals from qualified firms, including the current auditors if their past performance has been satisfactory. The City Council shall select an independent firm of certified public accountants to perform an annual audit of the accounts and records, and render an opinion on the financial statements of the City.

The City's financial statements are reviewed and audited with an objective, impartial, and unbiased point of view. The rotation of an audit firm will be based upon the proposals received, the qualifications of the firm, and the firm's ability to perform a quality audit.

B. Bond Counsel

1. Bond Counsel to the City has the role of an independent expert who provides an objective legal opinion concerning the issuance and sale of bonds and other debt instruments. As bond counsel are specialized attorneys who have developed necessary expertise in a broad range of practice areas, the City will always use a consultant for these services.

Generally, bonds are not marketable without an opinion of nationally recognized bond counsel stating the bonds are valid and binding obligations stating the sources of payment and security for the bonds and the bonds are exempt from Federal income taxes.

2. Due to the complexity of the City's financial structure and the benefits that come with the history and knowledge of the City, the contract with Bond Counsel shall include a termination clause, at the discretion of the City. A contract may be renewed after a competition process in which the Council determines that continuation with the incumbent firm is in the best interest of the City.

C. Financial Advisory Services

1. The City issues various types of securities to finance its capital improvement program. Debt structuring and issuance requires a comprehensive list of services associated with municipal transactions, including but not limited to: method of sale; analysis of market conditions; size and structure of the issue; coordinating rating agency relations; evaluation of and advice on the pricing of securities, assisting with closing and debt management; calculation of debt service schedules; and advising on financial management.

As financial advisors to governmental entities have developed the necessary expertise in a broad range of services, the City will use a consultant for these services.

2. Due to the complexity of the City's financial structure and the benefits that come with the history and knowledge of the City, the contract with the Financial Advisor shall include a termination clause at the discretion of the City. A contract may be renewed after a competition process in which the Council determines that continuation with the incumbent firm is in the best interest of the City.

D. Depository Bank

Pursuant to State law, the City will select its official banking institution through a formal process based on multiple factors in order to provide the City with the most comprehensive, flexible, and with most current technological banking processes. In no way should cost be the only determining factor of selection.

XI.

INTERNAL CONTROLS

Purpose:

To communicate the City's objectives and establish standards for the design and operation of the City's system of internal control. The reliability which the City can place upon its financial records is dependent upon the effectiveness of the procedures and controls which are adopted to ensure that the results of transaction processing are reflected accurately, consistently and completely in those records.

Controls must ensure also that assets are not exposed to unauthorized access and use. Management has the responsibility to establish and maintain an adequate system of internal control and to furnish to the City Council, governmental agencies, City creditors and other constituencies reliable financial information on a timely basis. An adequate system of internal control is necessary for management to discharge these responsibilities.

1. General Policy:

The City Council has the fiduciary responsibility for the accounting records of the City and the ultimate responsibility for the adequacy and effectiveness of the overall system of internal control. In order to meet these responsibilities within the City's operating environment, the responsibility for a variety of controls must be delegated to the various operating entities of the City. Therefore, service and resource centers, administrative departments, auxiliary enterprises, and component units are required to:

A. Construct and maintain books, records and accounts which, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets for their respective operating units.

B. Establish and maintain a system of administrative control which promotes operational efficiency and effectiveness, and ensures adherence to City policies and procedures. These controls include, but are not limited to, budgets, schedules, job assignment and time sheets, policy and procedure manuals, organization charts, job descriptions, employee training programs and various quality controls.

C. Establish and maintain an adequate system of internal accounting control sufficient to provide reasonable assurance that:

1. Transactions are executed in accordance with City management's general or specific authorization;

2. Transactions are recorded as necessary (a) to permit the preparation of financial statements in conformity with generally accepted accounting principles and the City's financial and accounting policies, and (b) to maintain accountability for City assets;

3. Access to assets is permitted only in accordance with management's general or specific authorization; and

4. The recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

2. Design of Internal Control Systems:

Management is responsible for establishing, maintaining and promoting effective business practices and effective internal controls. Such systems of internal control will vary from activity to activity depending upon the operating environment, including the size of the entity, its diversity of operations and the degree of centralization of financial and administrative management.

While there may be practical limitations to the implementation of some internal controls, each business function throughout the City must establish and maintain a system of controls which meets the minimum requirements as established by the City's internal control guidelines. A properly functioning system of controls improves the efficiency and effectiveness of operations, contributes to safeguarding City assets and identifies and discourages irregularities, such as questionable or illegal payments and practices, conflict of interest activities and other diversions of City assets.

3. Documentation of Internal Control Systems:

Internal control systems must be documented. The nature and extent of documentation will depend upon the operating environment of each business function, and may take various forms including, but not limited to:

- A. Written policies and procedures.
- B. Formalized reporting responsibilities within the activity and descriptions of authority and responsibility. These may be in the form of organization charts, job descriptions and/or narratives.
- C. Control objectives and control techniques which contribute to the achievement of those objectives (such as those stated on internal control questionnaires).
- D. Flowcharts of systems with the identification of key control points.
- E. Support for decisions regarding the implementation of controls, preferably in a cost-benefit format.

4. Administration of Internal Control System:

Each City employee, with support from his/her department director, manager or supervisor, or finance staff is responsible for the application of this policy and the design, development, implementation, documentation and maintenance of a system of internal controls within his/her area of responsibility. Additionally, unless otherwise specifically stated in the policy, all personnel engaged in activities affecting the adequacy of controls are subject to the provisions of this policy.

Internal control standards are issued as addenda to this policy to aid in its implementation. These standards present standard control objectives which, when met, provide reasonable assurance of maintaining an adequate system of accounting control over the various cycle activities and transactions. Comments and recommendations from any operating unit regarding this control policy and the internal control standards shall be directed to the City Manager.

5. Review and Evaluation of Internal Controls:

The City Manager has the responsibility to review and measure the effectiveness of the controls established within the framework of this policy as they relate to the City's accounting, financial and operating systems. The purposes of these reviews are to:

- A. Ascertain the reliability and integrity of accounting, financial and operating information and the means of generating and reporting that information.
- B. Ensure that systems comply with City policies, objectives, standards and procedures, and with federal, state and local laws and regulations.
- C. Evaluate computer-based systems in production, in development or undergoing change; and evaluate the systems development process and computer operations.
- D. Evaluate the adequacy of methods used to safeguard City assets.

6. Effective Control System

An agency receiving federal and state funds must ensure that it has an effective internal control system. There are many reasons for this requirement. An effective internal control system is needed to:

- A. Ensure that resources are used in a manner consistent with laws, regulations, and policies;
- B. Minimize the likelihood of waste, fraud, or misuse of agency resources;
- C. Obtain and maintain reliable financial and program data which is essential to sound internal management and to effectively meet external reporting requirements;
- D. Meet contractual and legal requirements
- E. Satisfy the public's expectations that agencies receiving public funds are making every effort to adhere to sound, fundamental business practices.

7. Financial Management Functions

An agency's control system is critically linked to the other six essential financial management functions and can directly affect the City's ability to effectively perform these functions. For example:

- A. Accurate and reliable financial reporting is an objective of an internal control structure
- B. Adequate source documentation and accounting records are part of control
- C. Budget control is one of management's control methods for monitoring and following up on Performance
- D. Control environment, another element of the City's internal control structure

It should be noted that while having an internal control system is required for many reasons, any internal control system, no matter how well designed, is subject to certain inherent limitations. Since management must consider the cost of a control compared to the benefit likely to be achieved with that control, circumstances could arise where problems occur because a particular control was omitted on the grounds of cost-benefit considerations.

In addition, faulty judgment or errors can occur, although it is possible that well-functioning controls will help in detecting errors. Two or more people also might collude to circumvent controls. Therefore, an internal control system is not a guarantee of success, but it can provide reasonable, although not

absolute, assurance that the City's objectives can be achieved.

8. Control Environment

The governing body and managers of an agency receiving state and federal funds must establish a sound control environment. In general, a sound control environment exists when everyone's role and responsibility in an agency for ensuring the appropriate, effective, and efficient use of agency funds is:

- A. Clearly stated in specific policies and procedures (including formal position descriptions);
- B. Routinely monitored and evaluated against clear performance standards; and
- C. Clarified and improved upon as necessary to achieve critical control objectives.

9. Seven Key Elements of an Effective Internal Control Environment:

A. Management's philosophy and operating style. The City's management should have a philosophy and operating style which has a positive overall influence on City operations. For example, the agency should act responsibly when deciding which business risks to accept, have a constructive attitude toward meeting financial reporting requirements, and emphasize the importance of meeting budget and program performance goals.

B. The City's organizational structure. The organizational structure needs to provide the overall framework for planning, directing, and controlling activities for achieving the agency's objectives. The organizational structure also needs to clearly delineate authority and responsibility within the agency and to establish appropriate lines of reporting.

C. Activities of the City Council. The City Council should actively provide guidance and oversight by engaging in activities such as:

- 1. Carefully selecting and performing on-going evaluation of the City manager;
- 2. Receiving and evaluating key information such as financial statements, program performance information, and significant contracts;
- 3. Fulfilling its fiduciary and accountability responsibilities; and
- 4. Ensuring that all board or committee members are well trained.

D. Assigning authority and responsibility. The City needs to assign authority and responsibility in a manner which ensures that everyone fully understands reporting relationships and key duties within the agency. In particular, the City should:

- 1. Use formal job descriptions which include specific references to duties, reporting relationships, and control related responsibilities; and
- 2. Have the appropriate numbers of people with the requisite skill levels relative to the size of the entity and the nature and complexity of its operations.

E. Control methods for monitoring performance. The City needs to develop control methods for monitoring and following up on performance. The city should :

1. Have planning, budgeting, and reporting systems that set forth management's goals and objectives;
2. Use methods that identify the status of actual budget and program performance and compares actual to planned performance levels; and
3. Continuously seek improvements in fiscal and program performance through routinely investigating variances from expectations and, when necessary, taking timely and appropriate action to correct problems.

F. Personnel policies and practices. The City should develop and adhere to written personnel policies and procedures which comply with all laws and which result in:

1. Recruiting, hiring, and promoting competent and trustworthy people;
2. Clearly communicating performance expectations of all agency staff and evaluating staff according to these expectations; and
3. Providing the training necessary to ensure that all staff have sufficient skills to fulfill assigned duties.

G. Sensitivity to external influences. The City needs to be fully aware of external influences, such as reviews by granting agencies, and plan for and be responsive to these influences through accurate reporting on agency operations and establishment of specific internal control structure policies or procedures.

10. The Accounting System

The second key element of an agency's internal control system is the accounting system. The accounting system consists of the methods and records established to identify, assemble, analyze, classify, record, and report an entity's transactions and to maintain accountability for the related assets and liabilities. An effective accounting system which contributes to fulfilling an agency's control responsibilities would give appropriate consideration to establishing methods and records that will:

- A. Identify and record all valid transactions;
- B. Describe on a timely basis the transactions in sufficient detail to permit the proper classification of transactions for financial reporting.
- C. Determine the time period in which transactions occurred to permit recording of transactions in the proper accounting period; and
- D. Present properly the transactions and related disclosures in the financial statements.
- E. Measure the value of transactions in a manner that permits recording their proper monetary value in the financial statements;

11. Control Procedures

Control procedures are those policies and procedures in addition to the control environment and

accounting system that management has established to provide reasonable assurance that specific entity objectives will be achieved. Control procedures have various objectives and are applied at various organizational and data processing levels. They may also be integrated into specific components of the control environment and the accounting system. In general, control procedures can be viewed as being part of one of the five broad categories of procedures noted below:

- A. Proper authorization of transactions and activities.
- B. Segregation of duties that reduce the opportunities to allow any person to be in a position to both perpetuate and conceal errors or irregularities in the normal course of his duties. Some key duties that need to be segregated include separating:
 - 1. The physical custody of assets from accounting for these assets;
 - 2. The authorization of transactions from the custody of related assets; and
 - 3. Operational responsibility from record-keeping responsibility.
- C. Design and use of adequate documents and records help ensure the proper recording of transactions and events.
- D. Adequate safeguards over access to, and use of, assets and records. The most important safeguard over assets and records is the use of physical precautions, such as the use of fireproof safes, safety deposit vaults, locked storerooms, etc. In addition, many types of computer information can be protected through appropriate use of passwords.
- E. Independent checks on performance and proper valuation of recorded amounts. Examples of such checks include:
 - 1. Comparing assets to records;
 - 2. Reconciling accounts on a periodic basis; and
 - 3. Reviewing reports that summarize detail of account balances, such as an aged trial balance of accounts receivable.

12. Compensating Controls for Small Agencies

The underlying concepts of the control activities are also valid for small entities, although they may be less formal. Direct, hands-on involvement of management provides strong control over activities, lessening the need for more formal activities. Management's close involvement will often enable identification of significant variances from expectations and inaccuracies in financial or operating data. Direct knowledge of client/customer concerns and communication with granting agencies can alert management to operating or compliance problems.

Many small agencies have difficulty in obtaining an appropriate segregation of duties. Whenever possible, duties should be assigned in such a way as to achieve the necessary checks and balances. When this is not possible, direct oversight of incompatible functions by management can provide the necessary control. For example, the manager may be the only authorized check signer and sign checks only after carefully reviewing the supporting documentation, or the manager may review bank reconciliations or require that monthly bank statements are delivered directly to the manager unopened.

XII.

PURCHASING

PURPOSE

The purposes of the regulation are to standardize the purchasing procedure of the City of Buda, thereby securing for the City the advantages of a uniform purchasing policy in an effort to both save money and increase public confidence in the procedures for municipal purchasing.

Additionally it is to promote the fair and equitable treatment of all suppliers of goods and services and to clearly set forth the duties and responsibilities of the department heads and the purchasing agent.

As the chief administrative officer for the City, the City Manager is responsible for the administrative affairs of the City. The City Manager has delegated the purchasing responsibility within the guidelines established in this manual to the Department Directors. Each Department Director is authorized to execute orders on behalf of the City within these policy guidelines. Any interpretation of these guidelines necessary for the effective operation of the purchasing function will be made by the City Manager or a designee.

The City's purchasing categories are outlined below.

A. CREDIT CARDS & CHARGE ACCOUNTS

Credit Cards and Charge Accounts are to be used for purchasing small dollar (less than \$1,000), high volume items, and for official City travel. Credit Cards and Charge Accounts are for official City business purposes only and shall not be used for any personal transactions. Use of the Credit Card to make purchases of capitalized equipment is prohibited. Improper use of a Credit Card or Charge Account may result in disciplinary action, up to and including termination of employment.

All credit cardholders must be approved by the Finance Manager, and City Manager.

All open credit accounts must be approved by the Finance Manager.

Credit Cardholder responsibilities:

1. All purchase transactions processed against the Credit Card or Charge Account must be made by the credit cardholder.
2. The Cardholder or Charge Account Holder shall forward all documentation of all purchases to the Finance Department within 2 business days of the purchase.
3. The cardholder shall be responsible to maintain the security of the card and shall be personally liable for any charges that are assessed against the card for other than official City business conducted in accordance with the policies contained herein.
4. The cardholder shall immediately advise the Finance Manager of any lost or stolen cards or any suspicion of identity theft related to the card.
5. Credit Card purchase approvals: The department manager or department director must review all

charge documentation and approve all cardholder statements. Each statement cycle a copy of the statement will be provided to each cardholder to review and approve.

Credit Card dollar limitations:

1. The Credit Card and/or Charge Accounts are to be used for purchases of goods or certain business services under \$1,000 without a Purchase Requisition or Purchase Order, except as provided in the next paragraph. This means if the total payment, including freight, to be made to a vendor is \$1,000 or more, a purchase order must be used.
2. Credit Cards may be used where vendors will not accept a purchase order or there are exceptional circumstances for the purchase. The Credit Card holder must have written approval from the City Manager or his designee for the purchase prior to placing an order exceeding the \$1,000 limit.

Suspension/Termination of Credit Cards: Cardholders who do not abide by City policies will have their Credit Card privileges suspended and may face further disciplinary action, up to and including termination and prosecution by the City. The Credit Card shall be immediately canceled when the cardholder's employment with the City is terminated.

Reinstatement of Credit Card: If a Credit Card is cancelled or suspended for misuse, Credit Card privileges can be reinstated after a one year period. There will be mandatory re-training prior to reinstatement of the Credit Card privileges. The reinstatement will be probationary for a six month period, on terms to be established by the City Manager.

B. PURCHASES OF \$3,000 OR LESS BUT GREATER THAN \$1,000

In addition to Credit Card expenditures, individual department directors shall have discretionary spending authority up to \$3,000. When a Department Director requires expenditures between \$1,001 to \$3,000, the Department Director will obtain three informal quotes (verbal) on goods or services with a total cost within the \$1,001 to \$3,000 limits unless otherwise excepted in this manual. These purchases will be accomplished by means of a Departmental Purchase Order and Telephone/Written Quote Form. City employees are prohibited from making "separate, sequential, or component" purchases to avoid purchase order requirements". Competitive quotations or bidding are not required. Department Purchase Orders shall be forwarded to Finance within 2 business days of the ordering of the goods.

C. PURCHASES OF \$15,000 OR LESS BUT GREATER THAN \$3,000

When a Department Director seeks to expend sums between \$3,001 and \$15,000, the Department Director will obtain three formal quotes (email or faxed) for such goods or services except as provided in this manual. The quotes will be obtained by using the City of Buda Quote Request Form. This form will be faxed or email to each vendor that the department is requesting a quote from. At least one HUB's must be contacted on a rotating basis for each purchase in this range, and 10-13% of business awarded. Please refer to www.window.state.tx.us/procurement for a list of the current HUB vendors for the commodity that is being purchased. It is the City's desire to have a minimum of 20 percent participation of HUB vendors. If the list does not identify a HUB in Hays County, the City is exempt from this requirement. All such expenditures must be approved by the Finance Manager and City Manager.

D. PURCHASES OF \$50,000 OR LESS BUT GREATER THAN \$15,000

When a Department Director seeks to expend sums between \$15,001 and \$50,000, the Department Director will obtain three formal quotes (email or faxed) for such goods or services except as provided in this manual. The quotes will be obtained by using the City of Buda Quote Request Form. This form will be faxed or email to each vendor that the department is requesting a quote from. The City requires a good faith effort for HUB participation. The City's goal is 10% participation to include; HUB's (Historically Underutilized Businesses), MBE's (Minority Business Enterprises), DBE's (Disadvantaged Business Enterprises), and SMB's (Small Medium Businesses). Please refer to a list of current vendors at www.window.state.tx.us/procurement for the commodity that is being purchased. It is the City's desire to have a minimum of 20 percent participation of HUB vendors. If the list does not identify a HUB in Hays County, the City is exempt from this requirement. All such expenditures must be approved by the Finance Manager and the City Manager. (Historically Underutilized Businesses pg. 33)

MINOR CONSTRUCTION PROJECTS: Minor construction projects are construction activities under \$50,000. The Project Manager for all minor construction projects for all City facilities will be determined by the City Manager (see section 2 below).

Change Orders: After any contract is signed, if changes are necessary in the scope of work, the contract price, or the contract time, a change order must be prepared on a City approved form for execution by the Contractor and the City.

- If a change order involves a decrease or an increase of \$50,000 or less, the governing body may grant general authority to an administrative official of the municipality to approve the change orders.

- The original contract price may not be increased under this section by more than 25 percent. The original contract price may not be decreased under the Local Government Code by more than 25 percent without the consent of the contractor.

Payment Requisitions: Payment requisitions must be prepared, properly completed with **all** necessary signatures except the Finance Department and certified that all information contained on the Payment Requisition is correct including certification that the payment request is in compliance with the contract.

- **PROFESSIONAL SERVICES:** For professional services involving an anticipated fee of \$50,000 or less, the requesting Department Director will create a Professional Services Contract for legal review.

E. PURCHASES OVER \$50,000

The Texas Local Government Code requires competitive bidding or proposals for city purchases exceeding \$50,000 in amount, with very few exceptions. City employees are prohibited from making "separate, sequential, or component purchases to avoid the competitive bidding requirements". A violation of these prohibitions is a Class B misdemeanor (\$1,000 fine and/or 180 days in jail), and conviction results in immediate removal from office or employment and ineligibility for other public office or employment for four years after the date of conviction (Local Gov't. Code Section 271.029 and 271.030).

Purchases must be made through formal, written, sealed competitive bids or proposals. Departments are prohibited from splitting purchases to avoid the formal bid requirement.

City Council approval is required for the award of contracts for all purchases for goods and services of over \$50,000. If the formal bid process is used and the low bid is \$50,000 or below, the City Manager has the authority to execute the contract award.

- HIGH TECHNOLOGY PURCHASES: High technology purchases in excess of \$50,000 must be made through formal, written, sealed proposals. Departments are prohibited from splitting purchases to avoid the formal proposal requirement. State law requires that the relative importance of price and other evaluation factors be specified in the RFP. All RFP's for high technology purchases must be approved by the Department Director, IT Committee, Legal, and the City Manager or his designee prior to advertisement of the RFP.
- PROFESSIONAL SERVICES: "Professional Services" are services which involve mental or intellectual skills, usually accompanied by formal certification or licensing by a state agency, such as accounting, architecture, engineering, medicine, planning, economics, law, financial advisory services and scientific or laboratory consulting services.

State law prohibits the purchase of professional services by competitive bidding. User departments must select professional service consultants on the basis of demonstrated competence and qualifications, and must negotiate fees on the basis of what is fair and reasonable for the type of services, rather than on a "low bid" basis. Except for architects and engineers, discussed below, both price and qualifications can be considered in selecting consultants.

For services involving an anticipated fee of more than \$50,000, use the formal Request-For-Proposals ("RFP") procedure in coordination with the Finance Manager. Deviations from the RFP requirement must be based on unusual circumstances, and a written waiver must be approved by the City Manager.

Architects/Engineers:

In the case of architectural or engineering services a two step process must be followed. The first step is initial selection of the consultant based on demonstrated competence and qualifications (and not considering price); and the second step involves negotiation of a fee with the selected consultant. If fee negotiations are not successful, then fee negotiations with the second most qualified consultant may be undertaken, and so forth. It is important to keep in mind that price may **not** be considered in the initial selection of an engineer or architect.

The RFP and calendar (a schedule for the RFP & project) must be approved by the City Administrator and the Legal Department prior to issuance of the RFP. If the amount payable under the contract exceeds \$50,000, award of the contract will require City Council approval.

Contract amendments: All contract amendments must be approved by the City Council.

Change in Services: The consultant must receive written approval from the City prior to initiating any additional work. Additional services for which compensation exceeds \$50,000 of current contract amount must be approved by the City Council. All change of services for which compensation is less than \$50,000 may be approved by the City Manager.

- CONSTRUCTION PROJECTS

Construction projects include construction activities for buildings, streets, and utility system improvements including renovations and demolitions. The City Manager will designate a Project Manager for each construction project. These projects sometimes involve the acquisition by the City of real property, right-of-way or easements, which must be completed before the contractor enters the project area. In addition, state law requires most public works projects to be designed and overseen by a registered professional engineer or architect, who can be either in house (Engineering Department) or a contracted consultant.

Technical specifications/plans and supplementary conditions are developed by the Architect/ Engineer.

- a. Asbestos Abatement: If the project involves renovation or demolition work on an existing City building, state law requires an asbestos abatement survey to be conducted by a state licensed person, and material samples must be collected and submitted for analysis at a state certified laboratory. If asbestos is found, the Project Manager must contact the Engineering Department for additional information regarding asbestos abatement. All demolition projects require notification to the Texas Department of Health regardless of whether asbestos is present.
- b. Elimination of Architectural Barriers: If the project involves construction of a building with an estimated construction cost of \$50,000 or more, the City is required to submit all plans and specifications for the construction or renovation to the Texas Department of Licensing and Regulation for review for removal of barriers to persons with disabilities.
- c. Change Orders: After the contract is signed, if changes are necessary in the scope of work, the contract price, or the contract time, the Architect/Engineer advises the Project Manager. With the Project Manager's approval, the Architect/ Engineer prepares a change order on a City approved form in triplicate originals for execution by the Contractor, the City, and the Architect/Engineer.

The net amount of all change orders cannot increase the original contract price by more than 25%. The net amount of all change orders cannot decrease the original contract price by more than 25% without the Contractor's consent.

Change orders involving an increase or decrease of less than \$50,000 or less will be executed by the City Manager.

Change orders involving an increase of more than \$50,000 must be approved by City Council.

Payment Requisition: It is the responsibility of the Project Manager and the Engineer/Architect to ensure that the correct Payment Requisition forms are properly completed with all necessary signatures except the Finance Department, and/or the City Manager, which are obtained after the completed and signed Payment Requisition, is sent to the Finance Department. The City Manager's signature is only required on the final payment.

Final Payments: The City Manager executes all Final Payment Requisitions.

EXEMPT PURCHASING FUNCTIONS

State law provides a few exemptions from competitive bidding. Such examples include:

- The purchase of land or rights-of-ways;
- Personal or professional services, such as engineering, architectural, or planning services;
- Property bought at an auction;
- Property bought at a going-out-of-business sales; and
- Property bought from another political subdivision or state or federal government.
- In case of public calamity, where it becomes necessary to act at once to provide relief for local citizens or to preserve or protect the public health;
- In case of unforeseen damage to public property, machinery, or equipment, where immediate repair is necessary;
- Procurement necessary to preserve or protect public health or safety of the City's residents;
- Procurement for work that is performed and paid for by the day as the work progresses;
- Purchase of land or right-of-way; or
- Other matters as set forth in Section 252.022 of the Texas Local Gov't. Code.

The application of exemptions from competitive bidding requirements for purchases in excess of \$25,000 must be approved in each case by the City Manager and the City Council.

EMERGENCY PURCHASES

Emergency purchases are those purchases caused by an unforeseen and dangerous situation that requires immediate action to preserve the health and safety of people or property in the City. When emergency purchases are made, the user department must make the purchase at the best possible price considering all existing circumstances and the necessity for prompt action. The Finance Department will issue a verbal approval upon request when an emergency occurs which must be followed-up with a purchase order as soon as time permits. The user department must submit a purchase requisition within 48 hours after the emergency purchase is made.

Emergency purchase orders in excess of \$50,000 **must** be authorized by the City Manager and Finance Manager and ratified by the City Council.

SOLE SOURCE PURCHASES

State laws allow for a limited exemption from competitive bidding for the purchase of goods where the functional requirements of the City can be satisfied by only one source. This applies to: purchases where competition is precluded because of:

the existence of patents, copyrights, secret processes or natural monopolies;

the purchase of films, manuscripts or books; purchases of electric power, gas, water, and other utility services;

the purchase of captive replacement parts or components for equipment; and

other items as specified in Section 252.022(a)(7) of the Texas Local Gov't. Code.

A product is eligible for sole source purchase only when there is a significant functional difference between the product and other similar products on the market, and when the item is available only from one vendor. The following are **not** sufficient justifications for a sole source purchase:

A product is made by only one manufacturer, if products from other manufacturers are available that perform a similar function.

A particular name brand of product is preferred over other brands.

Only one local vendor offers a products, if other vendors who offer the product can meet the City's needs.

Sole source purchases in excess of \$50,000 must be approved by the City Manager and the City Council prior to the purchase. When City Council approval is necessary, a detailed explanation of the sole source basis for the purchase must be included by the user department on the agenda request form.

RENTAL AND LEASE EQUIPMENT

All lease agreements are accomplished by sealed bids/proposals if the amount of the lease is expected to exceed \$50,000 over the **term** of the lease agreement. A lease of equipment is subject to the requirements for competition that apply to purchases. Rental or lease equipment agreements will be processed on a standard purchase order.

The user department must identify the source of funds to cover payments of lease charges for the entire period of the lease.

BLANKET PURCHASE ORDERS

The user department shall submit a purchase order for a blanket purchase order approval for an amount of estimated annual recurring expenditures. For example, a department would set up a blanket purchase order for vendors from whom they regularly purchase needed supplies. Examples might include office supplies, equipment parts, lubricants, fuel, and so forth.

INTERGOVERNMENTAL PURCHASES

It is the policy of the City to facilitate joint purchasing arrangements on both an inter-governmental and intra-city basis. The Finance Manager will work with other governmental entities to take advantage of the benefits of joint purchasing arrangements. In addition, the Finance Manager will utilize various cooperative programs available to the City.

COMPUTER HARDWARE AND SOFTWARE PURCHASES

The City has adopted the following policy for the purchase of computer hardware and software.

Any City staff employee can make purchases for computer supplies/equipment less than \$100 (consumable items, such as diskettes, CD's, DVD's, ink cartridges, mice.)

Purchases of computer supplies/equipment \$100.00 to \$999.99 must have the approval of the Department Director and the Finance Manager.

Purchase of computer supplies/equipment \$1,000 - \$50,000 must be approved by the Department Director, the Finance Manager, and the IT Committee.

If cost is estimated to exceed \$50,000 the RFP policy applies.

All original program diskettes/CD's shall be kept by the City Secretary for retention filing at the Records Storage Center. The original software license is kept by the user department for its files.

CITY COUNCIL AUTHORIZATION

Contracts for the purchase of goods and services involving an expenditure in excess of \$50,000 require the approval of the City Council, whether or not the purchase has been obtained through a competitive bidding or proposals procedure. The Department Director is responsible for timely processing of City

Council Agenda Request forms to the City Manager when Council approval is necessary for a purchase.

BUYING LOCALLY

The City encourages purchases from vendors in Buda when the needs of the City and the requirements for competition in this manual can be met. State law, however, does not permit purchases to be limited to Buda vendors when competition is afforded by out-of-town vendors who can meet the City's delivery and/or service requirements.

In purchasing any real property or personal property that is not affixed to real property, if the City receives one or more bids from local bidders, and the bids are within five percent of the lowest responsible bid received by the City from a nonresident bidder, City may award the contract to the lowest responsible bidder who is a local bidder, if the City determines in writing that the local bidder offers the City the best combination of contract price and additional economic development opportunities for the City created by the contract award including the employment of local residents, and increased tax revenues to the city.

HISTORICALLY UNDERUTILIZED BUSINESSES (HUB'S)

The City is taking the following actions to assist Historically Underutilized Businesses (HUB's) in doing business with the City.

The Finance Department insures that HUB's are given a fair and equal opportunity to bid on City contracts.

The Finance Department ensures that, before the City makes an expenditure of more than \$3,000 or more, at least one HUB is contacted on a rotating basis, based on information provided by the Texas Comptroller. It is the City's desire to have a minimum of 20 percent participation of HUB vendors.

It is the City's intent that these actions will promote participation of HUB's within the City.

FIXED ASSETS

The City is responsible for keeping records of all of its fixed assets. All new assets which have an original cost of \$5,000 or more and a three year life span are fixed assets and will be added to the fixed assets records. Fixed assets are charged to the general ledger account code XXXXX. All duties and responsibilities of the fixed assets inventory records are supervised by the Finance Department. Effort by the directors and department heads throughout the City is necessary if the system is to work; however, this effort is centrally organized, monitored, and reported by the Finance Department staff.

SURPLUS

All surplus computer hardware and software must be returned to the Finance Manager. For all other surplus goods, contact the Finance Department for disposal either by on-line auction, or City Auction.

TRAVEL

All travel must be approved by the Finance Manager and the City Manager, using the attached Travel Request Form. All travel requests shall be made within 2 weeks of the travel date(s). The mileage rate to be reimbursed for all mileage will be the same rate of reimbursement used by the Federal Government.

RECYCLED PRODUCTS

The Finance Department encourages all user departments to assist in the purchase of recycled products and supports the entire process of recycling.

DOCUMENTS

REQUISITIONS: The Requisition requests authorization for the User Department to enter into a contract with a vendor to purchase goods and/or services for the user department and to charge the appropriate department or project budget once all approvals have been obtained.

THE PURCHASE ORDER: The primary purchasing document used by the City to secure supplies and/or equipment is the Purchase Order ("PO"). The PO is a binding written agreement between the City and a vendor obligating the City to pay for specified goods or services when delivered in accordance with the purchase order terms. PO's will be issued by the Finance Department only. **NO ORDER IS BINDING UPON THE CITY UNTIL A PURCHASE ORDER HAS BEEN ISSUED. NO EMPLOYEE SHALL CONSENT TO AN ORDER ON THE "CONFIRMING" BASIS BEFORE A PURCHASE ORDER HAS BEEN ISSUED.**

RECEIPTS: The user department is required to process a Material Receiving Report for complete delivery of an order prior to payment. This will be completed on the Requisition.

TELEPHONE/WRITTEN QUOTE FORM: The user department is required to complete the telephone/written quote form for all purchases greater than \$1,000. The telephone/written quote form must be forwarded to the Finance Department for processing.

QUOTE REQUEST FORM: The user department is required to utilize the quote request form for all purchases greater than \$3,000. The quote request form will ensure that each vendor receives the same information in which to base their quote on. The responses from the vendor along with the telephone/written quote form must be forwarded to the Finance Department for processing.

TRANSFERS OF FUNDS: In the event that the department director needs to transfer funds between line items the transfers of funds form must be completed.

FIXED ASSET ACTIVITY FORM: The Fixed Asset Activity Form must be completed for each fixed asset that is added, deleted or transferred. A fixed asset is a cost of \$2,500 or greater at the time of purchase.

TRAVEL AUTHORIZATION FORM: All travel must be approved using the attached form. It must be submitted within 2 weeks of the travel date(s).

XIII.

INVESTMENTS

PURPOSE

A city must adopt a written investment policy by ordinance or resolution. TEX. GOV'T CODE §2256.005(a). Therefore, regardless of a city's population, it must have a written investment policy if it has any cash or bank investments. A formal policy protects not only the cash assets of the city, but also the elected and finance management officials.

1. INVESTMENT IN PUBLIC FUNDS

A city may invest its public funds, but only if the city complies with Chapter 2256 of the Texas Government Code, the Public Funds Investment Act (Act).

A. Requirements of the Act

Before a city may invest its public funds, the Act generally requires the following:

1. A city must adopt a written investment policy.
2. A city may only invest its funds in investments authorized under its written investment policy.
3. Authorized investments must come from the list of proper investments under the Act.
4. An official from the city must complete training regarding the requirements of the Act.

B. Investment Policy Requirement

An investment policy must contain a statement emphasizing safety and liquidity. TEX. GOV'T CODE §2256.005(b)(2). The policy must also include a list of authorized investments and the permitted maximum maturity of any individual investment, as well as the maximum weighted average maturity (WAM) of funds. TEX. GOV'T CODE §2256.005(b)(4)(a). The policy must also include the method used by the investing entity to monitor the market price of investments acquired.

The primary objectives, which should direct any investment strategy, are safety and liquidity. Safety is the most important objective because public officials have a fiduciary responsibility to manage and maintain taxpayer funds. The Act requires city councils to invest public funds under their control with the same prudence and discretion as such entities would manage their own affairs.

Liquidity, the ability to sell or dispose of an investment, is equally important. Invested funds must be readily available if the need for cash arises and requires the city to liquidate the investment before maturity.

Yield refers to the rate of return received on a particular investment. Yield or income derived from an investment is important, particularly to a city grappling with declining or stagnant revenues or tax base. However, 1995 amendments to the Act significantly revised the ranking of investment objectives and put yield in last place. The first priority for consideration is the suitability of the investment to the overall cash flow and financial requirements of the entity.

The Act requires that the governing body of an investing entity review its investment policy at least once a year. TEX. GOV'T CODE §2256.005(e). Moreover, the governing body must take formal action stating that the policy and strategy have been reviewed. Any changes to either the

policy or strategy must be recorded in the resolution and the investment policy. Changed policies should be sent to all brokers, pools, and advisors.

The investing entity must also designate by ordinance or resolution the employee or investment officer(s) who will be responsible for the investment of its funds. TEX. GOV'T CODE §2256.005(f). The policy also should refer to training seminars conducted by independent sources, such as the Texas Municipal League.

2. TRAINING REQUIREMENT UNDER THE INVESTMENT ACT

The treasurer, the chief financial officer (if the treasurer is not the chief financial officer), and the investment officer of a local government must attend at least one training session in investment laws within 12 months after taking office. TEX. GOV'T CODE §2256.008.

The Act is written in a way that requires all cities to appoint someone to one of these positions in order to receive the training. On a continuing basis, the investment training sessions must be attended at least once every two-year period for at least ten hours of instruction. The entity that provides training must report to the state comptroller a list of the governmental entities that received training. Further, auditors and credit-rating agencies are increasingly paying attention to whether a city is up-to-date on its required training. The Texas Municipal League offers training, as do other entities. City officials may check for upcoming Public Funds Investment workshops under the "Training" tab on the TML Web site at www.tml.org.

The Public Funds Investment Act training requirement makes no exception or allowance for cities that don't invest, invest very little, or invest only in time deposits. TEX. GOV'T CODE §2256.008.

Certificates of deposit are considered investments under the Act, meaning that their purchase is not proper unless the city has adopted a written investment policy authorizing their use. TEX. GOV'T CODE §2256.010.

A. Legal Investment Tools Allowed According to the Act

The Act limits the types of investments that the City may authorize under its investment policy. Essentially, an investment must be legal under the Act, *and* included in the City's investment policy, before the city may use that investment.

Following are the common legal investments under the Act (there are some additional legal investments that apply only to certain cities or entities):

- 1. Governmental Obligations.** United States and State of Texas obligations, such as bonds, are legal investments. So are obligations of local governments, provided the obligations are "A" rated. Mortgage-backed obligations are not legal, however. TEX. GOV'T CODE §2256.009.
- 2. Certificates of Deposit (CDs).** CDs are a legal investment provided they are issued by a bank with its main office or a branch office in Texas. TEX. GOV'T CODE §2256.010. CDs must be collateralized (secured) for amounts greater than FDIC insurance (\$250,000).
- 3. Repurchase Agreements.** Certain fully-collateralized repurchase agreements are legal

investments. TEX. GOV'T CODE §2256.011.

4. **Securities Lending Programs.** TEX. GOV'T CODE §2256.0115.

5. **Banker's Acceptances.** TEX. GOV'T CODE §2256.012.

6. **Commercial Paper.** Commercial paper is a legal investment provided it has a maturity date of 270 days or less and is rated at least "A-1" or "P-1" by at least two credit rating agencies. TEX. GOV'T CODE §2256.013.

7. **Certain Mutual Funds.** TEX. GOV'T CODE §2256.014. (See below for details about legal mutual funds.)

8. **Guaranteed Investment Contracts.** Guaranteed investment contracts are legal investments if they have a defined termination date, are fully secured, and are pledged to the city. TEX. GOV'T CODE §2256.015.

9. **Investment Pools.** Investment pools are legal investment vehicles if: (a) the city council passes an ordinance or resolution authorizing investment pools; (b) the investment officer of the city receives a detailed prospectus from the pool; (c) the pool makes detailed periodic reports to the city; and (d) the pool is continuously rated "AAA" or "AAA-m." TEX. GOV'T CODE §2256.016.

10. **Stocks,** also known as equities, are not listed among the legal investments under the Act.

11. **Mutual Funds.** Whether a city can invest in a mutual fund and how much depends on the type of mutual fund in question. An outline of the law for each type of permissible mutual fund follows, but it is recommended that the investment officer read the statute in question before making the investment:

A. A city may invest in no-load money market mutual funds only if all the following are true:

1. The fund is registered and regulated by the Securities and Exchange Commission (SEC);
2. The fund provides a certain type of prospectus;
3. The fund has a dollar-weighted average stated maturity of 90 days or fewer; and
4. The fund includes in its investment objectives the maintenance of a stable net asset value of one dollar per share.

A. A city may invest in no-load mutual funds (that is, non-money market) only if all the following are true:

1. The fund is registered with the SEC;
2. The fund has an average weighted maturity of less than two years;
3. The fund invests exclusively in obligations already approved elsewhere in the Public Funds Investment Act (thus excluding most stock funds);

4. The fund is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent;
5. The city invests no more than 15 percent of its eligible funds in the mutual fund (that is, excluding city's bond and debt funds);
6. The city does not invest its bond or debt service funds in this type of fund; and
7. City investments do not exceed ten percent of the value of the fund. TEX. GOV'T CODE § 2256.014.

The Public Funds Investment Act does not permit investment of any city funds until the city adopts a written investment policy that authorizes each type of investment in question. A written investment policy that does not authorize mutual funds would thus exclude their use, despite state law.

B. CONSEQUENCE of FAILURE to COMPLY with the PUBLIC FUNDS INVESTMENT ACT TRAINING REQUIREMENTS

Though the Act contains no penalty provision, auditors and credit-rating agencies are increasingly knowledgeable about the Act's requirements. Failure to obtain the necessary training could result in negative marks on the city's audit or a downgrade in a city's credit rating, which could affect municipal borrowing.

XIV.

CAPITAL ASSETS POLICY AND DEPRECIATION GUIDANCE BASED ON GASB STATEMENT 34

Purpose

This policy establishes the minimum cost value (capitalization amount) that shall be used to determine the capital assets, including infrastructure assets that are to be recorded in the City of Buda's annual financial statements in order to comply with the requirements of GASB Statement No. 34.

This policy also addresses other considerations for recording and depreciating fixed assets in order to comply with the provisions of GASB Statement No. 34.

1. Asset Classification

- Land
- Land improvements and infrastructure
- Buildings
- Equipment/Machinery/vehicles
- Intangible Assets

2. Capital Asset Definition

A Capital asset is a piece of property that meets all of the following requirements:

1. The asset is tangible and complete
2. The asset is used in the operation of the City's activities
3. The asset has a useful life of longer than the current year
4. The asset is of significant value

3. Capitalization Method

All capital assets are recorded at historical cost as of the date acquired or constructed. If historical cost information is not available, assets are recorded at estimated historical cost by calculating current replacement cost and deflating the cost using the appropriate price-level index.

4. Capitalization Thresholds (GASB Governmental Entities with Revenues between \$10 and \$100 million)

The City of Buda establishes the following minimum capitalization thresholds for capitalizing fixed assets with a useful life of more than two (2) years:

<u>Tracking and Inventory</u>	<u>Capitalize and depreciate</u>
Land	Capitalize only
Land Improvement	\$5,000
Building	\$5,000
Building Improvements	\$5,000
Construction in Progress	Capitalize only
Machinery and Equipment	\$5,000
Vehicle	\$5,000
Infrastructure	\$5,000

Detailed records shall be maintained for all fixed assets above the established thresholds. In addition, items used as one system which total \$5,000 or more in aggregate should also be capitalized.

Using these guidelines, items costing less than \$5,000 would not be recorded as fixed assets (i.e., capitalized), but their cost would be recorded as an expenditure under minor equipment, supplies, etc. Inventory records may be established and maintained for control or insurance purposes for items under \$5,000, but the cost for items under \$5,000 should not be included in the amount reported in the General Fixed Assets.

5. Depreciation and Useful Life

Depreciation Method – Straight Line Depreciation is used by the City. The total amount depreciated can never exceed the asset’s historic cost less salvage value.

The Finance Manager will assign an estimated useful life to all assets for the purposes of recording depreciation. Asset lives will be adjusted as necessary depending on the present condition and use of the asset and based on how long the asset is expected to meet current service demands. Adjustments should be properly documented. Depreciation is recorded based on the straight line method using actual month convention and depreciated down to the assets salvage value.

Depreciation will be calculated utilizing the ‘half-year schedule. Under this schedule an asset is treated as though it were placed in service or disposed of the first day of the seventh month of the fiscal year. One half of a full year’s depreciation is allowed for the asset in its first year placed in service, regardless of when it was actually placed in service during that year.

A. Infrastructure Assets

In accordance with GASB Statement 34, the City records, at minimum, “major” infrastructure assets as defined in Statement 34 that were acquired, constructed or significantly reconstructed, or that received significant improvements after June 30, 1980. Other infrastructure assets may be capitalized as deemed appropriate. The City does not use the “modified approach” to record infrastructure.

B. Other Assets

Detailed records are maintained for all items below the capitalization thresholds that should be safeguarded from loss. These items are part of the annual physical inventory discussed below and would normally have a cost between \$250 and \$4,999. These items include all electronic equipment, tools, police equipment and all other assets that fall below the established thresholds as specified by the Finance Manager. **High risk items such as weapons and electronic equipment will be recorded in inventory regardless of cost.**

C. Depreciation and Useful Life

The City’s Finance Manager will assign an estimated useful life to all assets for the purposes of recording depreciation based on GAAP and GASB requirements. Asset lives will be adjusted as necessary depending on the present condition and use of the asset and based on how long the asset is expected to meet current service demands. Adjustments should be properly documented. Depreciation is recorded based on the straight line method using actual month convention and depreciated down to the assets salvage value.

Depreciation will be calculated utilizing the ‘half-year schedule. Under this schedule an asset is treated as though it were placed in service or disposed of the first day of the seventh month of the fiscal year. One half of a full year’s depreciation is allowed for the asset in its first year placed in service, regardless of when it was actually placed in service during that year.

6. Disposition of Assets

When capital assets are sold or otherwise disposed of, the inventory of Capital Assets should be relieved of the cost of the asset and the associated accumulated depreciation. Assets will be removed on an annual basis in conjunction with the annual update. The appropriate depreciation will be taken for the year of the disposal.

7. Safeguarding and Controlling Fixed Assets

All machinery and equipment, vehicles and furniture is assigned an asset number and identified with a fixed asset tag. As fixed assets are purchased or disposed of, the department head in custody of that asset is responsible for preparing a fixed asset data sheet, which is then forwarded to the finance office to ensure proper recording. A physical inventory will be taken periodically and compared to the physical inventory records. The results are forwarded to the finance office where appropriate adjustments will be made to the fixed asset records.

XV.

CASH MANAGEMENT

Purpose

Implementing internal controls is important in the area of cash management because of the diverse nature of the processes involved, i.e., billings, collections, deposits, and disbursement processes, as well as the fragmented oversight responsibilities generally associated with these processes. Some of the other major factors, which impose a need for a consistent application of sound internal controls, are:

- a. The prevalence of a high turnover rate of operating personnel and supervisors in cash management functions;

- b. The assignment of cash handling responsibilities to personnel with limited fiscal experience or understanding;
- c. The fragmentation of billing and cash handling functions which makes monitoring the whole process difficult; and
- d. The inherent risk of loss, or opportunity for personal gain, created by the nature of cash transactions.

1. Internal Controls Policy

It is the policy of the City of Buda to implement internal controls in the area of cash management to minimize the cost of the use of money to the City. The City's accounting and administrative controls must also provide reasonable assurance that all City assets, including funds, are safeguarded against waste, loss, unauthorized use, or misappropriation.

While the need for internal controls may seem burdensome or restrictive, their value should be obvious. It is the responsibility of financial managers to interpret the value of internal controls for other managers and employees. They should also assist in establishing internal controls that may need to be tailored to specific situations.

However, the costs and benefits of proposed controls for unusual situations should be carefully evaluated and the costs should not normally exceed the benefits likely to be derived. On the other hand, such evaluations should not be mistakenly used as a justification for relaxing controls, or accepting an increased risk of loss to the City, based strictly on cost.

2. Responsibilities

Internal controls over cash management are needed at all levels of the organization that handle cash and/or cash equivalents, i.e., coupons, credit card slips, etc. Both program managers and financial managers are accountable for cash under their control.

However, the City's finance manager must provide guidance to all employees who have cash management responsibilities; he/she also bears ultimate responsibility for internal controls over cash collections, disbursements, and holdings which are accounted for by his/her operations.

Therefore, responsibilities of cash management officers, cashiers, certifying officers, and other accountable personnel to establish and maintain controls should be formally delegated by the City Council.

3. Internal Control Standards

Cash management internal controls represent an application of common sense and prudent conduct to the use and proper safeguarding of City assets. Proper internal control mechanisms provide management with a reasonable assurance that intended safeguards are being practiced consistently. Therefore, the integrity of any cash management activity depends on the application of internal control principles and standards.

The attainment of these principles and standards in the cash management area can be achieved by pursuing the following guidelines:

- a. The time-value-of-money shall be recognized as a part of each cash management decision.
- b. Cash related transactions shall occur only after the approval of an individual with delegated authority to make approvals.
- c. Cash related transactions shall be fully documented so that an undisputable audit trail exists.

- d. Cash related transactions shall be recorded promptly during each step of the cash handling function.
- e. Serially numbered forms shall be used to document cash related transactions to enhance reconciliation and accountability.
- f. Documents used in cash related transactions shall be safeguarded against re-use, tampering, or unauthorized disposal.
- g. Provisions shall be made for the regular review and comparison of transaction documentation to detect errors and duplicate payments.
- h. The approval of adjustments to cash related transactions shall be administratively controlled.
- i. Supervision of cash management activities shall be strictly and continually administered.
- j. Cash related duties, such as maintenance of accounts receivable, cashiering, accounting, disbursing, and collecting funds shall be segregated.
- k. Cash related accounts shall be frequently reviewed and reconciled with subsidiary records.
- l. The accessibility to funds and fund records shall be restricted and administratively controlled.
- m. Only properly designated employees shall handle interest funds, disbursement certifications, and collection duties.
- n. Employees assigned cash related duties shall be trained and must accept their responsibilities.
- o. Unnecessary clerical routines and handling of cash or cash related documentation shall be eliminated to lessen the risk of loss and exposure to errors.
- p. Electronic funds transfer and direct deposit shall be used where feasible and advantageous.
- q. Computer edit programs shall be used to the maximum extent possible to disclose or reduce the incidence of error in cash related transactions.
- r. Cash derived from collections and cash used for disbursements shall not be commingled.
- s. Cash transactions shall not be used to substitute, or circumvent, prescribed procurement approvals and procedures.
- t. Checks received in collections shall be endorsed upon receipt and collections shall be safeguarded until deposit is accomplished.
- u. Deposits shall be processed within prescribed intervals and reconciled against records of funds received.
- v. Prompt responses shall be made to reviews performed by the Office of Inspector General and the Government Accountability Office on cash management activities to correct cited deficiencies.

- w. Cash disbursement transactions shall be processed promptly, and cash shall be reconciled daily.
- x. Cash held outside the Treasury shall be maintained at the minimum amount needed to cover current transactions.
- y. Credit shall be extended only when authorized by a designated official who is aware of the Department's debt management policies.
- z. Approved price lists shall be published to ensure a control over income for goods and services. This list of guidelines is by no means all-inclusive. Cash handling techniques and methods change as programs change and as new collection and disbursement technologies evolve over time. However, similar economically feasible standards should be established to fit these new collection and payment processes. Questions on applying internal controls in cash management should be submitted to the Finance Manager.

3. Substitutions of Credit Cards for Cash Transactions

City departments shall use the City Credit Card for small purchases when economically feasible and will accept personal credit cards for collections--in lieu of cash or check--whenever possible. The use of the credit card for small purchases not only reduces the administrative cost of the procurement transaction, but results in better cash management with resultant interest savings. Acceptance of personal credit cards reduces the cost of collection activity, lessens the loss or possible theft of cash collected, and generally results in faster deposits to the bank.

All receipts should be submitted to the Finance office for reconciliation of all credit card transaction with the credit card statement. Any discrepancies should be investigated immediately.

XVI.

GRANT ACCOUNTING, REPORTING AND INTERNAL CONTROLS

PURPOSE

In order to meet state and federal grant requirements specific information is required. Therefore, it is imperative the City develop a system for maintaining and reporting all information related to any grant received. All grants are subject to audit so documentation is extremely important. All meetings related to grant activity should include the Finance Manager.

1. Documentation

- A. Setup folders in Finance and any other department that will be tracking grant information.
- B. Copies of all grant correspondence and documents are to be provided to the Finance department as they are received.
- C. Identify the grant program title, CFDA #, DUNS number, and total awards. If there is no CFDA #, indicate so on the documents.

D. Please provide current chart of accounts for this program (Fund, Appropriation, Units) and chart of account elements set up for the new grant activity.

E. Please identify the key program and finance personnel involved with this program and their roles/responsibilities.

F. Identify risks, areas of concern, and or lack of information that could potentially result in noncompliance with state and federal program, accounting, or reporting requirements. A formal risk assessment should be developed. Please provide a copy of your risk assessment.

G. Identify all revenues and expenses related to a grant by a unique title or project number and use the unique identifier on all documentation and transactions.

2. Accounting and Reconciliation

A. Direct charging via payment interface to General Ledger funds is preferred. However, journal entries may be necessary. If mistakes are found in booking of Grant revenues or payments, contact the Finance Manager immediately so the errors can be corrected in the GL as soon as possible.

B. Grant transactions are to be reconciled to the GL monthly if there is ongoing activity

C. Grant funds cannot be comingled with other funds. Each grant is to be tracked separately.

D. Identify the applicable state and federal reporting requirements for this grant.

E. Identify any accelerated reporting requirements

F. Identify any additional state and federal compliance regulations and requirements applicable to the funding for the grant program. If this is a new grant, provide information on state and federal compliance regulations and requirements.

3. Review of Contracts

A. Review all contracts to internal and external parties to ensure they are appropriately classified as a vendor or a sub-recipient and the contract contains sufficient detail of the responsibilities of each organization to ensure timely and accurate reporting on the use of grant funds, compliance with grant award requirements and State regulations, and proper reporting of the expenditure of federal dollars on the Federal Status Reports and the Schedule of Expenditures of Federal Awards.

B. Consider relationships with other grant programs and how they may impact your grant funding and accounting. Identify those programs and the relationship and how the flow of transaction activity will be addressed.

XVII.

CONTRACTS AND SIGNATORY

Policy Statement

Any type of agreement that obligates the City to provide payment, services, goods or use of City properties, facilities or other resources to an external party (hereinafter “contracts”) must be signed by the City Manager (Charter Section 5.01) or designee. Only the City Manager and those specific individuals authorized in this policy or in writing by the City Manager, through published policies or other authorizing documents, have the authority to enter into contracts on behalf of the City.

Contracts which are not on City of Buda standard forms must be reviewed by Legal Counsel before being signed by an authorized City official. Individuals who execute contracts that are not authorized to do so may be personally liable for the obligations of the contract.

Purpose

To describe the requirements, procedures, and approval processes for City contracts and to define the delegation of authority deemed necessary and appropriate for the efficient administration of the City. This policy applies to all contracts that legally bind the City of Buda other than regular full-time staff employment contracts.

Contract Guidelines

The following guidelines apply to contracts between the City of Buda and any external party.

Each Department Director is responsible for following the Comprehensive Financial Management Policy Statements, Section XII Purchasing Policy (Purchasing Policy) and authorized to execute orders on behalf of the city within the policy guidelines. Any interpretation of the guidelines necessary for the effective operation of the purchasing function will be made by the City Manager or a designee.

Signatory Guidelines

A. City Manager or designee shall sign:

- Contracts, including grant agreements; personal, professional, and consultant services agreements; license agreements; and services agreements
- Real property agreements,
- Banking and other financial services agreements; and
- Any other agreement, including purchase orders, for more than \$50,000.00 in total revenue or expense.

Signatory authorization shall be in accordance with the Purchasing Policy.

B. The Department Director shall sign:

- Contracts, including service agreements and facility/space use agreements,

- Other agreements of similar nature which generally are considered to be the department's responsibility within the City, which do not require the City Manager's and/or Council's approval.

Signatory authorization levels shall be in accordance with the Purchasing Policy.

PROCEDURE

The City of Buda Requisition of Goods or Services Form contains information and authorization for the approval of contract. The Form shall be completed prior to submittal to the City Manager for signature. All contract signatures shall be completed prior to submittal to the City Manager.

CODE OF ETHICS

Any individual entering into a contract on behalf of the City must accordingly exercise their authority in a manner consistent with Code of Ethics.

Reference

- 1) City of Buda Charter, Section 5.01:

The City Manager shall have the authority to execute on behalf of the City, standard form documents, including but not limited to deeds, releases of liens, rental agreements, easements, right-of-way agreements, joint use agreements, and other similar documents, under the following conditions:

- a. The execution of the document is necessary to carry out a public works project; utilize, maintain or improve a City facility, street, right-of-way, easement, park or other City property, or to implement other City policies; provided that such project, program or policy has been approved by the City Council;
- b. That all blanks are filled in on any document correctly and that such document is consistent with the objectives approved by the City Council; and
- c. That the form of such document shall be approved by the City Attorney.