

AGENDA REPORT

DATE: December 7, 2004

ITEM City of Great Falls Financial Policies and Procedures –
Update and Adoption

INITIATED BY Fiscal Services Department

ACTION REQUESTED Adopt Updated City of Great Falls Financial Policies and
Procedures

PREPARED BY Melissa Kinzler, Assistant Fiscal Services Director

REVIEWED & PRESENTED BY Coleen Balzarini, Fiscal Services Director

RECOMMENDATION:

Staff recommends the City Commission adopt the updated City of Great Falls Financial Policies and Procedures.

MOTION:

“I move the City Commission adopt the updated City of Great Falls Financial Policies and Procedures.”

SYNOPSIS:

In an effort to focus the accounting practices in a more efficient and effective direction, the Fiscal Services Department reviewed all current financial policies and procedures. Various changes in City of Great Falls Financial Policies and Procedures are recommended from this review.

One recommendation is that the City of Great Falls avoid recording assets with immaterial values as seen from an accounting perspective. Currently, the City of Great Falls’ fixed asset threshold is \$3,500. The Government Finance Officers Association (GFOA), a national professional association of state and local finance officers in the United States and Canada, recommends that all municipalities increase their fixed asset limits to \$5,000 for tangible capital asset items. The advantage of increasing fixed asset capitalization thresholds will enable the City to perform effective reconciliation of fixed assets. This increase, however, will in no way affect the controls in place for monitoring and tracking items owned by the City and that are considered moveable. Increasing the thresholds is primarily to address what is materially reportable in the City’s annual audit.

The second recommendation is for the quotation requirements for small purchases to move from \$1,000 to \$5,000. Currently all purchases between \$1,000 and \$4,999 require at least three verbal documented quotes on the requisition form. This change would move the quote

requirement to \$5,000 and to the bid limit as specified in the Montana Code Annotated 7-5-4302. The current limit was set in 1993. Due to inflation the current limits on requiring quotes is very low and time consuming for Departments. Only 6% of the total purchases in the last year were in the \$1,000 to \$5,000 range.

The third recommendation is that the Blanket Purchase Order limit be raised to \$1,000. The current limit is \$300. Blanket Purchase Orders are set-up with individual vendors on a yearly basis, and allow Departments to purchase merchandise from these selected pre-approved vendors without issuing a purchase order. Again, the current limit was set in the early 1990's and due to inflation needs to be increased.

The fourth recommendation is that the internal signing procedures for claims and requisitions be changed. Currently, all purchase requisitions and claims are approved by each Department head and the Assistant Fiscal Services Director. If the requisition is a fixed asset, the requisition is also approved by the Accounting Technician, Senior. In addition, if the claim is over \$500 or involves travel or subscriptions, the claim is also approved by the Fiscal Services Director. Another review is performed by the Assistant City Manager if the claim is over \$1,000 or is for travel and subscriptions. A last approval level is required by the City Clerk if the claim is over the \$20,000 or \$25,000 limit. This means that 96% of the total amount of all claims and requisitions are approved by at least three different people. This does not include each Department's own internal approval process. In some Departments four signatures are required before the process is started.

After reviewing the claims and purchase requisitions processed in the last year, the following recommendations for internal signing procedures for claims and requisitions is recommended:

- 1) All claims and requisitions are approved by each Department head and the Assistant Fiscal Services Director.
- 2) Fixed assets claims and requisitions are approved by the Accounting Technician, Senior.
- 3) The Fiscal Services Director approve all claims over \$1,000. The Fiscal Services Director would be approving 94% of total claims and purchase requisitions.
- 4) The Assistant City Manager approve all claims over \$5,000 and all out-of-state travel. The Assistant City Manager would be approving 88% of total claims and purchase requisitions.
- 5) The City Clerk approve all claims over \$20,000 or \$25,000.

The last recommendation is that the \$500 report that is presented at the Commission meetings be changed to the \$5,000 report. Currently, 96% of total claims are listed in the \$500 report, which amounted to 3,406 lines for a year. The \$500 report is very labor intensive for Fiscal Services Department. If the report was changed to the \$5,000 report 88% of total claims would be listed on the report with only 657 lines. This would be a reduction of 81% of claims listed with only a 8% reduction in the amount of claims reported.

BACKGROUND:

Attached is the updated version of the City of Great Falls Financial Policies and Procedures. Many of the current policies have not been updated since the early 1990's. Due to inflation the dollar limits for these policies need to be adjusted. After reviewing the claims and purchase

requisitions processed in the last year the updated dollar limits are recommended. 88% of the amount of claims processed are over the \$5,000 limit. Yet, most of current time spent on approval has been at the low dollar amount claims. The new limits will adjust time spent on approval accordingly. While City Commission approval is not required to update City of Great Falls Financial Policies and Procedures it is considered good policy to have City Commission approval on these updates.

EXCERPTS FROM THE CITY OF GREAT FALLS FINANCIAL POLICY AND PROCEDURES MANUAL:

PURCHASES REQUIRING QUOTES

1. Purchases requiring verbal, written or formal quotes should have this information entered into the system.
 - a. Quotation requirements for purchases between \$000 and ~~\$999~~ \$4,999 will be set by the department.
 - b. ~~Purchases between \$1,000 and \$4,999 will require at least three verbal quotes documented on the requisition form.~~
 - c. Purchases of \$5,000 and to the bid limit as specified in the Montana Code Annotated 7-5-4302, as follows, require three written quotes attached to the purchase requisition.
 - d. If more than one quote cannot be obtained because there are no other vendors to supply the material, state in the comments of the purchase requisition that the vendor is sole source and give a detailed explanation of why the vendor is sole source.
 - e. Purchases in excess of the bid limit as specified in the Montana Code Annotated 7-5-4302 must go through the bid procedure.
 - f. Procurement requirements may not be artificially divided so as to constitute small purchases and avoid quote requirements.

BLANKET PURCHASE ORDERS

1. Blanket purchase orders (BPO) may be used for individual purchases up to ~~\$300~~ \$1,000.00.
2. BPO's are issued yearly based on a calendar year.
3. The Assistant Fiscal Services Director reviews the BPO list from the prior year and decides which vendors stay on the list based on volume (the City must have purchased at least \$500 of eligible merchandise during the last year.)
4. A department may submit a request for a blanket with a particular vendor. The Assistant Fiscal Services Director must approve this request based on the above criteria.
5. A list will be provided yearly by Fiscal Services for all BPO Vendors available. Please be sure and check this list when paying invoices.
6. A purchase can be made at any of the vendors on the BPO list. The vendor will issue the purchaser an invoice and it will be charged to the City's account. Please be sure and sign the invoice legibly and write the name of the department on the invoice (so if Accounts Payable receives the copies or has problems – they can tell who picked up the merchandise or what department placed the order.) Some vendors mail the invoice to Accounts Payable and some will give it to the purchaser when they are at the vendor. Please submit the invoice for payment as soon as possible.
 - a. On the invoice write the account number to be charged and have all appropriate signatures from the department. If the invoice is small, please attach it to an 8½ x 11 piece of paper (this prevents lost or misplaced invoices.)
 1. The ink on some invoices comes off when tape is placed over it, so please make sure the amounts on the invoice are legible after the invoice is attached.

FIXED ASSETS AND/OR CAPITAL OUTLAY ACCOUNTING

1. Fixed assets are defined as long-lived tangible assets and include buildings, equipment, improvements other than buildings, and land. ~~Typically~~ Fixed assets are valued at ~~\$3,500~~ \$5,000 or more for audit reporting purposes.
2. The criteria for capitalizing an asset is usually governed by the following factors:
 - a. The cost of the asset
 - b. Its useful life
 - c. Individually certain items, such as library books, golf carts, and garbage containers, are capitalized even though they do not meet the criteria individually, as a group they meet the criteria.
3. It is likely that many different questions will be considered in finally arriving at a capitalization policy (e.g., the number of assets expected to be recorded and the volume of transactions involved.)
 - a. Routine costs incurred necessary to maintain the operating efficiency of a fixed asset are not to be considered fixed asset expenditures (i.e., oil changes or brake relining, etc.)
 - b. Costs incurred to extend the life of a fixed asset (i.e., rebuilding the engine of a vehicle that has lived its expected life prior to the rebuild) may be considered fixed asset expenditures.
 - c. Recurring costs incurred necessary to operate the fixed asset are not fixed asset expenditures (i.e., chemicals required to operate the water treatment plant.)
4. To enable tracking of fixed asset and capital outlay purchases within the HTE Fixed Asset module, all purchases and payments related to capital outlay or fixed asset purchases must be submitted to Fiscal Services via purchase requisitions. All purchase requisitions are given to the Account Technician weekly to check for fixed asset payments. This provides a tracking list for routine entry of the fixed asset and capital outlay records throughout the year and for the year end audit process related to fixed asset and capital outlay recording.
5. Each department is still required to keep track of controlled assets valued at less than ~~\$3,500~~ \$5,000 on individual departmental records. Property items that cost less than the capitalization level, but have a sensitive, portable and theft-prone nature, are controlled assets. Controlling these items as if they were capital assets is important. By definition, controlled assets are property items that fail the capitalization criteria; however, they are maintained on a subsidiary asset register within the individual departments (i.e., cash register, small office equipment, etc.)

CONTRACT APPROVAL REQUIREMENTS

The following procedure shall be used for each type of contract:

- a) Planning & Zoning
 1. Annexation agreements need pre-approval by City Commission as a separate agenda item.
 2. Easement contracts need pre-approval by City Commission upon as a separate agenda item.
- b) Intergovernmental
 1. Memorandum of Understanding, Mutual Aid Agreements, Mutual Service Agreements, Other Agreements need: Pre-approval by City Commission as a separate agenda item.
- c) City User Fee
 1. Schedule of User Fees (include negotiable limits) needs to be approved by Commission Resolution.
 2. User Fee Based Permits for 1 month to 1 year needs to be placed on the contracts list unless otherwise approved by Commission action.
 3. User Fee Based Permits for 1 week to 1 month needs pre-approval by department head.
 4. Daily user Fee Based Permits needs pre-approval by a department head delegate.
- d) Expenditure contracts
 1. All contracts for services over \$1000 need to be placed on the contracts list unless otherwise approved by Commission action.