



CITY OF GALLUP, NEW MEXICO

POLICIES AND PROCEDURES

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MANUAL OF POLICIES AND PROCEDURES

SECTION 1

INTERNAL CONTROLS

INTRODUCTION

Identifying risks and implementing control procedures will not protect assets and produce reliable financial information if employees are not following established procedures. To ensure that controls are effective, department heads and supervisors should regularly review available documentation and accounting records to confirm that controls are being executed as designed. It is also important to consider the feedback received from employees. Some control procedures may appear to be a good solution to an identified risk but, once implemented, may cause unforeseen problems or inefficiencies. Other activities may not appear to need controls, yet upon further analysis, some type of control may be warranted.

The City is responsible for establishing and maintaining an internal control structure including policies and procedures and is also responsible for ensuring that the City complies with laws and regulations applicable to state and federal programs.

The internal control policies are based on the 1994 report issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and standards adopted by the American Institute of Certified Public Accountants and the Federal Office of Management and Budget. Much of the material in these policies is from the General Accounting Office (GAO) publication, Standards for Internal Control in the Federal Government. The terms defining internal control in this document are synonymous with management control in the Office of Management and Budget publication OMB Circular A-123.

The COSO report defines internal control as a process established to provide reasonable assurance specific City objectives such as effectiveness and efficiency of operation, reliability of financial reporting, and compliance with applicable laws and regulations will be achieved. Internal controls include the plans, methods and procedures used to meet goals and objectives. Effective Internal Control serves as the major defense in safeguarding assets and preventing and detecting errors, fraud, waste and abuse.

Management is responsible for implementing and revising detailed policies, procedures and practices and insuring that they are an integral part of the City's operations.

The COSO report recognizes that Internal Control is affected by people. People are involved in every process that calls for specific internal controls. The responsibility for good internal control rests with the management of the City. The City Manager with the approval of the governance council sets the objectives, puts the control mechanisms and activities in place, and monitors and evaluates the control and sets the general "tone" of the City. However, all personnel in the City play important roles in an effective and efficient operation.

The City's internal control structure consists of the five following elements:

- The Control Environment.
- Risk Assessment.
- Control Activities.
- Information and Communications.
- Monitoring.

These elements set the minimum standard acceptable for internal control and provide the basis against which internal control is to be evaluated. These standards apply to all aspects of the City's operations, both departmental and financial, and provide a general framework for developing and organizing detailed policies and procedures.

CONTROL ENVIRONMENT

The control environment is the collective effect of various factors in establishing, enhancing, or mitigating the effectiveness of specific policies and procedures. The control environment reflects the overall attitude, awareness, and actions of the City Council, Mayor, management and others concerning the importance of control and its emphasis in the City.

Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management.

The control environment sets the tone of The City. By providing discipline and structure, it is the foundation for all other components of internal control. Control environment factors include the integrity, ethical values, and competence of the City's staff; management's philosophy and operating style; the way management assigns authority and responsibility; the way management organizes and develops its staff; and the attention and direction provided by the City Council and Mayor.

KEY FACTORS

MANAGEMENT'S PHILOSOPHY AND OPERATING STYLE

Management determines the degree of risk the City is willing to take and the organization's philosophy towards performance-based management. Further, the attitude and philosophy of management toward information systems, accounting, personnel functions, monitoring, audits and evaluations can have a profound effect on internal control.

MANAGEMENT'S COMMITMENT TO COMPETENCE

All personnel need to possess and maintain a level of competence that allows them to accomplish their assigned duties, as well as to understand the importance of developing and implementing good internal control. Management needs to identify appropriate knowledge and skills needed for various jobs and provide needed training, as well as candid and constructive counseling, and performance appraisals.

THE CITY'S ORGANIZATIONAL STRUCTURE

The City will devise, establish and maintain an effective organizational structure in order to give appropriate consideration to the following matters:

- Devise a system of measurement and accountability for employee performance.
- Establish a policy in which the delegation of the responsibility for employee actions is combined with sufficient authority to perform the assigned activities.
- Create and maintain budgets and financial reports which facilitate the discharge of assigned responsibilities and monitors activities at each level of the organizational structure.
- Operate a system of checks and balances which separates incompatible activities to preclude absolute control by any individual or unit, provides for supervision by higher levels of management and for the monitoring of overall activities.
- Provide an organizational structure to support City's framework for planning, directing, and controlling operations to achieve objectives.

METHODS OF ASSIGNING AUTHORITY AND RESPONSIBILITY

A good internal control environment requires that the City's organizational structure clearly define key areas of authority and responsibility and establish appropriate lines of reporting. The environment is also affected by the manner in which the City delegates authority and responsibility throughout the organization for operating activities, reporting relationships, and authorization protocols.

PERSONNEL POLICIES AND PRACTICES

The city's management is charged with establishing appropriate practices for hiring, orienting, training, evaluating, counseling, promoting, compensating, and disciplining personnel. Providing sufficient supervision is also a requirement.

External influences affect the City's operations and practices. Because governmental, economic, regulatory, and operating conditions continually change, systematic reviews should be established to identify and address any special risks prompted by such changes that are external to the City.

RISK ASSESSMENT

A **risk assessment** is a process to identify, analyze, and manage risk. The City needs a plan to identify both external and internal risks. The plan will help the City understand how those risks affect their activities, to assess their significance, to manage their effect, and to provide for continuous monitoring. **Risk identification** can often be integrated with the City's planning activities. **Risk analysis** involves a careful, rational process of estimating the significance of a risk, assessing the likelihood of its occurrence, and considering what actions and controls need to be taken to manage it. Risk analysis also involves estimating the potential cost to the City if something does go wrong.

While risk assessment is only one of the elements of risk management, it provides the foundation for the other elements. Other elements include but are not limited to establishment of a central management focal point, implementation of appropriate policies and related controls, promotion of awareness throughout the organization, and the establishment of a system for monitoring and evaluating effectiveness of policies and controls. It is important to implement the most cost effective measures that will result in minimizing risk.

Critical success factors include but are not limited to:

- Obtaining senior management support and involvement
- Designating focal points
- Defining procedures
- Involving business and technical experts
- Holding operating departments responsible
- Limiting the scope of individual assessments
- Documenting and maintaining results

The benefits of an organization's implementation of a risk management program are assurance that the greatest risks are identified and addressed and understood by management and the City's personnel, that management's support exists for needed controls, and that there is a systematic means of communicating results.

Management must define a process for identifying risks and develop appropriate tools. These tools may include tables, questionnaires, standard report forms, and software to facilitate documentation and analysis.

Because risks and threats change over time, it is important to periodically evaluate current policies and procedures for appropriateness in the current environment. Thus, risk assessment is a continuing cycle of activity.

CONTROL ACTIVITIES AND PROCEDURES

Control activities are the internal policies and procedures that help ensure the City's directives are carried out. These policies and procedures help ensure necessary actions are taken to address risks to achieving the City's objectives. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, review of operating performance, security of assets, and segregation of duties.

Control procedures are those processes in addition to the control environment and accounting system that the City has established to provide *reasonable assurance* that the City's 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.

The City will devise, establish and maintain a written structure of internal administrative and accounting controls to provide:

- **Segregation of responsibilities** which is also known as division of duties shall be established and implemented. The three main duties to be segregated are the authorization to execute a transaction, the recording of the transaction, and the custody of assets involved in the transaction.
- **A system of authorization and recording procedures** shall be adopted and implemented by the City. Management will insure that protection of the public trust is a major focus when granting the authorization to execute business of the City.
- **Sound accounting practices** in performance of duties and functions shall be implemented to include varied error-checking routines that may be performed in connection with record keeping and by comparing recorded amounts with existing budgets. Appropriate action shall be taken with respect to any differences.
- **Sequential numbering** of receipts, checks, purchase orders, and vouchers either on pre-printed forms or by the financial accounting system as appropriate is required. Sequences should be examined to determine any skips in numbers or any duplicate numbers.
- **Proper safeguards** to protect unused checks and other pre-numbered forms, cash prior to deposit, and other receipts, and facsimile signature plates shall be in place.
- **Transactions shall be properly recorded on a timely basis** in order to permit preparation of financial statements in conformity with Generally Accepted

Accounting Principles (GAAP). In addition the City shall establish any other criteria applicable to such statements to maintain accountability for assets.

- **Independent performance checks and proper valuation** of recorded amounts such as clerical checks, reconciliations, comparison of assets with recorded accountability, computer-programmed controls, management review of reports that summarize the detail of account balances, and user review of computer generated reports will be performed.

An internal control structure is required to demonstrate the City's ability to record, process, summarize and report financial data consistent with financial statement assertions which are:

- Rights and ownership
- Existence and occurrence
- Valuation and allocations
- Completeness
- Presentation and disclosure

This structure shall demonstrate that the City identifies applicable laws and regulations and designs procedures to provide reasonable assurance that the City complies with those laws and regulations.

Internal control procedures shall be established, implemented and documented via City memos, manuals, etc. These procedures should be adopted within the City to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. The internal control structure should address all operating units and departments.

INFORMATION AND COMMUNICATION

Pertinent information must be identified, captured, and communicated in a form and time frame that enables personnel to carry out their responsibilities. The Financial Management System (FMS) produces reports containing operational, financial, and compliance related information recorded on a **cash basis** of accounting, making it possible to efficiently manage the cash functions of the City. Additional software is generally needed to convert from a cash basis to an **accrual basis** of accounting required by Generally Accepted Accounting Practices (GAAP) and Generally Accepted Governmental Auditing Standards (GAGAS). The City should understand the differences and management implications inherent in these statements.

The accounting system consists of the methods and records established to identify, assemble, analyze, classify, record and report the City's transactions and to maintain accountability for the related assets and liabilities. An effective accounting system gives appropriate consideration to establishing methods and records that will:

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

Sources outside of the City may provide valuable information for City to use in verifying their reports. These sources may include but are not limited to vendors, auditors, and the DFA.

COMPUTER DATA

Information in this section is taken from GAO publication, Information Security Risk Assessment, (GAO/AIMD-00-33).

The City should be concerned about the eligibility of computer processed data, general access controls, the access to computer data, the storage for backup media, the existence of duplicate media and the cross training of personnel. Security of computer data must be proved to the auditors, and the City should consider internal control requirements when they purchase computer software as well as when they staff their data processing department. Auditors shall test the general and application controls.

General Controls

General controls are normally applicable to all data processing being carried out within an installation and provide a control environment affecting the applications being processed. Application controls, however, apply on an individual basis, and may vary among organizations.

These controls include the plan of organization, the methods and the procedures that apply to the overall computer operations in the City. The general controls should determine whether the controls (a) have been designed according to management direction and known legal requirements and (b) are operating effectively to provide reliability of, and security over the data being processed. The objectives and procedures followed in conducting this work are discussed in the three areas below.

Organization and management controls: Is there is a clear assignment of responsibilities and accountability for planning, managing, and controlling the functions of the data processing organization? (b) Are personnel qualified and adequately trained and supervised? (c) Is there proper separation of duties?

Such controls will help ensure that the City's objectives are achieved, and that errors or irregular acts are prevented or detected in a timely manner.

Security controls: Is adequate security is provided over the computer programs, data files, telecommunications network, and input and output materials? These controls, such as physical restrictions and the use of secure passwords and user IDs to limit system access, help ensure that only authorized persons are granted access to the computer system for authorized purposes.

Systems software and hardware controls: Computer systems are controlled by systems software such as operating, data base management, and program library systems. Systems software and hardware normally include built-in error-checking features to detect any errors during processing. The City should be aware (a) of the procedures used to ensure that the system's software and hardware are functioning properly, and (b) when errors are detected, appropriate and authorized corrective actions are taken. The City should also be aware of the controls the system's software can exercise over the system, how these controls can be bypassed or overridden, and how modifications to the software are controlled.

Application Controls

Application controls are designed to ensure the authority of data origination, accuracy of data input, integrity of processing, and verification and distribution of output. The City should review the application controls on which it relies in order to assess their reliability to process only authorized data and to process them promptly, accurately, and completely. A review of the controls used to ensure that application software and later modifications are authorized and tested is essential before implementation. These controls are intended to protect the integrity of the application software.

MONITORING

The City's systems and internal activities require monitoring to assess the quality of the system's performance over time. Assessment is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Deficiencies should be reported to Department Heads, with serious matters reported to top management.

Monitoring requires continuous assessment and implementation of the City's internal control system. Monitoring includes the normal day to day standard operating procedures used by the City to conduct business, and the evaluation of employees' understanding of those procedures. Monitoring also includes both internal and external quality assessments of the internal control system. The results of the quality assessments are used to produce a positive impact on the internal control system and ensure that recommendations are actually implemented.

Management must ensure that employees understand the control system and standard operating procedures, and their responsibility to ensure that the internal controls are effective.

Employees' understanding of the internal controls system is evidenced through training and interview. They are expected to notify management of suspected internal control weaknesses, information inaccuracies or any other weakness that may indicate internal control weaknesses. The environment should be conducive to frank assessments regardless of employee's position in the managerial hierarchy.

Internal control checklists are reviewed on a set periodic basis. Periodic reviews are actually conducted and comply with the requirements set forth by management. Results of the periodic review are documented.

External audits are conducted annually and include a review of the City's internal control system.

Internal control weaknesses and deficiencies are immediately corrected by the City. Where there is a failure to correct a deficiency in the audit, the state auditor may invoke an enforcement process. (6.21.2.10-11, NMAC).

See also 2.2.2, NMAC, The Audit Rule, and section 6, Financial and Compliance Audit for additional information.

INTERNAL CONTROLS AND PROCEDURES FOR THE CITY OF GALLUP, NEW MEXICO

GENERAL

The City has established procedures to maintain internal control over all assets. The purpose of establishing internal controls is to provide a reasonable assurance that the City will accomplish its objectives of safeguarding assets, providing reliable financial information, promoting operational efficiency and ensuring compliance with laws, regulations and established city policies and procedures.

CONTROL FRAMEWORK

The City has implemented an internal control system and framework based on its internal and external needs. This framework includes elements modeled according to the COSO model. It is the policy of the City to ensure that its control framework provides for strong administrative governance. The City's internal control system is a relevant evaluation tool for internal control over financial reporting. It is the policy of the City that its own internal control framework and review evaluations:

- Be free from bias;
- Permit reasonably consistent qualitative and quantitative measurements of the City's internal control system;
- Are sufficiently complete so that those relevant factors that would alter a conclusion about the effectiveness of the City's internal controls are not omitted.

ETHICS STATEMENT

The City of Gallup New Mexico makes every effort to set an honest and ethical tone for the City that is demonstrated at every level. The City operations reflect the overall attitude, awareness, and actions of the governing council, management and others concerning the importance of how the City views internal control and the management of these controls.

COMMUNICATION AND TRAINING

The City makes every effort to maintain communication with all employees regarding the policies and procedures of the City including but not limited to periodic training for personnel. The City's policies and meeting agendas are maintained on the City's web site along with other information necessary to the requirements for safekeeping of various assets and transparency of financial operations for both employees and taxpayers. Supervisory hierarchies are maintained to insure proper approvals and processes are in place.

PERSONNEL

The recruitment of competent, honest individuals is administered through the services of the Director of Human Resources. The training of staff regarding the established policies

and procedures governing all financial transactions is administered through the Finance Department.

Segregation of Duties. The assignment of duties to staff members who have access to the Financial Management System is done with the intent of limiting their ability to cause and conceal errors or irregularities working within certain limitations, including staff size, incompatible functions are not assigned to any staff member. Details of incompatible staff assignments are specifically addressed for focal points, such as accounts payable and receiving, or posting cash receipts and reconciling the bank accounts. Continued monitoring and oversight must take place daily to ensure secure business operations.

Transaction Authorization. The budget is allocated to each fund/department and the authorization or expending of funds is assigned to the Department Head who is responsible for his/her budget and for assuring that each request is appropriate and necessary. The City allows for Requisitions of under \$1,000 and to local vendors only to be processed within each department without additional authorization unless otherwise restricted by funding source. Requisitions over \$1,000 or to non-local vendors are forwarded electronically to the purchasing department.

Transaction Recording. Transactions are recorded at the time of authorization resulting in the encumbrance of the budget. Purchasing Department and the Finance Department are responsible for verifying the amounts, the classification to the appropriate account codes, and the proper authorization of all transactions prior to posting to the Financial Management System. All source documents (checks warrants, etc.) used to record transactions are official City forms and are sequentially numbered by the accounting system for accountability. All voided check warrants are marked VOID and kept on file for the auditor's review. All voided Purchase Orders are marked VOID and are reflected in the Financial Management System.

Safekeeping Assets. The access to assets is limited by assigning primary custodians for the assets in each department. The primary custodian in each department is responsible for monitoring the access of building, vehicles, cash, and other assets. Upon changing a custodian an inventory shall be taken of all assets under control of the custodian, and the new custodian will then be assigned responsibility for the assets.

Record Reconciliation. The Finance Department administers the comparison of actual assets on hand with the amounts recorded in the financial management system. Monthly reconciliation of bank statements, fixed asset records, and other financial records are prepared and verified during the monthly closing process. All discrepancies found during the reconciliation process are researched and corrected at the time they are detected. These closeout procedures are administered as a joint effort by the finance office staff. Reconciliation of bank accounts is handled by the CFO. The fixed asset listing is maintained and reconciled to the general ledger by the Fixes Asset Manager and verified by the CFO.

RISK ASSESSMENT

The City analyzes all processes and applies a Risk Assessment tool to determine inherent risks in each of its accounting processes. Emphasis is on communication to ensure that each employee is aware of necessary processes to meet certain objectives. The City holds meetings several times a year with key personnel to ensure that employees involved with the acquisition and disposal of assets are thoroughly trained and informed of proper procedures. At the same time, the city must weigh the costs of certain requirements to make sure that the benefits derived do not outweigh the cost of implementing, maintaining and monitoring the system.

CONTROL ACTIVITIES

Budget 6-6-2

The City shall annually on or before June 1 submit to the Department of Finance & Administration (DFA) for the ensuing fiscal year, in such form as may be prescribed by the division and containing such information concerning the anticipated receipts, expenditures and balances on hand as may be prescribed by law or by the DFA. Before the City Submits the Operating Budget to the DFA the Operating Budget will be reviewed for technical accuracy and approved by the City Council. The CFO will be responsible to integrate the Operating Budget formally into the Financial Management System prior to July 1.

FINAL CASH BALANCES

Upon completion of the final close for each fiscal year, the City determines the actual cash balances for all funds and reports them to the DFA by July 31. The Operating Budget is then adjusted by the use of a **Budget Adjustment Request (BAR)** to incorporate adjusted cash balances as of June 30 into the Operating Budget. Upon approval by the DFA the City will adjust the budget and incorporate the changes into the Financial Management System.

BUDGET MAINTENANCE

The Budget ledgers are maintained in the Finance Department using the financial management system used in concert with the cash balance and encumbrances to ensure that all spending is in accordance with budget authority. While budget expense line items excluding capital outlay in each fund may be overspent, the total budget for each fund may not be overspent.

All Operating Budget increases, decreases, and adjustments to the budget are presented to the governing council for approval and then submitted to the DFA on a Quarterly basis. Budget adjustments, which do not alter the total amount of the budget, are processed as follows:

Intra-budget transfers—Transfers between expenditure account codes within the same fund for budgeted expenditures are at the discretion of the Department Head with the exception of capital outlay and payroll. If a department wants to expend capital outlay or payroll on operating expenses a BAR must be approved by the CFO and then presented to the Governing Council for approval at the monthly scheduled meetings. Once approved by the Governing Council, the adjustments are recorded into the Financial Management System by the CFO.

Inter-budget transfers— All transfers between expenditure account codes outside of the same fund are presented to the CFO then if needed the Governing Council for approval. Once all approvals are in place, the change is recorded to the Financial Management System as an adjustment to the Budget. The transfer requests are also submitted to the DFA on a quarterly basis.

All **original budget** documents are summarized and distributed to the appropriate staff for recording to the Financial Management System and these documents are made available to the auditor annually.

PAYROLL

Director of Human Resources is responsible for monitoring the hiring of personnel, authorizing salaries, initiating employment contracts, and maintaining the staffing levels approved in the annual budget. The CFO verifies that budget is available for any staffing increases. A request containing employment information (position, pay level and fund to be paid from) is submitted to the payroll officer for new or replacement personnel by the human resources department. The payroll officer verifies the data supplied by the human resources department with the information entered or imported into the Financial System. The information is then transferred to the Payroll system. All payroll changes and additions are processed only with proper authorization from the City Manager, and Finance. For contract employees approval is granted via the Governing Council.

PURCHASING

The Purchasing Director is responsible for assuring that all purchases against the assigned budgets are appropriate and necessary. The Department Heads or their designee initiates the purchasing process. The requests for purchase orders (requisitions) is the initial electronic document submitted to the Purchasing Department and once approved by the Purchasing Department, the document is assigned a purchase order number from the Financial Management System and the amount is encumbered into the encumbrance ledger. City policies and procedures are designed to meet all of the requirements of the Procurement Code in accordance with Chapter 13 of the New Mexico State Procurement Code. The City has implemented procedures that are further outlined at section 2 Purchasing on pages 22-43.

RECEIVING

The all merchandise ordered should be delivered directly to the receiving department unless prior approved is received by the purchasing department for delivery to another location. Items received should be accompanied by a vendor invoice that is compared to to a copy of a valid purchase order purchase order. Items received shall be inspected and verify that the items received conform the purchase order. Once verified the invoice will be receipted in the Financial Management System against the PO authorizing the purchase.

ACCOUNTS PAYABLE

All vendor invoices are forwarded to the Accounts Payable personnel in the Finance Department. The vendor invoice is matched to the receiving copy of the Purchase Order within the Financial Management System. Once the documents are matched, the items invoiced are checked back to the items listed on the approved copies of the purchase order. Accounts Payable personnel check each invoice carefully to verify amounts due, shipping and handling costs, and any other applicable discounts, etc. After these verifications are in place, payment can be processed. The Financial Management System generates a check register, a schedule of checks to be written, a purchase order report, and a journal of entries. These are completed for each fund as applicable. These reports are verified for accuracy before the checks are printed. The check request listing is then reviewed and approved by the CFO or Accountant. The checks are then encoded by a signature with the name of the CFO and the City Manager. (Authorized signatures cards reside at each banking institution handling City accounts.) A listing of all checks written is created from the Financial Management System and is available for review as needed. An electronic file of all checks written is uploaded by the finance staff to the bank to ensure only the authorized checks will be paid by the bank.

BANK RECONCILIATIONS

All bank accounts are reconciled on a monthly basis. CFO approves the bank reconciliation and approves any adjustments necessary to the general ledger. The CFO cancels all checks as the checks clear the bank from an electronic file supplied by the bank. In the Financial Management System bank reconciliation software and locates any discrepancies in the balances, and any journal entries necessary for correction are made. The monthly check registers, transactions journals, and general ledger are generated monthly and are stored in the accounting office and may be accessed from the Financial Management System for review by interested parties. All journal entries needed for correction are detailed on the edit report from the Financial Management System.

PER DIEM & MILEAGE ACT

Employees and members of the Governing Council of the City are entitled to reimbursement of registration fees, mileage, per diem, and other costs associated with authorized trips for official City business.

In City Travel – City employees may under certain circumstances, find it necessary to use their personal vehicles for travel within the City Limits in the performance of their duties. The rate of reimbursement is in accordance with DFA regulations and is reviewed by the CFO periodically.

In-State Travel - All in-state trips must have administrative approval, prior to traveling. This approval is requested on the Travel Approval and Reimbursement Request form. The business purpose of the trip must be justified and all costs associated with the trip must be itemized, if reimbursement is expected. The finance department will process the reimbursement travel form only with sufficient approvals and required documentation such as agendas and invoices attached to the reimbursement request.

Out-of-State Travel - All out-of-state travel requires additional prior approval by the City Manager. The travel reimbursement form will be processed with sufficient documentation only and personnel will follow the same procedures as listed with in-state travel. If, in the event, personal vehicles are utilized, proof of insurance will be required and submitted to the Finance Department **prior to the trip**. All reimbursements are processed in accordance with the Per Diem and Mileage act, as outlined in the DFA regulations. All receipts for out-of-pocket expenditures for transportation, registration, and miscellaneous expenses are required for reimbursement. Any meals and/or lodging cost included in the registration fee are deducted from the per diem reimbursement.

Pre-payment of up to 80% of any per diem related costs are allowed only under special circumstances and the CFO must review these circumstances at least 30 days prior to the trip. All city employees are eligible for reimbursement of travel related expenses upon return from their approved trip, but must submit reimbursement requests within 10 working days of returning from the trip. Any requests for reimbursement not made within this time frame are forfeited. See section 3 Millage & Per Diem for more information.

CASH RECEIPTS

All monies are receipted using pre numbered receipts and are deposited into the City's bank account within 24 hours, according to the 24 hour rule. The Finance Department verifies all receipts posted as being deposited as part of the reconciliation of the bank account.

Each Department receiving currency will have their separate set of cash handling procedures which are approved by the CFO and the Governing Council.

The recording of these receipts in each department should be rotated so that no one employee handles all receipts. Each receipt has a description of payment and has

sufficient documentation for review by the Independent Public Accountant. These entries include the source, date, amount, fund, receipt number, and a description of the payment. For monies received by mail, staff assigned to mail duty reviews the incoming mail and delivers a log of all receipts and the monies to the appropriate personnel who receipt the funds and record the amount to the appropriate fund. For monies received by ACH transfer and/or electronically, the same process is utilized, but the accompanying documents are generated by the bank and attached as appropriate. The original Financial Management System receipt is attached to the documents posted and recorded into the Financial Management System. There is no need for a separate, manually written receipt.

A monthly recap or revenue report is generated in the accounting department and reconciled with the bank statement. The CFO should review the report and look for discrepancies such as missing receipt numbers, or unexpected variances.

ACCOUNTS RECEIVABLE

The accounts receivable system is maintained for all proprietary funds. Governmental funds are maintained on the cash basis and will need to be converted to the accrual basis annually for the completion of the City's audit. The Finance Department is responsible for monitoring the collection of all amounts due from other departments, outside agencies, and the public for utilities. Invoices are prepared by the Finance Department upon receipt of proper documentation. The responsibility for the collection rests with the CFO and/or his/her designee.

PETTY CASH

A petty cash fund will be established under the authorization of the Finance Department. A petty cash fund will be intended for small purchases or for managing the daily receipts and set up utilizing the procedures set forth in the Section 7 Cash Controls.

INVESTMENTS

The City shall account for all monies placed in interest bearing accounts by fund. Excess cash balances in the bank accounts generate interest which is credited by the financial institution on a monthly basis. The amount of interest earned is receipted and recorded to the Financial Management System when the credit is received. Excess cash balances can also be invested using the State Investment Pool as authorized by the DFA. Investments are made by either issuing a check or by wire transfer. A paper trail is automatically produced with this procedure and the transaction is entered into the Financial Management System through the Accounts Payable System by personnel other than the one generating the wire transfer. An investment register is maintained by the CFO or designee and updated monthly. The register itemizes the type of investment, investment date, maturity date, investment institution, and the amount of investment. Interest to be earned is calculated at this time and made a part of the report. This information is made available for review by the City's IPA on an annual basis.

A safekeeping receipts register is maintained by the CFO to track and monitor the pledging requirements for each financial institution, as required by state statute. The register itemizes the safekeeping receipt number, description of the security, maturity date, amount, market value, pledge date, release date and released securities.

INVENTORY

All of the City's equipment and items of tangible value (over \$5,000) are identified in a permanent way using bar-coded tags. It is the responsibility of the Fixed Asset Manager to ensure that all equipment delivered to their location is appropriately marked.

The Fixed Asset Manager will also maintain the fixed asset inventory records in the finance department. The inventory database includes the inventory tag number, category of the asset type, a description of the item, the department the item is located in, the manufacturer, model number, the serial number, the useful life, the acquisition date, and the total cost of the asset. Please see page 84-85 with a more comprehensive list of asset documentation. Annual review of the current years' purchases is made by the Department Head and the fixed asset Manager. All adjustments to assets are reordered on the City's fixed asset listing. For removal of surplus property, deletions, and discards please refer to section 4 Capital Assets on pages 80-94 herein.

SPECIAL REVENUE FUNDS

All proposals prepared by the City for special funding require approval from the CFO. Original and approved proposals are then submitted to the Governing Council for final approval. These procedures must be adhered to ensure proper budget authorization is obtained in a timely manner and prior to the expenditure of any monies.

Upon receipt of an award notice, a budget document is prepared and submitted to the CFO for review and processing. New Budget Adjustment Requests are presented to the Governing Council for approval monthly as applicable and then forwarded to the DFA for final approval as applicable. Special revenue fund approvals are then entered into the Financial Management System of the City and monitored by the CFO and Department Heads. The Department Head and the CFO is responsible for compliance with regard to the nature of the grant guidelines.

DEBT SERVICE

All authorized bond and interest payments are accounted for in the Debt Service Fund. A record of Bonded Indebtedness is maintained by in the finance department and reconciled

by the CFO. This schedule lists the date of each bond issue, the original amount of the issue, principal and interest payments, and the total outstanding balance for each issue.

The debt service portion of the property taxes collected by the county treasurer is receipted and deposited to the Debt Service fund monthly or when received. Any excess cash balance in the city's bank account is invested per local investment procedures and in accordance with section 5 Deposits and Investments.

REPORTING

Monthly reports are prepared and maintained by the City. The CFO reviews bank statements and a monthly reconciliation is performed by Finance. The CFO then reconciles each fund's activities on a year to date basis to determine all adjustments have been made to the Financial Management System correctly. The CFO is responsible for ensuring the reports are prepared accurately and timely. Access to the Financial Management System is limited by assigning rights to individuals and is controlled by the Director of Information Technology. This limited access is established in an effort to ensure records will not be altered and accountability can be maintained.

JOURNAL ENTRIES

The city limits access for journal adjustments outside of the automated Financial Management System adjustments to finance personnel who have adequate training in the operation of complex financial software for fund and allocation accounting. All journal entries are approved by the CFO and posted by the bookkeeper.

MANUAL OF POLICIES AND PROCEDURES

SECTION 2

PURCHASING

PURPOSE

The purpose of the New Mexico Procurement Code and the City of Gallup Procurement Ordinances is to ensure that procurement is more effective and to provide for fair and equal treatment. The City shall obtain the best value when spending public funds and shall provide strict accountability to all stakeholders. The Procurement Code pertains to every purchase not specifically excluded. Following the Procurement Code and establishing local administrative procedures shall provide safeguards to maintain a system of quality, integrity and ethical behavior in the process.

NEW MEXICO PROCUREMENT CODE

The objective of this set of rules is to have the force and effect of law to implement, interpret or make statute law specific as it applies to the New Mexico Procurement Code, Section 13-1-28 through Section 13-1-199, NMSA 1978 and the purposes stated therein. If any provision of this Rule, or any application thereof, to any person or circumstance, is held invalid, such invalidity shall not affect any other provision or application of this Rule.

APPLICATION OF THE CODE

Section 13-1-30 NMSA 1978. Application of the code.

- A. The code (Unless otherwise exempted) shall apply to every expenditure made by the City. The City's home-rule when within the procurement code will be the policies and procedures that shall be followed.
- B. When procurement involves the expenditure of federal funds, the procurement shall be conducted in accordance with mandatory applicable federal law and regulation. If those laws are inconsistent with the Procurement Code, compliance with federal law or regulations shall be deemed compliant with the Procurement Code.

Procedures shall demonstrate that appropriate internal controls are in place.

DIVISION OF DUTIES

- Purchasing and receiving functions are separate from invoice processing, accounts payable and general ledger functions.
- Disbursement approval is separate from general ledger entry.

APPROVALS

- There is a delegated authority policy which authorizes specific individuals to authorize purchases and requisitions.
- All expenditures are approved in accordance with the City's written accounts payable and purchasing policies and procedures.
- A policy and procedure for competitive bidding is in place for purchases over a specified amount.
- Sole Source purchasing is justified in accordance with the City's written Sole Source policies and procedures.

GENERAL CONTROLS

- Purchases are reviewed and tested for reasonableness of derived benefit.
- When appropriate staff is encouraged to combine like purchases into an invitation to bid that may result in better overall pricing and because of increased quantities, the potential for long term contract arrangements may be possible.
- Authorized individuals shall examine City records to ensure that sufficient budget authority is available prior to the issuance of any purchase order.
- Purchase orders shall encumber or obligate budget designated for a specific purpose. The Financial Management Systems (FMS) shall utilize the encumbrance method of obligating as an element of control. Adjustments or budget transfers to accommodate certain allowable purchases shall be in accordance with "Budgetary Controls" detailed in Section 7 Cash Controls.
- Processing takes place after purchase orders are reviewed for completeness.
- Policies will reflect that all purchase orders are dated, priced, signed and coded.
- Purchase orders are issued numbered sequentially.
- All purchase orders and requisitions are reviewed to ensure that account codes that include fund, function and object are used appropriately.
- Vendor invoices are received and reviewed by the originating department first.
- The accounts payable compares the invoice to the purchase order and receiving documentation.
- Local procedures shall reflect an approval process for all capital projects. A project manager may be designated to review and approve all related purchase orders and requisitions.
- Duplicate copies of invoices are destroyed to prevent duplicate payments.
- Vendor invoices are received by accounts payable.
- The City shall have written procedures for inventory management and control of capital assets.
- One person is not responsible for receiving, disbursement and preparation of transaction documentation.
- There are adequate controls to ensure that an individual cannot initiate a purchase and authorize payment without detection.

- A procedure exists to notify accounting of returned items to ensure proper credit or prevent inaccurate payment.
- Someone periodically reviews and compares signatures on purchasing documents.
- A procedure is in place to review backorders and prevent duplicate purchases.
- Blanket Purchase Orders will not be used by the City.
- Whenever possible the City shall determine that check stock is secure and separate from the personnel that have been designated to approve purchases.
- Annually City personnel will review contractual obligations and determine if new requests for proposals or bids should be sought.
- Vendor records that have little or no activity should be set as inactive in the Financial Management System.

CENTRAL PURCHASING OFFICE

Pursuant to Section 13-1-37, NMSA 1978 the “central purchasing office” or officer with in the state agency or a local public body shall be responsible for the control or procurement of items of tangible personal property, services or construction. “Central purchasing office” includes the purchasing division of the general services department (GSD) and the state purchasing agent and shall be responsible for adhering to the Procurement Code stipulations and to this Rule. This responsibility applies to procuring tangible goods, non-professional services, and construction costing \$20,000 or more and professional services costing \$50,000 or more.

CENTRALIZED PURCHASING

“Centralized purchasing” is a system of purchasing in which authority, responsibility, and control of all purchasing activities are concentrated in one administrative unit.” Purchase requisitions may originate at the department level where a need has been determined. If the City follows the centralized methodology, purchase requisitions are processed at a central location. The centralized purchasing department has the authority to review, approve or reject requests that may be inappropriate or in violation of local, state and or federal requirements.

DECENTRALIZED PURCHASING

Varying degrees of authority, responsibility and authority may be distributed to the departments by management of City. This is known as “decentralized purchasing”.

With “decentralized purchasing” departments may have the authority to issue purchase orders. Staff must be thoroughly trained to utilize a comprehensive process to assure that purchasing procedures are followed and to avoid inappropriate or unethical purchasing. Violations of local, state and federal law may result if proper review and approvals are not in place.

The City may carry out the purchasing process by utilizing a combination of both systems.

PURCHASING CYCLE

An effective purchasing system requires several key components for the cycle to operate efficiently and economically.

Planning and Coordination - Timing of key activities such as bids/proposals, coordination of purchasing activities and functions

Infrastructure Development - Development of policies and procedures, implementation of processes to support the policies and procedures, on-going training for purchasing staff and users.

User responsiveness - Successful purchasing processes ensure that a user perspective is incorporated and communication lines are open.

Consistent Compliance - With laws, regulations, policies and ethical standards

Well Trained Staff - One of the most important of the key components is a good purchasing organization with a well-trained staff. Management should consistently provide professional development opportunities and related training to ensure that a thorough knowledge of purchasing requirements exists and are being followed throughout the City.

Section 13-1-77 NMSA 1978. "Purchase order" means the document issued by the state purchasing agent or a central purchasing office that directs a contractor to deliver items of tangible personal property, services, or construction.

All purchase transactions are executed through issuance of duly authorized field purchase orders or direct purchase order. Purchase orders shall become part of other contract documents that may be transacted (i.e., construction contracts, architectural service agreements, legal service agreements, etc.).

The preparation and execution of a duly authorized purchase order must precede the placement of any order for goods, services or construction.

Any person who purposefully places an order for goods, services or construction without a duly authorized purchase order may be held personally liable for payment of delivered items and may be subject to the penalty stipulations of the Procurement Code. The procedures detailed herein provide guidelines for ensuring that purchase transactions are appropriate, valid and legally binding upon the City.

In general, fulfilling the needs of the City through the purchase of tangible goods, services, or construction, herein referred to as the purchasing cycle, can be conducted through the

implementation of three basic processes: 1) the Purchasing Process; 2) the Receiving Process, and 3) the Payment Process.

PURCHASING PROCESS

Prior to the issuance of a purchase order one of the below procedures as required by the City of Gallup's Procurement Code and/or the State of New Mexico Procurement Code must be completed.

SMALL PURCHASES LOCAL VENDORS ONLY

Small Purchases Policy \$0.01 - \$1,000 (excluding taxes) Local Vendors ONLY

- Authorized personnel in each department may issue their own Field Purchase Orders (FPO) for approved goods purchased from local vendors. Departments are to input the required information (On-Line) and reconcile accordingly.
- Employees may utilize a P-Card in accordance with the established policies and procedures governing its use.
- Services and construction will be handled only through the Purchasing Department.

SMALL PURCHASES

Small Purchases \$0.01 - \$1,000 (excluding taxes) Local or Non-Local Vendors

- A Direct Purchase Order (PO) may be issued to a vendor based on the best obtainable price. Departments are to complete a Purchase Requisition (On-Line) detailing the items/services requested.
- Employees may utilize a P-Card in accordance with the established policies and procedures governing its use.
- Again all services and construction will be handled only through the Purchasing Department, the Vehicle shop or the Facilities Management Department.

QUOTES

Purchases \$1,001 - \$5,000 (excluding taxes)

- A written quote should be secured for all requests in this category when practical. Departments are to complete a Purchase Requisition (On-Line) detailing the items/services requested. Quotes obtained from vendors are to be forwarded to the Purchasing Department.
- A Purchase Order must be issued by the Purchasing Department before any goods can be ordered. All orders will be placed by the Purchasing Department.

- If a contract is in place for goods or services requested the goods or services shall be provided in accordance with the contract and no quotes will be necessary.

WRITTEN OR ELECTRONIC QUOTES

Purchases \$5,001 - \$20,000 (excluding taxes)

- A minimum of three (3) written, facsimile or electronically transmitted quotes are to be secured for all purchases in this category. Departments are to complete a Purchase Requisition (On-Line) detailing the items/services requested. Quotes obtained are to be forwarded to the purchasing department.
- Purchasing Department will issue a purchase order upon approval of documentation, and place the order.
- Exemptions for this procedure see Use of other Governmental Contacts below.

INVITATION FOR FORMAL BID (IFB)

Purchases of \$20,001 (excluding taxes) or more - for tangible goods, non-professional services, or construction.

Competitive "invitation to bid" for goods services and construction, Sections 13-1-102 through 13-1-125, 13-1-110 NMSA 1978.

When the estimated dollar amount of the purchase request exceeds the limits for written or electronic quotes per the local and state procurement code this method is utilized. The invitation to bid includes specifications for the services, construction or materials requested, including quantities, timelines, terms, and conditions such as expected performance, and insurance requirements. The invitation for bids shall be published in a local newspaper at least one time. Interested vendors may then view newspapers or the internet for information.

- A Formal Bid is used to purchase goods, services, and construction.
- Departments are to develop an initial technical specification or scope of work which clearly describes the item(s) or service(s) desired, which must be approved by the Purchasing Department.
- The Invitation for Formal Bid is used to initiate a competitive sealed procurement that must include the following:
 - a) The specifications for the services, construction or materials requested;
 - b) All Contractual terms and conditions applicable to the procurement;
 - c) The term of the Contract and conditions of renewal or extension;
 - d) Instructions and information to bidders, including the location where bids are to be received, and the date, time and place of the bid opening;
 - e) A statement that an Invitation for Formal Bid is awarded to the lowest responsive bidder meeting all requirements listed in the solicitation.

- After the bid opening the Purchasing Department will submit their recommendation to the using department. The using department may provide an alternative recommendation to the Purchasing Department. The final decision for award will be determined by the Purchasing Department.
 - a) The bidder providing the lowest price meeting all terms, conditions and technical specifications of the Invitation for Formal Bid.
 - b) Any finding of non-responsiveness or non-responsibility on the part of a bidder requires the Using Department to provide written documentation to the Purchasing Director, or designee, for approval.
- Exemptions for this procedure see Use of Other Governmental Contracts below.

REQUEST FOR PROPOSAL (RFP)

Competitive sealed “request for proposals” for professional Services, maintenance, repairs and construction, Sections 13-1-125, 13-1-111 through 13-1-117.NMSA 1978.

The Request for Proposal, (RFP), is used when the *best or lowest price is not the only consideration of award*. Several factors to determine this type of purchasing may be vendor qualifications, ability to perform the work, company history, references or remoteness of the City from the supplier/vendor. These factors need evaluation through a method of scoring that is communicated in the RFP. The *main* difference between an Invitation to Bid and a Request for Proposal is that the price, terms, and conditions are negotiable in a RFP per NMSA 13-1-112.

- A RFP must be used to solicit professional services in excess of \$50,000. In addition, an RFP may be used for goods, non-professional services and construction which the cost is expected to exceed \$20,000. If it is determined that the use of competitive sealed bids are either not practical or advantageous, a written determination as to why competitive sealed bidding is either not practical or advantageous must be submitted to the Purchasing Director for approval as further defined in Emergency Procurements and Sole Source Procurements on page 12-14 herein.
- Evaluation criteria will be developed by the requesting department and the Purchasing Department which will be used by the Selection Committee to rank all offers received. Cost may be used as a factor to evaluate offers but shall not be the sole criteria for making a recommendation to award the Contract.
- An RFP is used to initiate competitive sealed proposal procurement. The RFP shall include the following:
 - a) The scope of work for services or (technical) specification of materials to be procured;
 - b) All contractual terms and conditions applicable to the procurement;
 - c) The term of the Contract and conditions of renewal or extension;

- d) Instructions and information to bidders, including the date, time and location where proposals are to be received;
- e) All the evaluation factors, and the relative weights to be given to the factors in evaluating the proposals;
- f) A statement that discussion may be conducted with the offerors submitting proposals determined to be reasonably considered for award, but that proposals may be accepted without such discussions;
- g) A statement of how proposed costs should be submitted; and
- h) All prospective Contractors shall include a campaign contribution form as required by 13-1-191.1 NMSA 1978.

EVALUATION CRITERIA

The criteria for evaluating the proposal may include, but is not limited to, qualifications, experience and capabilities, performance history as described from other client references, level of services offered, cost of services, etc. Each criterion should be weighted according to the importance as determined by the Department Head or other authorized person who will be evaluating proposals and receiving the services.

Proposals must include information that addresses the criteria. Incomplete proposals are not responsive and cannot be considered for award. Negotiations may be conducted to obtain better terms and conditions from any or all firms whose proposals meet the criteria. Proposals are evaluated according to the weighted criteria and ranked according to their relative merit. Upon verifying that funds are available for the finalized cost of the needed goods or service, a contract may be awarded via purchase order to the firm or individual whose proposal received the highest ranking.

Request for Proposals for “qualified professional services” for architects, engineers, landscape architects and surveyors, Sections 13-1-119 through 13-1-124 NMSA 1978.

Once the City has determined that the services of a design professional are needed, a different RFP process is used that does not include the price of the work. When the award contract is awarded, then the price becomes a negotiated item. If negotiations are not successful with the first offeror, then negotiations may begin with the second ranked offeror. Ability or qualifications to meet City specifications are the factors used to make the award decision.

SMALL PURCHASES PROFESSIONAL SERVICES 13-1-125 NMSA 1978

A small purchase of professional services is any single purchase that is estimated to be less than \$50,000, exclusive of gross receipts tax. This type of purchase is considered a “direct purchase” and does not require a formal solicitation or invitation to bid or an RFP as described above.

Professional services which can be obtained informally generally do not require quotes because of the nature of the purchase including qualifications, abilities, and company history to perform the work. Either verbal or written communication with known firms or individuals is typical. Contracts define the scope of services and payment terms and conditions along with a timeframe for the work to be performed.

All professional services contracted under \$50,000 will require the following approvals:

- \$0 - \$35,000 the Purchasing Director approval is required. The Purchasing Director or designee may issue a direct PO pursuant to an approved Purchase Requisition.
- \$35,001 - \$50,001 Purchasing Director's and the City Manager approval is required.
- The City is permitted to enter into cooperative procurement(s) for Professional Services.

EMERGENCY PROCUREMENT – SECTION 13-1-127 NMSA 1978

The Purchasing Department is advised to be thoroughly familiar with and adhere to the stipulations within the Procurement Code that pertains to emergency procurements. Pursuant to this section of the Procurement Code, there must be a serious and immediate need for tangible goods, services, or construction. This rule is utilized to protect the public under conditions that cannot be met through normal procurement methods and that pose a threat to:

- The functioning of the City;
- The preservation or protection of property;
- The health and safety of any person;

Competitive solicitations and/or negotiation may be attempted as is practicable. These procurements must be fully explained in a written determination from the central purchasing office and kept in the procurement records for three years. To address a potential audit finding, included within the determination there should be a statement addressing the necessity for placing an emergency order for goods, services, or construction prior to issuing a duly authorized purchase order. Often a real emergency does not exist; rather the situation happens due to the lack of planning. Purchasing Department should exercise caution when using this type of purchase. See exhibit in this supplement that may be attached to the purchase documents for an emergency purchase.

If the emergency condition requires a construction Contract, the following must still be obtained:

- A State Wage Rate Determination if the construction Contract is more than Sixty Thousand (\$60,000) dollars.

- A Performance and Labor and Material Bonds if the construction is more than Twenty-Five Thousand (\$25,000) dollars.

The Purchasing Department shall have on record for each emergency procurement the following:

- The Contractors name and address;
- The amount and term of the Contract;
- The listing of services, construction or items of tangible personal property procured under the Contract; and
- The justification for the procurement method.

The Purchasing Department shall post the above information to the City's website;

SOLE SOURCE PROCUREMENT – SECTION 13-1-126. NMSA 1978

A contract may be awarded without competitive sealed bids or competitive sealed proposals regardless of the estimated cost after a good faith review of available sources along with consultation from the end users is conducted prior to purchasing under a non-competitive, sole source condition. The determination is made that one, and only one, manufacturer or vendor can meet the requirements or specifications. A written determination declaring a sole source by the central purchasing office must be filed within the procurement records for three years. Information that details the review process and selection criteria is recommended to be included within the determination document to minimize abuse of this type of procurement. Negotiation may be conducted with the sole provider to obtain pricing that is most advantageous to the City.

Services professional and nonprofessional, construction services, or items of tangible personal property shall be “unique”, “Uniqueness” shall be substantially related to the intended purpose of contract and/or purchase.

The Purchasing Department shall have on record for each Sole Source Procurement the following:

- The contractors name and address;
- The amount and term of the contract;
- The listing of services, construction or items of tangible personal property procured under the Contract; and
- The justification for the procurement method.

The purchasing Department shall forward the above information to the department of information technology to be posted on the sunshine portal; and also forward the same information to the legislative finance committee. Prior to the award of a sole source contract, the City shall also post the above information on the City's web site.

PRICE AGREEMENTS – SECTION 13-1-71 NMSA 1978

The Procurement Code, Section 13-1-71 NMSA 1978, allows for *Price Agreements* which constitute a definite quantity contract or indefinite quantity contract and requires the contractor to furnish items of tangible personal property, services or construction to a state agency or a local public body. The purchase order must be within the limitations of the existing contract.

USE OF OTHER GOVERNMENTAL CONTRACTS (INCLUDING GSA) SECTION 13-1-129. NMSA 1978.

Procurement is allowed utilizing existing contracts, of other governmental entities. Often cooperative purchasing under other government contracts for goods, services, or construction can be used if certain criteria are met. The City may seek other agency contracts that may meet their specifications thus shortening the purchasing cycle. It eliminates the need to prepare specifications, advertise, evaluate and award a contract. Contracts resulting from such procurements may, under certain conditions, serve as a vehicle for purchasing without competitive solicitations. The conditions for purchasing under these contracts are:

- Other governmental contracts are allowed where as other procuring entities make clear in there original solicitation, the solicitation is being done on behalf of its self as well as others in general or specifically.
- If the existing contract is a federal supply contract through the General Services Agency, (GSA), a letter from the contract holder must be obtained and kept in file by the Purchasing Department. The letter must extend pricing to the City that is equal to or less than the federal supply contract price. Along with the letter, the Purchasing Department must obtain and file a copy of the federal supply contract. The purchase order issued must be issued to the contract holder and must contain a reference to the federal contract relied upon.
- If the existing contract is a state or local government contract, the contract must still be in effect. The provisions within the existing contract must still be enforceable. The limitations of the existing contract must not have been satisfied, expired or extinguished. The existing contract must incorporate sufficient scope and/or capacity to satisfy the need of the purchase order to be issued. The item, service, or construction being purchased must meet the same standards and specifications as the in the existing contract. A copy of the existing contract must be obtained and filed by the Purchasing Department prior to issuance of a purchase order. The purchase order must be issued to the contract holder and must contain a reference to existing contract relied upon.
- Certain vendors that hold GSA contracts may have requests from a number of agencies to use their contract. In these cases, the State Purchasing Division (SPD) may request a letter from the vendor that extends their pricing, terms, and conditions for state-wide use. State purchasing will assign a contract number that

should be used as a reference on purchase orders for the goods or services. A copy of these contracts should be filed with the purchase documents.

VENDOR SELECTION

Prior to adding a new Vendor to the City's Vendor listing the department in need of a new vendor will have their Department Head or designee fill out a new vendor notification form (see exhibit in this supplement) which will then be sent to the Purchasing Department for approval. Upon approval the Purchasing Department will forward the new vendor notification form to finance who will add the vendor to the vendor listing, sign the new vendor notification form, and forward the form back to purchasing to be filled.

Qualified vendors will be maintained on an approved vendor list in the Accounting Department.

Complete a new vendor notification form for approval of all first time purchases from a vendor. Make sure to document any related party transactions that may exist for vendors the City or employees could have a potential conflict of interest with on this form.

Vendors who have not supplied goods or services to the City over the past fiscal year and who are not expected to supply goods or services to the City in the next fiscal year should be inactivated from the vendor listing on a quarterly basis by the finance department.

VENDOR FILES

A vendor file will be prepared and maintained by the Purchasing Department for all vendors on the approved vendor list, which will be used for significant or on-going purchasing. The vendor files will be kept alphabetically and should include the following:

- New Vendor Notification Form
- IRS W-9 Taxpayer Identification Certificate (a PDF download is available at: <http://www.irs.gov/pub/irs-pdf/fw9.pdf>)
- Legal contracts, dealer or marketing agreements, etc.
- Long-term blanket purchase order commitments
- Any other relevant correspondence or documentation

Form 1099 must be filed at year-end for the proper reporting of income to certain vendors. To determine whether or not one needs to be filed, all non-merchandise vendors should complete an IRS W-9 Request for Taxpayer Identification Number Certificate. A copy can be obtained via the IRS website (www.IRS.gov) or by contacting the local IRS office. The vendor indicates on the form the reporting status.

Note: Incorporated vendors do not receive 1099s. This applies to all contractors for service (repair person, accountant, consultant, etc) who are NOT incorporated, and to all lawyers, regardless of incorporation. It is important to make this determination before

engaging the contractor so that all payments can be properly tracked for 1099 reporting purposes at the inception.

PUBLIC NOTICE

Section 13-1-104, NMSA 1978 Competitive sealed bids; public notice.

- A. An invitation for bids or a notice thereof shall be published not less than ten calendar days prior to the date set forth for the opening of bids. In the case of purchases made by the state purchasing agent, the invitation or notice shall be published at least once in at least three newspapers of general circulation in this state; in addition, an invitation or notice may be published electronically on the state purchasing agent's web site that is maintained for that purpose. In the case of purchases made by other central purchasing offices, the invitation or notice shall be published at least once in a newspaper of general circulation in the area in which the central purchasing office is located. These requirements of publication are in addition to any other procedures that may be adopted by central purchasing offices to notify prospective bidders that bids will be received, including publication in a trade journal, if available. If there is no newspaper of general circulation in the area in which the central purchasing office is located, such other notice may be given as is commercially reasonable.
- B. Central purchasing offices shall send copies of the notice or invitation for bids involving the expenditure of more than twenty thousand dollars (\$20,000) to those businesses that have signified in writing an interest in submitting bids for particular categories of items of tangible personal property, construction and services and that have paid any required fees. A central purchasing office may set different registration fees for different categories of services, construction or items of tangible personal property, but such fees shall be related to the actual, direct cost of furnishing copies of the notice or invitation for bids to the prospective bidders. The fees shall be used exclusively for the purpose of furnishing copies of the notice or invitation for bids of proposed procurements to prospective bidders.
- C. A central purchasing office may satisfy the requirement of sending copies of a notice or invitation for bids by distributing the documents to prospective bidders through electronic media. Central purchasing offices shall not require that prospective bidders receive a notice or invitation for bids through electronic media.
- D. As used in this section, "prospective bidders" includes persons considering submission of a bid as a general contractor for the construction contract and persons who may submit bids to a general contractor for work to be subcontracted pursuant to the construction contract. Central purchasing offices shall make copies of invitations for bids for construction contracts available to prospective bidders. A central purchasing office may require prospective bidders who have requested documents for bid on a construction contract to pay a deposit for a copy of the documents for bid. The deposit shall equal the full cost of reproduction and delivery of the documents for bid. The deposit, less delivery charges, shall be refunded if the documents for bid are returned in usable condition within the time limits specified in the documents for bid, which time limits shall be no less than ten

calendar days from the date of the bid opening. All forfeited deposits shall be credited to the funds of the central purchasing office.

RECEIVING PROCESS

This step of the purchasing cycle can be either centralized or decentralized as explained previously or any variation. If possible, and whenever practical, *receiving* personnel should be persons other than those initiating the purchases.

Section 13-1-157. NMSA 1978. Receipt, Inspection, Acceptance or Rejection of Deliveries.

The Warehousing is responsible for inspecting and accepting or rejecting deliveries. The Warehousing shall determine whether the quantity is as specified in the purchase order or contract and whether the quality conforms to the specifications referred to or included in the purchase order or contract. If Warehousing is unsure or if inspection reveals that the delivery does not conform to the quantity or quality specified in the purchase order or contract, the using agency shall immediately notify the central purchasing office. The central purchasing office shall notify the vendor that the delivery has been rejected and shall order the vendor to promptly make a satisfactory replacement or supplementary delivery. In case the vendor fails to comply, the central purchasing office shall have no obligation to pay for the nonconforming items of tangible personal property. If the delivery does conform to the quantity and quality specified in the purchase order or contract, the using agency shall certify to the central purchasing office that delivery has been completed and is satisfactory.

STEPS IN THE RECEIVING PROCESS

- Authorized purchase information (i.e., purchase order copy, electronic data files) established by the central purchasing office must be accessible at the location where the delivery of goods or service is to be made. The information will be used to verify deliveries for accuracy and completeness.
- For each individual purchase contract, a receiving document or other recording instrument (i.e., electronic) shall be present at the delivery site to record the delivery of items or service.
- Upon receipt of ordered goods or services, the authorized receiving personnel will immediately inspect and verify that the items or service described within the authorized purchase information have, in fact, been received.
- All goods received should be inspected for obvious damage. Exchanging, returning or refusing erroneous shipments or services with the contractor should correct discrepancies.
- All verified items or services should be recorded on the receiving document or other recording instrument (i.e., electronic file).
- Upon verifying and recording the receipt of all the items or services ordered, the receiving document or recording instrument shall be manually or electronically

signed by authorized receiving personnel and processed for payment according to payment process procedures established by the City.

HOW TO RETURN MATERIALS TO THE VENDOR

Occasionally, materials will need to be returned to the vendor for repair, credit, or other reasons. The following procedure is used to initiate a return of materials to the Vendor:

- Notifying the Purchasing Department of the requirement to return material to a vendor. The information required will include the number of items, serial or model numbers, a description of the item(s), the reason for return (repair, credit, etc.). The vendors name and the address where the material is to be returned. Many vendors require that a Return Material Authorization (RMA) be obtained before shipping the material.
- Materials to be returned shall be securely packaged and sealed in a suitable shipping carton by the department and taken to either the Purchasing Department or the Municipal Warehouse for shipping.
- The Warehouse will complete a Return to Vendor (RTV) form and ship the material.
- If special handling is required for the package (overnight, next day air) contact the Purchasing Department.

PAYMENT PROCESS

This step of the purchasing cycle shall be conducted, if at all possible and whenever practical, by authorized personnel other than those persons initiating the purchase or those who received the items ordered.

Section 13-1-158 NMSA 1978 payments for purchases - No warrant, check or other negotiable instrument shall be issued unless the central purchasing office or the using agency certified that the services, construction or items of tangible personal property have been received and meet specification

Upon certification, the payment shall be tendered to the contractor within thirty days from the date of certification. If the central purchasing office determines the services, construction or items of tangible personal property are not acceptable it shall, unless otherwise agreed upon by the parties, notify the contractor in writing within fifteen days that notification is complete or indicating a partial acceptance or rejection.

STEPS TO PROCESS PAYMENT

All payments for goods and services are made by Accounts Payable in the Finance Department. The following procedures are to be followed based upon the method utilized.

Field Purchase Order (FPO) – The department receiving the goods or services is to:

- Input (On-Line) the Invoice information of the particular FPO issued.
- Write FPO number in the upper right-hand corner of the Invoice (preferably in red ink) and whether the order is Complete or Partial)
- Submit invoice to Accounts Payable for processing once the FPO status is waiting payment approval.

Requisition/Purchase Order – Most goods are to be shipped to Municipal Warehouse but situations do arise where items are shipped directly to the department, the following procedure should be followed:

- Department to input through the “Receipts Processing” menu quantity received for the Purchase Order issued.
- Write the Purchase Order number in the upper right-hand corner of the invoice (preferably in red ink) and whether or not the order is complete or partially received.
- Submit invoice to Accounts Payable for processing.

Professional Services and Construction Contracts - The Purchase Orders for these Contracts are to be inverted. (The dollar value of the Contract will be entered as the quantity with a unit price of \$1.00)

- Departments to input through the “Receipts Processing” Menu quantity received for the Purchase Order issued.
- Write the Purchase Order number in the upper right corner of the Invoice (preferably in red ink) and whether or not the order is complete or partially received.
- Submit invoice to accounts payable for processing.

REPORTING VENDOR PERFORMANCE

Departments need to report any occurrence of poor vendor performance to the Purchasing Department. All reporting should be in writing and properly document the

incident. The written documentation will form the basis for any corrective actions taken with respect to the Contract. The Purchasing Department will require written documentation of poor vendor performance before taking corrective action against a vendor.

Departments are also encouraged to report occurrences of exceptional or good vendor performance to the Purchasing Department.

SIGNATURE AUTHORITY TO CONTRACT

Only the following individuals are authorized to sign Contracts on behalf of the City of Gallup:

- Mayor or Mayor pro tem
- City Manager, acting City Manager or designee
- All contracts above \$50,001 must be approved by the City Council and the above individuals.

No other individuals have authority to sign Contracts on behalf of the City, EXCEPT as noted above.

An original copy of all executed Contracts should be on file in the City Clerk's Office.

UNLAWFUL EMPLOYEE PARTICIPATION

Section 13-1-190. NMSA 1978 – Unlawful Employee Participation is prohibited.

Except as permitted by the University Research Park Act, it is unlawful for any state agency or local public body employee to participate directly or indirectly in a procurement when the employee knows that the employee or any member of the employee's immediate family has a financial interest in the business seeking or obtaining a contract.

ETHICAL STANDARDS RELATED TO PROCUREMENT

Public purchasing involves the expenditure of significant amounts of public funds. This requires that ethical standards be incorporated into all purchasing functions. City employees must avoid the appearance of misconduct involving waste, fraud and abuse of public funds. Personnel should clearly understand and demonstrate certain competencies in this area on a daily basis. Areas that may need additional attention include, but are not limited to the following:

- City employees cannot accept anything of value from a vendor such as personal gifts or gratuities which may be construed to have been given to influence the purchasing process.
- Sequential purchasing of the same product or service over a period of time (fiscal year) could exceed competitive quotations and procurement requirements. Staff

should attempt to anticipate needs to avoid this situation. Centralization and internal control could be jeopardized.

- Often equipment is purchased in component parts. Component purchasing could be construed as an attempt to circumvent bid laws by the issuance of multiple purchase orders verses a single purchase for the entire item. If this practice of purchasing optional or additional equipment, after the initial purchase, is repeated the perception could be that the purchase order is artificially divided to circumvent bidding processes as required.
- Staff should be well informed about conflicts of interest including but not limited to, the improper use of one's position or confidential information.
- Board/council members should abstain from voting on purchasing contracts that have been awarded to businesses in which they or their immediate family members have a financial interest. This relationship should be formally disclosed with an affidavit.

PENALTIES IN THE PROCUREMENT CODE

City personnel involved in the purchasing process should be thoroughly informed about 1) the statutes, rules, policies and procedures that exhibit honesty and fairness, and; 2) the consequences for violations of purchasing laws and ethics which may include criminal prosecution and fines or termination of employment.

Some significant and criminal misdemeanor penalties and violations of the Procurement Code are delineated in Sections 13-1-196 through 13-1-199. NMSA 1978.

REQUISITIONS INFORMATION

Purchase requisitions are used to request procurement of items for a specified service, construction or tangible personal property.

- Basic requisitions and item information required in the Financial Management System:
- Reason - Indicate why the requested item(s) are needed
- Requested by - Type the first and last name of the person who is requesting the item(s).
- Vendor Number - Type the number assigned to the vendor. You may also search by typing in the first few letters of the vendor's name and indicate "begins with"...
- Deliver-by Date - Type the date you will require the item(s) to be delivered.
- Item Description - Type a detailed description of the item(s). Please use the Extended Description on the left blue tool bar if necessary.
- Vendor Part Number - Type the part number(s) assigned by the vendor/manufacture.
- Commodity and Sub-Commodity Code - Select the correct commodity code from the City's commodity code listing the item(s) to be purchased.
- Quantity - Indicate the number of units requested.
- Order Unit of Measure - Indicate the unit of measure (i.e. each, dozen, tons, gross, etc.)
- Unit Cost - Type the cost for one unit of the item requested.
- Accounting Information - General Ledger expenditure line item(s) you want to charge the purchase of the item(s).
- Project Number (if applicable)

Requisition comments are to be used for information purposes to correspond between the department and the Purchasing Department. Requisition comments will not print on the Purchase Order.

Note: If requisitions are entered incorrectly and/or incompletely requisition will be returned to user entering requisition.

QUOTES:

The Quote screen is used to document vendor quotes obtained by either user departments or the Purchasing Department. It is the user department's responsibility to provide complete documentation when obtaining quotes. When entering quotes obtained into the Financial Management System the following information must be completed:

- Contact person/catalog
- Phone number
- Quote Amount
- Vendor Name

Copies of written/faxed quotes or contracts must be received by the Purchasing Department BEFORE a Purchase order will be processed.

REMINDER: Requisitions shall be completed in full. If any of the required information is incomplete, the purchase requisition will be returned for corrections or additional information. Please remember to go to the Comments screen for reason(s) the purchase requisition has been returned.

CHANGE ORDERS

Enter a change order in the Financial Management System in the same manner as the original requisition EXCEPT insert the words "Change Order" under reason and write a complete description of the change in the body of the requisition. The original purchase order number must be cited in the remarks screen.

CITY OF GALLUP, NEW MEXICO
PURCHASING DEPARTMENT
REQUEST FOR EMERGENCY PROCUREMENT

I, _____ THE AUTHORIZED DESIGNEE OF THE CITY OF Gallup, New Mexico hereby authorize this emergency procurement in keeping with the provisions of Section 13-1-127B NMSA (see below), which I have read.

Department Head

Date

Purchasing Director / Procurement Officer

Date

Describe Emergency: _____

Document the justification below for the procurement method (i.e. vendors contracted (name and address), quotation amounts if any, amount and term of the contract, a listing of services, construction or tangible personal property procured under the contract, etc.):

Section 13-1-127 NMSA 1978 - Emergency Procurements:

- A. The state purchasing agent, a central purchasing office or designee of either may make or authorize others to make emergency procurements when there exists a threat to public health, welfare, safety or property requiring procurement under emergency conditions, provided that emergency procurements shall be made with competition as is practicable under the circumstances. A written determination of the basis for the emergency procurement and for the selection of the particular contractor shall be included in the procurement file. Emergency procurements shall not include the purchase or lease purchase of heavy road equipment.
- B. An emergency condition is a situation that creates a threat to public health, welfare or safety such as may arise by reason of floods, fires, epidemics, riots, acts of terrorism, equipment failures or similar events and includes the planning and preparing for an emergency response. The existence of the emergency condition creates an immediate and serious need for services, construction or items of tangible personal property that cannot be met through normal procurement methods and the lack of which would seriously threaten:
- The functioning of government;
 - the preservation or protection of property; or
 - the health or safety of any person.
- Emergency procurements shall not include the purchase or lease purchase of heavy road equipment.
- C. The state purchasing agent or a central purchasing office shall use due diligence in determining the basis for the emergency procurement and for the selection of the particular contractor. The determination shall be in writing and included in the procurement file.
- D. Money expended for planning and preparing for an emergency response shall be accounted for and reported to the legislative finance committee and the department of finance and administration within sixty days after the end of each fiscal year.

CITY OF GALLUP, NEW MEXICO
PURCHASING DEPARTMENT
SOLE SOURCE PROCUREMENT

I, _____ THE AUTHORIZED DESIGNEE OF THE CITY OF Gallup, New Mexico hereby authorize this Sole Source Procurement in keeping with the provisions of Section 13-1-126 NMSA (see below), which I have read.

Department Head

Date

Purchasing Director / Procurement Officer

Date

Describe Reason for the Sole Source Procurement: _____

Document the justification below for the procurement method as required per section 13-1-126 NMSA (see below). _____

Section 13-1-126 NMSA 1978 – Sole Source Procurements:

- A. A contract may be awarded without competitive sealed bids or competitive sealed proposals regardless of the estimated cost when the state purchasing agent or a central purchasing office determines, in writing, that:
- There is only one source for the required service, construction or item of tangible personal property;
 - the service, construction or item of tangible personal property is unique and this uniqueness is substantially related to the intended purpose of the contract; and
 - other similar services, construction or items of tangible personal property cannot meet the intended purpose of the contract.
- B. The state purchasing agent or a central purchasing office shall use due diligence in determining the basis for the sole source procurement, including reviewing available sources and consulting the using agency, and shall include its written determination in the procurement file.
- C. The state purchasing agent or a central purchasing office shall conduct negotiations, as appropriate, as to price, delivery and quantity in order to obtain the price most advantageous to the state agency or a local public body.
- D. A contract for the purchase of research consultant services by institutions of higher learning constitutes sole source procurement.
- E. The state purchasing agent or a central purchasing office shall not circumvent this section by narrowly drafting specifications so that only one predetermined source would satisfy those specifications.

NEW VENDOR NOTIFICATION

Date: _____

Anticipated Usage:

Services requested by: (source): _____

One Time: _____

Department Head: _____

Intermittent: _____

Purchasing: _____

Ongoing: _____

Finance: _____

Contact Information:

Vendor Name: _____

DBA: _____

Address: _____

Phone : (____) _____ Fax: (____) _____

Contact Person: _____

Products or services to be provided:

Other Information:

Estimated Annual Dollar Volume Expected with this Vendor: \$ _____

Has the Vendor completed an IRS W-9 Request for Taxpayer Identification Number Certificate and is it on file with the City? Yes: ____ No: ____

Related Party Transactions:

Is the Vendor a relative of close friend of any employee of the City? Yes: ____ No: ____

If yes, please describe relationship:

MANUAL OF POLICIES AND PROCEDURES

SECTION 3

TRAVEL & PER DIEM

OVERVIEW—TRAVEL

Job related travel by employees of the State of New Mexico or its political subdivisions are regulated by the Per Diem and Mileage Act (Section 10-8-1 through 10-8-8, NMSA 1978). Section 10-8-5 NMSA 1978 of the per diem and mileage act allows the Secretary of the Department of Finance and Administration (DFA) to establish rules and regulations to carry out the provisions of the act. The City will refer and adhere to the contents of **Section 2.42.2, NMAC**. Excerpts from this rule appear below.

Section 15-8-6, NMSA 1978 governs the use, markings and state government plates, for vehicles owned by the City and is covered in Section 4 Use of City Vehicles.

SCOPE 2.42.2.2 NMAC

In accordance with Section 10-8-1 to 10-8-8 NMSA 1978 (1995 Repl. Pamp.), 2.42.2 NMAC governs the payment of per diem rates and mileage and the reimbursement of expenses for all salaried and non-salaried public officers and employees of all state agencies and local public bodies.

OBJECTIVE 2.42.2.6 NMAC

To govern the payment of per diem rates and mileage and the reimbursement of expenses for all salaried and non-salaried public officers and employees of all state agencies and local public bodies.

SELECTED DEFINITIONS FROM 2.42.2.7 NMAC

For purposes of this rule “Home” means:

- For per diem purposes, the area within a 35-mile radius of the place of legal residence as defined in Section 1-1-7 NMSA 1978 (1995 Repl. Pamp.);
- For mileage purposes, the place of legal residence as defined in Section 1- 1-7 NMSA 1978.

“Nonsalaried public officer” means a public officer serving as a member of a board, advisory board, committee or commission who is not entitled to compensation, but is entitled to payment of per diem rates and mileage.

“Travel” means: for per diem purposes, being on official business away from home and at least 35 miles from the designated post of duty of the public officer or employee. However, nonsalaried public officers are eligible for per diem for attending meetings in accordance with Subsection C of 2.42.2.8 NMAC. As stated below.

PER DIEM RATES PRORATION 2.42.2.8 NMAC

Partial day per diem rate: *Public officers or employees who occasionally and irregularly travel shall be reimbursed for travel which does not require overnight lodging, but includes time during a normal work day as follows:*

- a) for less than 2 hours of travel beyond normal work day, none;
- b) for 2 hours, but less than 6 hours beyond the normal work day, \$18;
- c) for 6 six hours, but less than 12 hours beyond the normal work day, \$40;
- d) for 12 hours or more beyond the normal work day, \$55;

“Normal work day” means 8 hours within a nine-hour period for all public officers and employees both salaried and nonsalaried, regardless of the officers’ or employees’ regular work schedule.

Overnight travel: Regardless of the number of hours traveled, travel for public officers and employees where overnight lodging is required shall be reimbursed as follows:

- a) in state areas \$151;
- b) in state special areas \$194;
- c) out of state areas \$151;
- d) or reimbursement for actual expense in lieu of per diem rates under Rule 2.42.2.9 NMAC.

Return from overnight travel: On the last day of travel when overnight lodging is no longer required, partial day reimbursement shall be reimbursed according to the partial day per diem rates listed above. Calculation of the hours will begin with the time the traveler initially departed on travel.

Special area designations: For all officers and employees, the in state special area shall be Santa Fe.

NONSALARIED PUBLIC OFFICERS 10-8-4 NMSA 1978

Nonsalaried public officers of the state may elect to receive either:

- a) \$95.00 per meeting day for attending each board or committee meeting; or
- b) reimbursement for actual expense in lieu of per diem rates under Rule 2.42.2.9 NMAC as described below.

REIMBURSEMENT OF ACTUAL EXPENSES IN LIEU OF PER DIEM RATES 2.42.9 NMAC

Where lodging and/or meals are provided or paid for by the City, or another entity, the public officer or employee must be reimbursement only for actual expenses under Rule 2.42.2.9 NMAC.

Upon written request of a public officer or an employee, agency heads may grant written approval for a public officer or employee of that agency or local public body to be reimbursed actual expenses in lieu of the per diem rate where overnight travel is required.

For overnight travel for public officers and employees where overnight lodging is required, the public officer or employee will be reimbursed as follows:

- A. **Actual reimbursement for lodging:** A public officer or an employee may elect to be reimbursed actual expenses for lodging not exceeding the single occupancy room charge (including tax) in lieu of the per diem rate set forth in this Section. Whenever possible, public officers and employees should stay in hotels which offer government rates. Agencies, public officers or employees who incur lodging expenses in excess of \$215.00 per night must obtain the signature of the City Manager on the travel voucher prior to requesting reimbursement.
- B. **Actual reimbursement for meals:** Actual expenses for meals are limited by Section 10-8-4(K) (2) NMSA 1978 (1995 Repl. Pamp.) to a maximum of \$55.00 for in-state travel and \$55.00 for out-of-state travel for a 24-hour period.
- C. **Receipts required:** The public officer or employee must submit receipts for the actual meal and lodging expenses incurred. Under circumstances where the loss of receipts would create a hardship, an affidavit from the officer or employee attesting to the expenses may be substituted for actual receipts. The affidavit must accompany the travel voucher and include the signature of the agency head or governing board.
- D. **Return from overnight travel:** On the last day of travel when overnight lodging is no longer required, partial day reimbursement shall be made as described above. No reimbursement for actual expenses will be granted on the last day of travel.

TRAVEL ADVANCES 2.42.2.10, NMAC

- A. **Authorizations:** Upon written request accompanied by a travel voucher, agency heads and governing boards of local public bodies or their authorized designees may approve a public officer's or employee's request to be advanced up to 80 percent of per diem rates and mileage cost or for the actual cost of lodging and meals pursuant to 2.42.2.8 NMAC and 2.42.2.9 NMAC and for other travel expenses that may be reimbursed under 2.42.2.12 NMAC. Requests for travel advances shall not be submitted to the financial control division of the department of finance and administration more than two weeks prior to travel unless, by

processing the request earlier, significant savings can be realized for travel by common carrier or for registration fees for seminars and conferences.

B. **Travel period:** A travel advance may be authorized either for a single trip or on a monthly basis for public officers and employees who travel continually throughout the month. Payment shall be made only upon vouchers submitted with attached authorization for each travel period.

- 1) **Single trip advances:** Where a travel advance is made for a single trip, the officer or employee shall remit, within 5 working days of the return from the trip, a refund of any excess advance payment to the agency. The agency or local public body shall deposit the refund and reduce the disbursement recorded when the money was advanced.
- 2) **Monthly advances:** Where monthly advances are made, employees shall remit to the agency, at the end of each month, any excess advance payments together with a thorough accounting of all travel advances and expenditures as required by the secretary. Where a travel advance is approved for the next month, the agency head may authorize the use of excess advance payments from the previous month as part of the advance for the next month in lieu of having the employee remit the excess funds.

C. **Agency records:** Each agency is responsible for maintaining records of travel advances authorized by the agency head or the agency head's authorized designee.

- 1) **Employee ledgers:** Each state agency shall keep individual employee ledgers for travel advances. The ledger shall include the following information to provide an adequate audit trail:
 - a) employee
 - b) division
 - c) fiscal year
 - d) date of travel advance
 - e) date of destination
 - f) per diem advance paid
 - g) earned
 - h) additional per diem or refund due
- 2) **Year-end closing:** Each state agency shall review all travel advances prior to the end of the fiscal year and collect or pay all outstanding amounts if possible. Any receivables or payables outstanding at year end must be recorded on the books and records of the agency.

D. **Local public bodies:** Local public bodies may grant prior written approval for travel advances as authorized by regulation of the governing body of the local public body.

MILEAGE-PRIVATE CONVEYANCE 2.42.2.11 NMAC

- A. **Rate:** Public officers and employees of state agencies shall be reimbursed for mileage accrued in the use of a private automobile or aircraft in the discharge of official duties as follows:
- 1) Unless the secretary has reduced the rates set for mileage for any class of public officials and for employees of state agencies pursuant to Section 10-8-5 (D) NMSA 1978, 100% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.
- B. **Mileage:** Public officers and employees of local public bodies may be reimbursed for mileage accrued in the use of a private conveyance in the discharge of official duties, at the statutory rates unless such rates have been reduced by the governing bodies of the local public body pursuant to Section 10-8-5 (D) NMSA 1978.
- C. **Privately owned automobile:** For conveyance in the discharge of official duties by privately owned automobile, mileage accrued shall be reimbursed at the rate set forth in this section as follows:
- 1) pursuant to the mileage chart of the official state map published by the state highway and transportation department for distances in New Mexico and the most recent edition of the Rand-McNally road atlas for distances outside of New Mexico; or
 - 2) pursuant to actual mileage if the beginning and ending odometer reading is certified as true and correct by the traveler; and (a) the destination is not included on the official state map or on the Rand McNally road atlas, or, (b) at the destination(s) of the public officer or employee, the public officer or employee was required to use the private conveyance in performance of official duties.
- D. **Reimbursement limit for out of state travel:** Total mileage reimbursement for out of state travel by privately owned automobile or privately owned airplane shall not exceed the total coach class commercial airfare that would have been reimbursed those traveling had they traveled by common carrier.

REIMBURSEMENT FOR OTHER EXPENSES 2.42.2.12

Public officers and employees may be reimbursed for certain actual expenses in addition to per diem rates.

- A. **Receipts not required:** Public officers and employees may be reimbursed without receipts for the following expenses in an amount of \$6.00 per day not to exceed a total of \$30.00 per trip:
- 1) taxi or other transportation fares at the destination of the traveler;

- 2) gratuities as allowed by the agency head or designee; and
- 3) parking fees.
- 4) If more than \$6.00 per day or \$30.00 per trip is claimed, the entire amount of the reimbursement claim must be accompanied by receipts.

B. **Receipts required:** Public officers and employees may be reimbursed for the following expenses provided that receipts for all such expenses are attached to the reimbursement voucher;

- 1) actual costs for travel by common carrier, provided such travel is accomplished in the most economical manner practical;
- 2) rental cars or charter aircraft, provided less expensive public transportation is not available or appropriate;
- 3) registration fees for educational programs or conferences, provided, if the fee includes lodging or meals, then no per diem rates shall be paid and only actual expenses paid by the officer or employee and not included in the fee shall be reimbursed within the limits of 2.42.2.9 NMAC; and
- 4) professional fees or dues that are beneficial to the agency's operations or mission;
- 5) Under circumstances where the loss of receipts would deny reimbursement and create a hardship, an affidavit from the officer or employee attesting to the expenses may be substituted for actual receipts. The affidavit must accompany the travel voucher and include the signature of the agency head or governing board.

PENALTY

Any public officer or employee covered by the Per Diem and Mileage Act who knowingly authorizes or who knowingly accepts payment in excess of the amount allowed by the Per Diem and Mileage Act or in excess of the amount authorized by the secretary or the governing board pursuant to Section 10-8-5NMSA 1978 is liable to the state in an amount that is twice the excess payment.

CITY POLICY
TRAVEL AND REIMBURSEMENT
CITY OF GALLUP NEW MEXICO

TRAVEL REQUESTS AND REIMBURSEMENT

All Travel Approval and Reimbursement Requests for out of town travel will be completed and approved by the Department Manager and the Department Head at least five working days before the date of departure. All out of state travel requests will require the additional approval of the City Manager.

Travel reimbursement may be paid to attend professional meetings if approved by the Department Manager and the Department Head. Mileage and per diem reimbursement will be paid at no more than the maximum rates approved by the New Mexico Department of Finance and Administration.

In the case of travel by common carriers, such as bus, train, or airplane, the employee must present a receipt for the actual fare paid and will receive full reimbursement.

Registration fees may not be paid as part of a travel voucher. All requests for registration fees must be made by separate voucher and the purchasing department will mail the registration fees directly to the organization. If a registration fee includes any meals and/or lodging, a proportional amount will be deducted from the per diem for that trip. Employees are expected to attend the entire training event paid for by the City, if the employee does not attend the entire event paid for by the City, the employee may be expected to reimburse the City the entire registration fee and all other costs incurred by the City for the Employee to attend the event.

Payments shall not be made by the City for gasoline, oil, lubrication, repair parts, tires, etc., for privately owned vehicles. Travel Advances may be made subject to the following requirements:

- Maximum of 80% of the estimated cost of the trip.
- Trip must be a minimum of one and one-half per diem days.
- The reimbursement voucher including all required receipts must be submitted within ten (10) working days after the trip is completed. Failure to complete on a timely basis will result in a deduction in the employee's payroll for the entire amount of the travel advance.
- In order to obtain the Travel Advance, the travel requests must be approved by the Department manager and the Department Head and submitted to finance at least 10 working days in advance of the trip.

OUT OF STATE TRAVEL

Requests for out-of-state travel must be approved by the Department Manager, the Department Head and the City Manager at least 30 days before the departure date. All travel on commercial air lines will be booked no less than 21 days in advance.

PURCHASE ORDER REQUIRED

A purchase order for registration fees, air fare, or hotel/motel rooms will not be processed unless a copy of the approved travel and per diem request form has been properly executed as described above.

ACTUAL EXPENSES

If lodging is provided by the City, then the employee is considered to be traveling on "Actual Expenses", and not per diem. When traveling on Actual Expenses, the employee must submit his/her **itemized** meal receipts to be reimbursed up to a maximum of \$30 per day. If the employee only submits receipts for \$10, then that is all that will be paid. Also, when traveling on Actual Expenses, the employee must submit receipts for any other items to be reimbursed. The "No Receipt" - \$6 per day may not be claimed if the employee is listing receipts.

The employee traveling must complete the Travel Approval and Reimbursement Request Form. Employees must list the dates, descriptions and amounts.

PER DIEM

If the employee is traveling on per diem, he/she does not have to submit Meals & Lodging receipts. Receipts for airfare, parking, registration fees and any other reimbursements that are not for meals or lodging must be submitted. Registration fees may be pre-paid given proper approval and the issuance of a purchase order.

TRAVEL ADVANCES

Requests for travel advances need to be submitted on the Travel Approval and Reimbursement Request form to the Finance Department at least ten working days before the trip begins. Employees should be reasonable and not request advances more than one month before the trip. When lodging is covered by the City, employees will be advanced \$44 for in state travel per day and \$44 for out of state travel per day. Employees will be required to provide receipts for all meals purchased while on official business. Employees will repay the City all amounts advanced which are in excess of a valid receipt.

Upon departure or returning from travel the City will pay for no meal the employee purchases within 35 miles of the City or the employee's legal place of residence.

The intent of the travel advance is to help employees having to pay for the majority of the trip out of their pocket, not to cover every cent of the expense. Travel advances are permissible, not mandatory.

REIMBURSEMENT VOUCHER

If the Reimbursement Voucher is submitted after 15 days past trip date, reimbursement will be forfeited and the employee will pay back the City all amounts advanced. (See IRS regulations below).

Receipts must be attached for the following expenses:

- a) Actual costs for travel by common carrier, provided such travel is accomplished in the most economical manner practical
 - b) Rental cars, provided less expensive public transportation is not available or appropriate
 - c) Registration fees for educational programs or conferences, provided, if the fee includes lodging or
 - d) Meals, then the per diem rates shall be reduced for the lodging or meals provided
 - e) Mileage will be paid based on published mileage charts. Actual mileage will only be paid when starting and ending odometer readings are listed on the Travel Approval and Reimbursement Request form.
- 2) A copy of agenda or program from meeting attended must be attached.

MEMORANDUM REGARDING IRS REIMBURSEMENT REGULATIONS

Ref: IMPORTANT NOTICE REGARDING REIMBURSEMENTS

Please post this notice and announce to all of your staff so that all employees are aware of the changes regarding travel reimbursements, and any other reimbursements to employees.

If any of the conditions listed below are not met, according to Internal Revenue Regulations, the City does not have an accountable plan, and any non-taxable fringe benefits or reimbursements will become taxable to all employees. In order to insure that the City has an accountable plan, the guidelines for adequate accounting and reasonable period will be strictly adhered to from this date forward. If an employee's request for reimbursement is turned down for not meeting the criteria set forth, the employee may file form 2106 with his/her Federal income Tax return.

Non Taxable Fringe Benefits

The Internal Revenue Service defines Non-taxable fringe benefits as:

- No additional cost service.
- Qualified employee discounts.
- Working condition fringe.
- De minimis fringe (infrequent).
- Qualified transportation expenses (travel or in-city mileage).
- Qualified moving expense reimbursement.

These benefits must be part of an “accountable plan” as defined:

- Business connection.
- Adequate “accounting” by the employee in a reasonable time period.
- Excess reimbursement returned in a reasonable time period.
- Adequate Accounting is defined as verification of time, place, amount, and the business purpose of the expense.

Reasonable Period of time is defined in IRS Reg. 1.62-2(g)(2)(i).

- Employee receives the advance within 30 days of the time they incur the expense.
- Employee adequately accounts for the expense within 60 days after the expense was paid or incurred.
- Employee returns any excess reimbursements within 120 days after the expense was paid or incurred.

In summary, all paperwork for mileage, travel reimbursements, and all other reimbursements including proper receipts and backup documentation is to be turned in by the employee to his/her respective department head within 30 days of the event. The department head must then submit this paperwork with all proper signatures to the Finance Department within 30 more days. Any reimbursement that is denied will be the responsibility of the employee on his/her personal income taxes.

Per NMAC 2.42.2.10 B (1), when a travel advance is made for a single trip, the officer or employee shall remit, within 5 working days of the return from the trip, a refund of any excess advance payment to the City. If the officer or employee is unable to remit the refund within five working days due to extraordinary circumstances, the City Manager may extend the deadline.

MANUAL OF POLICIES AND PROCEDURES
SECTION 4
USE OF CITY VEHICLES

PURPOSE

To have a comprehensive set of rules and guidelines for City employees in the daily performance of job duties which require the use of a City vehicles. The use of vehicles may be further addressed by department policies and standard operating procedures. Enforcement of the City of Gallup vehicle policy shall be the responsibility of each department.

DEFINITIONS

Driving on City Business: The use of a motor vehicle to carry out an employee's duties. Driving on City business includes driving a vehicle owned, leased, rented or otherwise controlled by the City, as well as the use of a personal vehicle on City business.

On-Call: An assigned time period, outside of an employee's normal work day, where the employee is not required to remain on City premises but must be available to respond and/or report to work when called. Employees that are in on-call status must leave City management a method as to where they may be reached at all times

On-Call Vehicle: A City vehicle, taken home by employees working on on-call status, to respond to public or health & safety emergencies outside the employee's normal work day.

Proper Class Driver's License: New Mexico driver's license of the class required for the vehicle being driven. New employees with a valid out-of-state driver's license shall obtain the proper class New Mexico driver's license within 30 days of their date of hire. Persons being hired into a CDL (commercial driver's license) position are required to have the proper New Mexico CDL license in accordance with the job requirement, as a post-offer condition of employment with the City of Gallup. The license must be current and valid and have all endorsements required by the type of equipment, the class of vehicle being driven and the load being carried. The license may not have any restrictions that would preclude driving on City business. The appropriate Commercial Driver's License (CDL) is required when driving any CDL vehicle on City business.

Take Home Vehicle: An authorized City vehicle taken home daily by an employee to commute from the employee's home to work.

Commuting: Use of a City vehicle for travel between an employee's home and main or regular place of work. It does not matter how far the commute is, if work is done during the commute, or if the employee carries work tools or equipment in the vehicle. Commuting between an employee's residence and regular place of business is considered personal use of a City vehicle. Similarly, if an employee regularly works at different locations, commuting between home and the various worksites is still considered a taxable fringe benefit.

Driving Position: A job that requires driving a vehicle on City business regularly or occasionally as part of the range of duties. This includes elected officials as well as classified, term, exempt, or volunteer positions requiring driving vehicles on City business. Non-employees, including former employees who are on contract with the City, are not allowed to drive City vehicles.

Qualified Non Personal-Use Vehicles: The IRS allows for certain vehicles to be exempted from fringe benefit compensation consideration. That is, their use is deemed to be exclusively for City business purposes. The following types of "Qualified Non Personal-Use" vehicles represent vehicles from a portion of the IRS list that may currently be in use by the City:

- Clearly marked police and fire vehicles - A police or fire vehicle is a vehicle, owned or leased by the City, that is required to be used for commuting by a police officer or fire fighter who, when not on a regular shift, is on call at all times.
- Unmarked vehicles used by law enforcement officers - Use must be officially authorized, the vehicle must be owned or leased by the City, and the law enforcement officers must be full time employees of the City.
- Large cargo capacity vehicle- any vehicle designed to carry cargo with a loaded gross vehicle weight over 14,000 pounds.
- Qualified special utility repair trucks - defined as any truck (not including a van or pickup truck) specifically designed and used to carry heavy tools, testing equipment or parts if:
 - a) The shelves, racks or other permanent interior construction that has been installed to carry and store such heavy items is such that it is unlikely that the truck will be used for anything other than City business, and
 - b) The City requires the employee to drive the truck home in order to be able to respond in emergency situations for purposes of restoring or maintaining City services.
- Pickup truck- Loaded gross vehicle weight not over 14,000 pounds is a qualified non-personal use vehicle if the vehicle is clearly marked and is equipped with at least one of the following: a hydraulic lift gate, permanently installed tanks or drums, permanently installed side boards or panels materially raising the level of the sides of the bed of the pickup truck, or other heavy equipment, such as an electric generator, welder, boom, or crane used to tow automobiles and other vehicles.
- Van- With a loaded gross vehicle weight not over 14,000 pounds is a qualified non-personal use vehicle if it is clearly marked with permanently affixed decals or with special painting or other marking associated with the City of Gallup. Additionally, it has a seat only for the driver or the driver and one other person, and either

permanent shelving has been installed that fills most of the cargo area or the cargo area is open and the van constantly (during both working and nonworking hours) carries merchandise, material, or equipment used in the employee's trade, business, or function.

Personal Use: Any use of a City vehicle for non-business related purposes. Commuting is a good example of what IRS terms "personal use" of an employer provided vehicle.

Temporary Place of Business: According to the IRS, any location where an employee "performs services on an irregular or short-term (i.e. generally a matter of days or week) basis."

Work Place: The place that is noted in the City's Human Resources and payroll records as the place where an employee regularly performs his or her normal office functions or reports for duty at the beginning of a shift.

POLICY

- All City vehicles are leased or owned and provided to employees to enable the provision of essential services to the citizens of Gallup.
- Assignment of a specific City vehicle is neither a privilege nor a right of any City employee and shall be based on service delivery requirements.
- Employees may not use City vehicles for personal use, other than commuting and qualified non personal-use.
- All assigned City vehicles, other than authorized take-home vehicles, shall be picked up and dropped off at designated City parking areas.
- Take-home City vehicle assignments must be reviewed and approved based on established and documented performance measures clearly indicating the public benefits derived from any authorized take-home assignment.

CONDITIONS FOR GENERAL USE

- **Appropriate License and Training** - All operators of City vehicles shall have a valid driver's license appropriate to the type of vehicle being driven. In the event employees have their State of New Mexico driver's license revoked or suspended, they shall not operate a City-owned vehicle. If an employee with a valid driver's license is required to use an ignition interlock device, that employee will not be allowed to operate a City owned vehicle. Employees under eighteen (18) years of age are not allowed to operate a City-owned vehicle. Employees shall immediately report every revocation or suspension of their driver's license, or a requirement to use an interlock device, to their supervisor. Any employee driving a City-owned

vehicle who does not have a valid New Mexico driver's license will be subject to disciplinary action up to and including termination of the employee.

- Authorized Passengers - Carrying of Passengers Prohibited - No driver of City equipment shall carry passengers in or on any such vehicles, with these exceptions:
 - a) Other persons engaged in or advising on matters relating to City services or improvements or City sanctioned events.
 - b) Other City employees to and from work when those other employees reside in the same general area and work in the same general location as the driver of a City vehicle who has been authorized to have a take-home vehicle. It is important to note that both the driver and the passenger, in this case, must have an authorized take home vehicle form on file and submit commuting documentation as required. Both will be taxed accordingly.
 - c) Other persons who are being transported as part of an approved City program, i.e. citizen volunteers, program participants, City business clients/partners, persons arrested, etc.
- Assigned City vehicles are not permitted to be used for private purposes. Running personal errands stops at the credit union or banks or any other personal business is prohibited at any time other than authorized break, lunch periods or a quick stop on the way to and from work. Any employee violating these regulations will be subject to disciplinary action.
- Use of City-owned vehicles on out of state trips - City vehicles shall not to be driven out-of-state without specific authorization of the City Manager, except as noted below. The City Manager, or Public Safety designee, may authorize trips by Police or Fire personnel when such trips would be to the economic or operation benefit of the City. Signature approval to use a City vehicle for an out-of- state trip must be obtained on the Authorization for Travel form.
- Driving City-owned vehicles home during regular work hours prohibited. City employees are prohibited from driving City-owned pool or assigned motor vehicles to their homes during regular work hours with these exceptions:
 - a) On approval of supervisor, and if they reside within the City limits, an employee may drive an assigned vehicle home for authorized break or lunch periods.
 - b) An employee may drive an assigned vehicle home during his or her regular work hours in an emergency situation, providing the employee has properly informed his or her immediate supervisor of the emergency and received permission to drive a City vehicle home.

UNAUTHORIZED USE

- Any use for personal purposes, other than commuting, qualified nonpersonal-use, or as specified in this policy.
- Travel or tasks that are beyond the vehicles rated capability.
- Transport of hitchhikers.
- Transport of cargo that has no relation to the performance of official City business.
- Transport of acids, explosives, weapons, or ammunition (with the exception of Police).
- Operation of a vehicle under the influence of drugs or alcohol or prescription medication that may impair one's driving ability.
- Transport of highly flammable material.
- Transport of any item or equipment projecting from the side, front or rear of the vehicle in a way that constitutes an obstruction to safe driving or a hazard to pedestrians or to other vehicles.
- When employees are on official City business themselves, transport of other employees to restaurants, cafes, drugstores or to other places that are not in the service of City business.
- Attending sporting events that are not in the service of City business.
- Extending the length, possession, and time beyond that which is required to complete the official purpose of the trip.
- When the assigned employee is on vacation or in training for at least four consecutive days, the vehicle will be parked on City premises in designated parking.
- Transport of alcoholic beverages or controlled substances of any kind.

State and Local Traffic Laws - All drivers and passengers of a City vehicle must comply with all applicable state and local traffic laws, including but not limited to:

- The driver and all authorized passengers shall wear seat belts as required by New Mexico Uniform Traffic Code.

- The driver shall possess a valid New Mexico driver's license.
- The driver and all passengers shall comply with all state and local traffic laws; the driver shall be personally liable for any criminal or civil penalty incurred.
- The driver shall comply with all applicable state and local parking laws. In the event of a violation of such laws, the driver shall be personally liable for any criminal or civil citation penalty issued (including parking violations). All drivers shall notify his or her supervisor of any citations as soon after receipt as possible. All drivers shall provide his or her supervisor proof that such citations have been paid or adjudicated within ten working days of receipt or is in process through the appropriate court system.
- Cell phone usage must be limited to a hands free device while the vehicle is in operation, unless specific division policies prohibit cell phone use.

SAFE OPERATIONS AND USE OF EQUIPMENT

- Safety Equipment- All City owned vehicles shall be equipped with proper safety equipment (i.e. first aid kit, fire extinguisher). Larger vehicles shall be equipped with safety triangles to be used in the event of a breakdown. It is the responsibility of the employee to ensure that the necessary safety equipment is in working order, and that they have received the necessary training for their proper use. Procurement of safety equipment is the responsibility of the division.
- Defensive Driving and First Aid training is provided through the Risk Management/Safety Division.
- Safe Operation - The driver shall check the City vehicle before operating to ensure that the vehicle lights, turn signals, brake lights and other safety equipment is functional on the vehicle. If the driver finds any of this equipment is not functioning properly the driver shall report malfunctions to his or her supervisor or to Fleet Management section immediately in order to arrange for repairs.
- Maximum Speed - No City-owned vehicle, except Police or Fire responding to emergency or authorized duty calls, shall be driven at a speed in excess of the speed limits established in State Statutes or City Ordinances.
- Smoking is prohibited within a City vehicle.
- Unattended vehicles are not to be left idling.

Storage and Parking- Parking of Vehicles - City-owned vehicles shall be parked, when not actually in use, in the City parking lot designated by the Department for that vehicle.

- Employees are specifically prohibited from parking a City vehicle in other than its approved location.
- No vehicle shall be kept at the home of the employee overnight unless the employee has received the appropriate authorization.

ACCIDENT REPORTING

Motor Vehicle Accident/Collision

- Notify the police and immediate supervisor. If after hours and no such supervisor can be contacted, immediately contact the appropriate supervisor the next day.
- Relate complete and true account of the accident to the investigating officers.
- Do not move the vehicle unless there is a clear and imminent danger or instructed to do so by a legitimate authority (i.e. police).
- Do not accept assistance from non-City employees in moving a City unit (i.e. towing) unless authorized by a supervisor.

CITY-OWNED VEHICLES - ASSIGNED TAKE-HOME

The purpose of this section is to ensure the proper use of public funds with regards to any authorization granted allowing employees to commute to and from work in City-owned vehicles.

Authorization - Supervisors are responsible to request assignment of take-home vehicles for designated employees and/or programs by submitting a completed Vehicle Authorization Form to the Office of Risk Management/Safety for recommendation to the City Manager. Take-home vehicle authorizations are not transferable and must be renewed annually and/or when the employee has a change in position status. The Authorization Form should include the following:

- The category of assignment, i.e. long-term, on-call, etc.
- Explanation of vehicle usage and nature of any personal use authorized, i.e. commuting, qualified non-personal use, etc.
- Narrative describing how the specific work assignment meets the policies and criteria for a take-home vehicle program.
- Additional data demonstrating the actual number and nature of emergency responses, if emergency responses are being used as justification. Also include

an explanation as to why alternative forms of transportation cannot be used to respond to the emergencies or why City-owned assigned vehicles cannot be picked up at designated parking area.

- Calculation of savings to the City, if economic justification is used.
- Explanation of special vehicle characteristics required to fulfill the work assignment's business purpose, i.e. van, pickup, large capacity, special equipment, etc.
- Approval by the requesting Department Head.
- Concurrence by the Risk Management/Safety Manager.
- Completed Authorization Forms will be routed to the City Manager for final approval, with a copy to the Payroll Supervisor.

CATEGORIES OF ASSIGNMENT

- *Long Term Assignment* - The authorization of assigned take-home vehicles may be granted for a period of not more than twelve months, unless re-assignment is approved. Emergency response assignments should be supported by data demonstrating the actual number and nature of emergency responses in the prior year and estimates of future emergency responses. In addition, there must be an explanation as to why an employee cannot use alternative forms of transportation to respond to the emergencies or pick up City-owned assigned vehicles at the designated parking area.
- *Requirement to Respond* - "On-Call" - Employees must be on call when taking a City-owned vehicle home and must have primary responsibility to respond to calls. Employees shall leave word as to where they may be reached at any given time and be available to willingly respond to and/or report to work when called.
- *Condition of Employment*- Take-home vehicle assignment is permitted whenever an employee's employment agreement provides for a take-home vehicle, subject to approval by the City Manager.
- *Special Public Safety Programs* - Employees who are assigned to public safety programs may be allowed an assigned take-home vehicle, provided it is a fully marked vehicle used for the special public safety programs.
- *Rotating Assignment* - Vehicles may be assigned as take-home to a specific division, without being assigned to a specific employee when several division employees share the on-call responsibility. It is the responsibility of the division to track the take-home vehicle assignments. On-call vehicles assigned by the division must meet the following conditions:

- a) Division employees share the requirement to respond "on-call" on a rotating basis.
- b) The assigned take-home vehicle is appropriately marked and/or equipped to facilitate response (i.e. lights, sirens, specialized equipment).
- c) The employees participating in the rotating assignment must reside within reasonable distance of anticipated response location. Reasonable distance is defined as: the employee's home address is within 10 miles of the City of Gallup boundaries. Special exceptions may be made with consent by the City Manager.
- *Occasional Overnight Usage* - Occasional take-home use of City-owned vehicles is permitted. Such occasional usage of City vehicles may occur when an employee attends a meeting away from the employee's normal place of work and outside an employee's normally scheduled workday.

STORAGE / PARKING / SAGEKEEPING OF VEHICLES AND EQUIPMENT

Each employee authorized to drive a City-owned vehicle to his or her home overnight is required to provide off-street parking for the vehicle wherever possible while it is parked at his or her home. Failure to do so may result in loss of take home privileges.

FRINGE BENEFITS / NON-CASH COMPENSATION VALUE OF TAXIATION

Per IRS regulations, a City provided take-home vehicle is considered a fringe benefit under federal employment tax laws, and the imputed value of personal use must be included in the employee's gross pay. The value of the personal use is taxable for income and Social Security purposes unless specifically exempted by IRS code. The value of the personal use will be determined by the Finance Department. An employee's use of a City vehicle for commuting to and from work is considered personal use and must be treated as taxable fringe benefit for federal tax purposes. Each employee shall submit documentation as specified in the record keeping and reporting section of this regulation. After receiving the proper documentation, the City will estimate the value of the personal use and report it as employee compensation. This value will be added to the employee's taxable income on the year end W-2 Wage and Tax Statement and will be subject to applicable Social Security contributions and Federal and State withholding taxes. These regulations do not apply to vehicles that are considered to be qualified non-personal use vehicles.

RECORD KEEPING AND REPORTING REQUIREMENTS

EMPLOYEE / DEPARTMENT MANAGEMENT

Department Heads must submit Take-Home Authorization forms for all requested assignments for approval. Take-home vehicle authorizations are not transferable and must be re-justified annually. Any work assignment changes that increase or decrease the number of vehicles approved for each program effectively invalidates previously authorized take-home vehicle authority- supervisors must notify Payroll when the total net count of take-home vehicles in their unit changes and must re-justify the take-home authorization using a new form.

REVIEW PROCEDURES / RESPONSIBILITIES

The City Manager shall:

- Annually review and approve a list of take-home vehicle assignments by department/work unit as recommended by Office of Risk Management/Safety.

The Risk Management/Safety Division shall:

- Review the driving record for each employee in a driving position at least once per year. The employee's driving record must be checked before an employee is promoted, transferred, placed, etc. into a driving position.
- Receive, re-evaluate and forward all take home vehicle assignments and in the first week of January each year transmit a list of all take-home vehicle assignments by department and division to the City Manager's Office and Finance Department - Payroll Division.
- Evaluate all initial take-home vehicle assignment requests from departments on an as needed basis.
- Forward suspension and serious traffic violation documentation to the employee's supervisor.

Department Director or his/her designee shall:

- Identify all employees who drive on City business and maintain a list of driving positions whether using a City vehicle or their own personal vehicle.
- Ensure that requests for take-home assignments are consistent with the policies and criteria governing take-home vehicles.
- Recommend requests for take-home vehicles, after obtaining concurrence from the Office of Risk Management/Safety, and ensure that assignments meet the policies and criteria governing take-home vehicles. Submit completed requests to City Manager.

- Ensure that all staff newly approved for a take-home vehicle, receive a copy of this policy and a copy of the policies, procedures, and criteria governing take home vehicle assignments within 30 days of assignment. Employees must be notified regarding the possible tax consequences of being assigned a take home vehicle within 30 days of assignment.
- Monitor the assignments of all take-home vehicles in their respective departments.
- Identify designated parking areas for employees to park their assigned cars, with input from the Parking Division for downtown work sites.
- Ensure wherever possible that assigned vehicles are picked up and dropped off at designated City parking areas.
- Approve requests for occasional overnight take-home vehicles when usage is no more than once a week on average.

Supervisors shall:

- Allow only those employees who maintain the appropriate driver's license as well as the City driving permit to drive a motor vehicle on City business. Employees must submit a photocopy of their current driver's license.
- Immediately remove from a driving position any employee or contracted worker whose license is cancelled, expired, refused, revoked, suspended or restricted in a manner, which affects the employee's ability to drive on City business.
- Periodically check with each employee in a driver's position to verify that an appropriate license is in the employee's possession.
- Prohibit any employee without an appropriate driver's license in his/her possession from driving on City business.
- Notify the Office of Risk Management/Safety when work assignments change the approved take-home vehicle count in their department and re-justify the take home authorization using a new form.
- Advise Payroll of any change of status regarding a take-home vehicle.
- Submit proof of final resolution of employee traffic violations to the Office of Risk Management after appropriate court proceeding.

Employee shall:

- Ensure that the privilege to drive is maintained.

- Maintain in his/her possession the appropriate driver's license and City driving permit at all times while driving on City business.
- Maintain vehicle liability insurance in accordance with New Mexico statutes.
- While driving on City business, comply with all license restrictions issued by MVD.
- Immediately notify his/her supervisor of:
 - a) A change in status of his/her driver's license.
 - b) An arrest for a violation of any part of the New Mexico Uniform Traffic Code concerning driving under the influence of drugs or alcohol. No employee will drive on City business after consuming alcoholic beverages of any other substance that may impair driving. Any physical or mental impairment affecting the ability to operate a vehicle safely must be reported immediately to the supervisor.
 - c) Any traffic violation issued while in operation of a City-owned vehicle. The notification must be made immediately, and no later than before the start of the employee's next scheduled work shift.
- Refrain from driving on City business after there has been a change in status of his/her driver's license, even if the cancellation, expiration, refusal, revocation, suspension or restriction has ended, unless the license has been reinstated. Proof of reinstatement must be provided to the supervisor before driving on City business.
- Be aware of, understand, and comply with federal, state and local laws and the City policies applying to the operation of vehicles on City business.
- Resolve violation, or be in the process of working with the Court, within 10 working days and provide proof to supervisor.
- Pay all traffic fines and appear for a court date, when necessary. Failure to do so may result in a license suspension. A driver's license suspension is cause for loss of driving privileges.
- Countersign a Request for Assignment of Take-Home Vehicle Form.

The Human Resources Department shall:

- Secure the valid driving records from the New Mexico Motor Vehicle Division (MVD) for individuals recommended for employment for exempt, classified, or term driving positions as a post-offer condition of employment.

Finance/Payroll shall:

- In order for Payroll to process the information necessary to compute the vehicle fringe benefit for employees by the established IRS deadline, the reporting time period for each calendar year is January 1st through December 31st.
- For employees that do not drive a qualified non-personal use vehicle, add the value of the commuting use of applicable City take-home vehicles to the employee taxable wage. Calculate the value of the use by using the IRS Fringe Benefit Valuation Rules.
- Update procedures, forms and processes each year according to IRS tax law changes.

MANUAL OF POLICIES AND PROCEDURES
SECTION 5
DEPOSITS AND INVESTMENTS

INTRODUCTION

Guidance is provided both in statute and regulation to manage and account for the deposit and investment of public funds – those monies coming into all governmental agencies from a variety of sources. These deposits must be monitored and accounted for according to the City's written policies and procedures that meet established accounting standards for the handling of cash and cash equivalents. Investment activities may provide additional revenue (interest) that can be utilized to support daily operations in the City. It is critical that the deposits are managed properly and that the investments made are in the best interest of all stakeholders. By examining the timing of selected receipts and measuring state and local economies, City personnel are able to make appropriate and informed financial decisions related to depositing and investing available resources.

AUTHORITY

Section 6-10-10 to 6-10-63. NMSA 1978

- Public money in the custody of the City shall be deposited in qualified depositories in accordance with the terms of section 6-10-36 NMSA 1978.
- Deposits of the City's funds may be in noninterest-bearing checking depositories located within the geographical boundaries of the City (or within reasonable range to ensure the state of New Mexico's 24 hour deposit rule may be met) to the extent the depository's are insured by an agency of the United States.
- Public money placed in interest-bearing deposits in banks and savings and loan associations shall be equitably distributed among all banks and savings and loan associations having their main or staffed branch offices within the geographical boundaries of the governmental unit that have qualified as public depositories by reason of insurance of the account by an agency of the United States or by depositing collateral security or by giving bond as provided by law and that desire a deposit of public money pursuant to this section.

RATES OF INTEREST

- The rate of interest for all public money deposited in interest bearing accounts in banks, savings and loan associations and credit unions shall be set by the state board of finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the date of deposit.

- Any bank or savings and loan association that fails to pay the minimum rate of interest at the time of deposit provided for herein for any respective deposit ***forfeits its right to an equitable share of that deposit.***
- If the deposit is part or all of the proceeds of a bond issue and the interest rate prescribed materially exceeds the rate of interest of the bonds, the interest rate prescribed by this subsection shall be reduced on that deposit to an amount not materially exceeding the interest rate of the bonds if the bond issue would lose its tax-exempt status under section 103(a) of the Internal Revenue Code of 1986, as amended.

COMPLIANCE FOR DEPOSITS AND INVESTMENTS

REPORT REQUIREMENTS

The City shall be required to report annually to the State Auditor a list of individual deposit accounts and investment accounts that is held by the City. The City's Independent Public Accountant (IPA) will request that these activities be made available as a part of the annual audit documentation.

Auditors are required to test the following for compliance:

- The requirements of Sections 6-10-10(A) and (B) NMSA 1978, that county and municipal treasurers deposit money in banks, savings and loan association or credit unions located in their respective counties; and,
- The requirements of Section 6-10-17 NMSA 12978, that the public official or public board has received a joint safe keeping receipt for pledged collateral from the custodial bank for the collateral delivered by the depository institution.

A list of the individual deposit accounts and investment accounts is required to be provided to the auditor pursuant to Section 12-6-5(A) NMSA 1978 and the audit report shall include at a minimum:

- Name of depository (i.e. bank, credit union, state treasurer, state investment council).
- Account name.
- Type of deposit or investment accounts (also required in separate component unit audit reports), such as checking, savings, money market accounts, certificates of deposit or the state treasurer general fund investment pool (SGFIP), state treasurer local government investment pool (LGIP) U. S. Treasury bills, notes, bonds, and strips; and U. S. agencies such as FNMA, FHLMC, GNMA, Sallie Mae, SBA, FHA, federal financing bank, federal farm credit, financial assistance corporation, including the specific name of each bond, stock, commercial paper, etc.
- Account balance of deposits and investments as of the balance sheet date.
- Reconciled balance of deposits and investments as of the balance sheet date as reported in the financial statements.

PLEDGED COLLATERAL

- Audit reports should disclose the collateral requirements in the notes to the financial statements and a supplementary schedule or note to the financial statements should also disclose the collateral pledged by each bank and savings and loan association (S&L) that is

a depository for public funds. The type of security, security number, CUSIP number, fair market value and maturity date.

- Name of the security and the place of safekeeping for all collateral shall also be disclosed.

Non-Compliance

Section 6-10-17.1 Non-compliance with collateral requirements; withdrawal of public funds.

If a bank or savings and loan association does not maintain qualifying securities as collateral for deposits of public money under the control of the City as required by law, the City shall request the depository to substitute or provide additional qualifying securities to meet requirement within ten calendar days. If the depository does not comply with the request the City shall withdraw from that depository within the next ten calendar days all deposits of public money without penalty to the depositor.

COLLATERAL REQUIREMENTS – CALCULATION

If the pledged collateral for deposits in banks, savings and loan associations, or credit unions, in an aggregate amount is not equal to one half of the amount of public money in each account (Section 6-10-17. NMSA 1978), a finding shall appear in the audit report. No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation or the National Credit Union shares insurance according to Section 6-10-16. NMSA1978. The calculation shall be calculated separately for each bank and disclosed in the notes to financial statements as follows to show compliance and GASB 40 disclosure information.

The following is an example the collateral requirement disclosure that is required in the City's financial statements:

	Wells Fargo	Pinnacle Bank	US Bank	Total
Deposits	\$ 34,597,726	\$ 2,860,871	\$ 4,000,000	\$ 41,458,597
Less: FDIC Coverage	(250,000)	(250,000)	(250,000)	(750,000)
Total uninsured public funds	34,847,726	\$ 2,610,871	3,750,000	41,208,597
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the City's name	42,144,278	5,231,849	4,000,000	51,376,127
Uninsured and uncollateralized	\$ -	\$ -	\$ -	\$ -
Collateral requirements (50% of uninsured funds)	\$ 17,423,863	\$ 1,305,436	\$ 1,875,000	\$ 20,604,299
Pledged Collateral	42,144,278	5,231,849	4,000,000	51,376,127
Over (under) collateralized	\$ 24,720,415	\$ 3,926,413	\$ 2,125,000	\$ 30,771,828

DEPOSITS – FEDERALLY INSURED

Section 6-10-24. NMSA 1978. Deposit of public funds in federally insured banks, savings and loan associations and credit unions; conditions.

The City may deposit public funds in any bank of the state of New Mexico insured by the Federal Deposit Insurance Corporation (FDIC) up to the amount of the insurance or in any savings and loan association whose deposits are insured by the Federal Savings and Loan Insurance Corporation (FSLIC) up to the amount of the insurance, or in any credit union whose deposits are insured by the National Credit Union Administration (NCUA) up to the amount of the insurance, without requiring the bank, savings and loan association or credit union to qualify as a public depository by giving security as required by the laws of NM relating to public money; provided, however, that a deposit made in any credit union shall not exceed that amount insured by an agency of the United States.

Section 6-10-16 NMSA 1978. Security for deposits of public money.

Deposits of public money shall be secured by the following:

- Securities of the United States, its agencies or instrumentalities;
- Securities of the State of New Mexico, its agencies, instrumentalities, counties, municipalities or other subdivisions;
- Securities, including student loans that are guaranteed by the US or the State of New Mexico;
- Revenue bonds that are underwritten by a member of the National Association of Securities Dealers, known as N.A.S.D. and are rated BAA or above by a nationally recognized bond rating service; or
- Letters of credit issued by a federal home loan bank.

Securities which are obligations of the state of NM, its agencies, institutions, counties, municipalities or other subdivision shall be accepted as security at par value. All other securities shall be accepted as security at market value.

Note: Additional security (pursuant to Section 6-10-20 NMSA 1978) may be requested of any bank or savings and loan association that has qualified as a depository of public money of the kind specified in Section 6-10-16 NMSA 1978.

CITY OF GALLUP
STATEMENT OF INVESTMENT POLICY
2024

INTRODUCTION

This statement is intended to establish the policies for prudent investment of the City's funds, and to provide guidelines for suitable investments.

It is the policy of the City of Gallup to invest public funds not required for immediate day-to-day operations in safe and liquid investments that conform to all state statutes governing the investment of public funds.

The investment policies and practices of the City of Gallup are based upon Federal, State and local law, and prudent money management. The primary goals of these policies are:

1. To assure compliance with all Federal, State and local laws governing the investment of monies under the control of the City Chief Finance Officer.
2. To maintain the principal value of assets entrusted to this office and provide adequate liquidity to meet operating expenditures.
3. Within constraints of safety and liquidity, the City's investment funds will be managed in a prudent fashion, which will generate an appropriate rate of return based on market conditions and within the parameters of this Statement of Investment Policy and the guidelines for suitable investments.

I. SCOPE

In accordance with the City of Gallup policies, the City Finance Officer is authorized to invest the City's funds in accordance with State Statute 6-10-10 NMSA 1978.

This policy applies to the investment of all funds, excluding the investment of debt funds and employees' retirement funds, which are outside the scope of this policy. The investment of debt proceeds and retirement funds shall be governed by the relevant documents.

All monies entrusted to the City Finance Officer can be pooled in a diversified portfolio unless specifically exempted. Investments made on a pooled basis may include investments of the City. The City's Annual Comprehensive Financial Report identifies the fund types incorporated under the City's investment pool as follows:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds
- Fiduciary-Agency Funds
- Any new funds created by the City, unless specifically exempted

II. PRUDENT INVESTMENT STANDARD

Management of the City's investments is governed by the Prudent Investor Standard as set forth in New Mexico Statute 45-7-601 to 45-7-612 NMSA 1978.

When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the City, that a prudent person in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and to meet the liquidity needs of the City. Within the limitations of this section and considering individual investments as part of an overall strategy, the City Chief Finance Officer is authorized to acquire investments as authorized by law.

All participants in the investment process shall act responsibly as custodians of the public trust. The Chief Finance Officer and City Staff shall recognize the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

III. OBJECTIVES

A. **Safety of Principal**

Safety of Principal is the foremost objective in the management of City investment funds. The overriding objective with any investment security transaction is to ensure that there is no loss of principal, especially a loss resulting from the default of an issuer or security. In addition, security transactions will be conducted to ensure that City funds, or investments, are not at risk from broker-dealer default. At the same time it is understood that there may be fluctuations in the value of the City's investments because of changes in interest rates. Nonetheless City funds will be managed in such a fashion that adverse changes in value due to interest rate or market changes are minimized. Overall, the City will seek to preserve principal by avoiding credit risk and minimizing market risk.

1. **Credit Risk.** Credit risk is defined as the risk of loss of some or all of the invested principal and/or interest because of the failure or default of an issuer or security. City funds shall be managed so that credit risk is minimized. One method of minimizing this type of risk is to adhere to New Mexico State Statutes and by diversifying the Pool so that the failure of any one issuer would not unduly impair the overall value of the City's funds.
2. **Market Risk.** Market price volatility shall be controlled through maturity diversification, as well as ensuring that adequate liquidity is available to meet cash flow requirements, thereby precluding the need to sell instruments at a market loss.

B. **Liquidity**

The City's funds represent an important source of cash for the City's day-to-day operations. The investment of the City's funds will be structured in such a way that they provide regular, periodic cash flow from maturing securities and coupon payments. In addition, it is also important that the investment of the City's funds be undertaken so that a substantial portion of any securities purchased incorporates a high degree of secondary market liquidity. This is intended to be a "secondary" source of liquidity in the event there is an unusual need for cash. In such a situation, a security with good secondary liquidity can be sold immediately and with minimal loss, even under adverse circumstances. In managing City funds for cash flow needs, it is generally not the intention to liquidate a security prior to maturity in order to meet expected cash flow needs.

However, it is important that when exceptional conditions require, and there are unexpected cash flow demands, a security sale can be done quickly.

To the extent possible, investments will be made so that maturities are compatible with cash flow requirements.

C. **Maturity**

Maturities of investments will be selected based on cash flow requirements. Current and expected yield curve analysis will be monitored, and the portfolio will be invested accordingly. Investments will have a maximum remaining maturity of only the limitations imposed by government statute or five (5) years from purchase, whichever is shorter. The weighted average maturity (or duration) of the pooled portfolio shall reflect the liquidity needs and risk profile that the Chief Finance Officer deems appropriate.

D. **Diversification**

The City's investment pool will be diversified to avoid incurring unreasonable and avoidable risks. The investments will be diversified by security type, maturities of those investments, and institutions in which those investments are made.

E. **Performance/Yield**

Investment return or yield becomes a consideration only after the basic requirements of investment safety and liquidity have been met. The City's pool shall be designed to attain a competitive yield or rate of return. Periodically the portfolio yield will be compared to the twelve-month moving average of the two-year Constant Maturity Treasury Index (CMT).

IV. REPORTING

A. **Quarterly and Semi-Annual Reporting**

The City Chief Finance Officer shall continue to submit a quarterly report to the Mayor, Council, and the City Manager.

This report will list investments with each financial entity being utilized.

V. ETHICS AND CONFLICTS OF INTEREST

All participants in the City's investment process shall seek to act responsibly as custodians of the public trust. The City Chief Finance Officer, or when appropriate the Deputy Chief Finance Officer, if the City Chief Finance Officer is absent, shall avoid any transaction that might impair public confidence in the City's ability to govern and manage the investment of public funds in an effective manner. The City Chief Finance Officer, or other official charged with the responsibility of making investment decisions, shall have no vested interest in any investment being made involving public funds of the City, and shall gain no financial benefit from such investment decisions. Employees and investment officials shall disclose to the City Manager any material financial interest that could be related to the performance of the City's investment

policy annually or as necessary.

VI. AUTHORIZED INVESTMENTS

The City shall not enter into any investment transaction that might impair public confidence in the Gallup City government. The City is governed by the New Mexico statutes 6-10-10 NMSA 1978.

The City's investments will be placed in a diversified manner with the following allowable percentage of the City's investment funds, which can be invested in each category. Generally, investments will stay well within these maximums.

A. United States Treasury Obligations Maximum of 100%

United States Treasury Bills, Notes and Bonds, or those for which have an explicit guarantee of the full faith and credit of the United States for payment of principal and interest. This investment is both safe and liquid. There is no percentage limitation of the pool that can be invested in this category, but there are maturity limitations.

B. U.S. Agencies and/or GSE Obligations Maximum of 90%

Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal Agricultural Mortgage Corporation (FAMCA), and the Federal National Mortgage Association (FNMA) and those insured by the Federal Housing Administration (FHA). At present the credit standing of GSEs is an implied guarantee on the part of the U.S. Treasury. This guarantee is second only to the explicit guarantee of the U.S. Treasury. The "prudent investor" rule shall apply for a single agency name, as part of the overall diversification objective in management of City funds.

C. Non-negotiable Certificates of Deposit Maximum of 40%

The City may invest in non-negotiable time deposits collateralized in accordance with the New Mexico statutes, in those banks and savings institutions that meet the requirements for investment in certificates of deposit. All investments in time deposits must be properly collateralized in accordance with NMSA 6-10-16 NMSA 1978. The City Chief Finance Officer will periodically monitor, on a discretionary yet diligent basis, the operating performance of all financial institutions holding City time deposits, to ensure compliance to collateralization requirements.

D. Negotiable Certificates of Deposit Maximum of 30%

The City may invest in negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association as defined by 6-10-10 NMSA 1978 a state or federal credit union, or by a federally licensed or state licensed branch of a foreign bank. All certificates of deposit must be properly collateralized or fully insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA). The Certificates of Deposit must comply with 6-10-16 NMSA 1978. The City Chief Finance Officer will periodically monitor, on a discretionary yet diligent basis, the operating performance of all financial institutions that City funds are invested in.

E. Placement Service Certificates of Deposit Maximum of 30%

The City may place monies on deposit with a nationally or state chartered commercial bank, savings bank, savings and loan association, or credit union in New Mexico to invest funds, in compliance with New Mexico Codes, who then engages a private sector entity to help place its local agency deposits with select depository institutions. The full amount of each deposit placed, as well as the interest that accrues on each such deposit, shall at all times be insured by the FDIC or the NCUA.

F. Local Agency Investment Pool Maximum of \$5 million per account

The City may invest in the Local Agency Investment Pool (LGIP) established by the State of New Mexico for the benefit of local agencies up to the maximum permitted by State law.

G. Money Market and Money Market Mutual Funds Maximum of 20%

The money market funds must have an average weighted maturity of ninety days or less, and abide by SEC (Securities & Exchange Commission) regulations; funds must receive the highest ranking by two of the three largest nationally recognized rating agencies OR retain an investment advisor registered or exempt from registration with the SEC with not less than least five years' experience managing money market funds in excess of \$500 million.

H. State and Local Agency Obligations Maximum of 30%

These bonds, notes, warrants or other evidences of indebtedness of any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency rated "A" or better (or its equivalent). In addition, the Fund is further authorized to purchase bonds and notes of any of the other 49 United States that are rated "AA" or better (or its equivalent) including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states. These shall be limited to 60 months maximum maturity. No more than 30% of the cost value of the portfolio at time of purchase is to be invested in municipal bonds. The total value invested in any one issuer shall not exceed 5% of the issuer's net worth. Purchases of bonds from local agencies or states on negative credit watch by a major rating agency shall be prohibited.

I. Commercial Paper Maximum of 25%

Eligible commercial paper shall be of "prime" quality of the highest ranking or the highest letter and number rating as provided by a Nationally Recognized Statistical Rating Organization, shall not exceed 270 days maturity and shall not exceed 25% of the portfolio. No more than 5% of the total assets of the portfolio may be invested in any one issuer's commercial paper.

VII. UNAUTHORIZED INVESTMENTS

Ineligible Investments Prohibited

Ineligible Investments include securities not listed above, as well as inverse floaters, range notes, interest only strips derived from a pool of mortgages (collateralized mortgage obligations), and any security that could result in zero interest accrual if held to maturity, as specified in Section 53601.6.

VIII. INVESTMENT POOLS/MUTUAL FUNDS

A thorough investigation of any government sponsored pool and/or mutual fund is required prior to investing and on a continual basis. There shall be a questionnaire completed which will provide the following information:

- A. A description of eligible investment securities, and a written statement of investment policy and objectives.
- B. A description of how interest is calculated and distributed, and how gains and losses are treated.
- C. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- D. A description of who may invest in the program, how often, and what size of deposits and withdrawals are allowed.

IX. COLLATERALIZATION

Collateral for Non-negotiable Certificates of Deposit and Negotiable Certificates of Deposit must comply with 6-10-17 NMSA 1978. In addition, if the Certificate of Deposit is not FDIC or NCUA insured or goes over the FDIC/NCUA \$250,000 limit, collateral is required equal to 50 percent of principal. Collateral for Repurchase Agreements shall be 102 percent of market value of principal and accrued interest. Collateral can be either U.S. Treasury securities or Federal Agency securities as allowed by 6-10-20 NMSA 1978. This will provide an additional level of security due to inevitable changes in market conditions.

x. QUALIFIED DEALERS AND INSTITUTIONS

The City shall transact business with nationally or state chartered banks, federal or state savings and loan institutions, registered primary investment securities dealers and qualified regional dealers. The purchase by the City of any investment other than those purchased directly from the issuer, shall be purchased either from an institution licensed by the State as a broker-dealer, as defined in Section 25004 of the Corporations Code, who is a member of the National Association of Securities Dealers, or a member of a Federally regulated securities exchange, a National or State-Chartered Bank, a Federal or State Association (as defined by Section 5102 of the Financial Code), or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank.

To continue to maintain regional broker/dealers with quality services, expertise, and credit worthiness, the Chief Finance Officer may, on a selective basis, have both primary dealers and “qualified regional” dealers.

A “qualified regional” dealer must demonstrate the following requirements:

- The “qualified regional” firm must be able to demonstrate their services and/or expertise are not currently being provided by a primary broker/dealer and will specifically and immediately benefit the City.
- In addition to qualifying under the Securities and Exchange Commission Rule 15C3-1, (uniform net capital rule), the regional dealer does not self-clear securities. The clearinghouse through which all transactions are cleared and settled has a minimum investment grade rating of A or better by S&P or Moody.
- The representatives chosen to work with the Chief Finance Officer are institutional brokers familiar with and experienced in the specific needs of public funds. “Familiar” implies an institutional broker who spends the majority of their time and effort working with public funds.

All institutions which the City Chief Finance Officer wishes to do business with shall be investigated to determine if they are adequately capitalized, have pending legal action against the firm or the individual broker, make markets in the securities appropriate to the City’s needs, and agree to abide by the conditions set forth in the City of Gallup’s Investment Policy.

The City Chief Finance Officer shall annually send a copy of the current Investment Policy to all broker/dealers approved to do business with the City. Confirmation is required of broker dealers of receipt of this policy and shall be considered evidence that the dealer understands the City’s investment policies and intends to sell the City only appropriate investments authorized by this investment policy.

To further ensure that investments are purchased only through well established, financially sound institutions, the City Chief Finance Officer shall maintain a list of financial institutions and brokers approved for the conduct of investment transactions. All financing institutions and brokers who desire to become qualified bidders for investment transactions will be given a copy of the City’s Investment Policy, and in turn must supply the City Chief Finance Officer with the following:

- Current audited financial statements (within 120 days of Fiscal Year End)
- Current FINRA report for both the firm and broker(s)
- Depository contracts, as appropriate
- A copy of the latest FDIC call report or the latest FHLBB report, as appropriate
- Proof that commercial banks, savings banks, or savings and loan associations are state or federally chartered
- Proof that brokerage firms are members in good standing on a national securities exchange
- Certification of receipt and review of the City’s Investment Policy and agreement to comply with the provisions outlined in the Investment Policy

Commercial banks, savings banks, and savings and loan associations must maintain a minimum net worth to asset ratio of three percent (total regulatory net worth divided by total assets), and must have had positive net earnings for the last reporting period.

A list of qualified brokers from which the City may purchase investments will be submitted annually by the City

Chief Finance Officer for approval by the City Council as part of the annual review of investment strategy. In the event the Chief Finance Officer deems it necessary to add/modify a broker during the year between Investment Policy adoptions (for example, in the event an approved broker changes firms or the Chief Finance Officer finds it beneficial to expand coverage without waiting until the following year's Investment Policy is adopted), the Chief Finance Officer may add/modify a broker by qualifying said broker and their firm by performing the required due diligence. Any mid-year broker changes would be communicated to the City Council for review prior to moving forward with opening the account.

XI. PORTFOLIO MANAGEMENT ACTIVITY

The investment program shall seek to augment returns consistent with the intent of this policy, identified risk limitations and prudent investment principals. These objectives will be achieved by use of the following strategies.

Active Portfolio Management – Through active fund and cash flow management taking advantage of current economic and interest rate trends, the pool yield may be enhanced with limited and measurable increases in risk by extending the weighted maturity of the total pool.

Portfolio Maturity Management – When structuring the maturity composition of the pool, the City Chief Finance Officer shall evaluate current and expected interest rate yields and necessary cash flow requirements. It is recognized that in normal market conditions, longer maturities produce higher yields. However, the securities with longer maturities also experience greater price fluctuations when the level of interest rates change.

Rebalancing – From time to time, the City Chief Finance Officer may find it necessary to adjust the average maturity, or cash flow of the City's investment funds. To this end, transactions may be considered which entail the sale of securities and the purchase of others. These transactions will be accomplished with no increase in either credit or market risk factors of the sold/purchased securities. A transaction that improves current and future investment yield may be selected even if a transaction results in an accounting loss. Documentation for rebalancing transactions will be included in the City's investment file documents.

Competitive Bidding – To ensure that the purchase of City investments is obtained in the most cost effective and efficient manner, the City Chief Finance Officer will encourage competitive bidding for City investment transactions. On an annual basis, the City Chief Finance Officer will accept applications from qualified members of the investment broker-dealer community interested in bidding on City investment instruments. The City Chief Finance Officer shall establish, on an annual basis, a limited array of qualified broker-dealers to serve the City's investment opportunities. Selection criteria for inclusion on the City's annual list of broker-dealers will be based upon merit, expertise, and performance.

All investment transactions except "new issue securities" will be conducted on a competitive basis which can be executed through a bidding process involving at least three separate brokers/financial institutions or validated through the use of Bloomberg. A new issue security denotes a security that is originally brought to market.

Competitive bidding for security rebalancing transactions is also suggested; however, it is understood that certain time constraints and broker inventory limitations exist which would not accommodate the competitive bidding process. If a time or inventory constraining condition exists, the pricing of the swap should be verified to current market conditions and documented for auditing purposes.

The City Chief Finance Officer shall maintain an Investment Procedures Manual to ensure the accurate and timely processing, clearance, and settlement of all City Investments. This manual provides current details with respect to operational procedures associated with the placement and clearance of all City Investments. To ensure the accuracy and timeliness of this Investment Procedures Manual, the manual will be reviewed on an annual basis by the City's independent auditors.

Credit Downgrade Provision

In the event any investment, including GSE issues, is placed on negative watch for a possible downgrade and/or downgraded, the City Chief Finance Officer shall immediately review the security(s) in question. The review shall consider whether a sale should take place based on such factors as expected rating, time to maturity, potential loss of principal, and the possible gain or loss should a sale take place, as well as the impact on the overall performance of the City's invested funds. Information regarding rating changes with respect to any investment, including placement on negative outlook, negative watch and/or downgrade, will be included in the Chief Finance Officer's Monthly Report.

XII. SAFEKEEPING OF SECURITIES

To protect against fraud, embezzlement, or potential losses caused by collapse of individual securities dealers, all securities owned by the City shall be held in safekeeping by a third party and all trades executed by a dealer will settle in City's safekeeping agent.

Upon purchase, sale, or maturity of investment securities, standing settlement instructions are provided to the servicing banks and broker/dealers involved in the transactions. Adherence to these standing settlement instructions ensures accurate and timely settlement of investment security transactions. Standing settlement instructions are restricted in nature, ensuring investment settlements are with established institutions.

XIII. INVESTMENT CONTROLS

The City Chief Finance Officer will maintain a system of internal investment controls and segregations of responsibilities of investment functions in order to assure an adequate system of internal control over the investment function. Investment controls shall include the establishment of an annual process of independent review of investment transactions by an external auditor. This review will provide internal control by assuring compliance with investment policies and procedures, the results of which will be presented to the City Council at a regularly scheduled Council meeting.

XIV. DELEGATION OF AUTHORITY

The Charter of the City of Gallup and the authority granted by the City Council assign the responsibility of investing unexpended cash to the City Chief Finance Officer. In the absence of the City Chief Finance Officer, the authority to execute investment transactions will be restricted to the Financial Services Director, after notification to the City Council.

XV. POLICY REVIEW

This Investment Policy shall be reviewed annually by the Chief Finance Officer's Oversight Review Committee (TORC) and the Fiscal & Chief Finance Officer's Review Group (F&TRG) to ensure its consistency with the overall objectives of preservation of PRINCIPAL, LIQUIDITY AND YIELD, its relevance to current financial and economic trends, and ability to meet the cash flow operational needs of the City. As part of the City Council's annual review of the City's Statement of Investment Policy, and in accordance with the requirements of the New Mexico Government Code, the City Council will adopt the City's Statement of Investment Policy, inclusive of amendments, on an annual basis.

XVI. INDEMNIFICATION OF INVESTMENT OFFICIALS

Any investment officer exercising his or her assigned authority with due diligence and prudence, and in

accordance with the City's Investment Policy, will not be held personally liable for any individual investment losses or for total portfolio losses.

XVII. ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) RESPONSIBILITIES

The City of Gallup recognizes its responsibility to positively impact society and that its portfolio is ultimately tied to the long-term sustainability of corporations and entities in which the City invests. While Safety, Liquidity, and Yield remain the City's primary investment objectives, all else being equal and acting under statutory investment limitations, the City affirms its commitment to the consideration of ESG criteria in evaluating securities.

While the City's portfolio is not formally classified as an ESG portfolio, the City encourages investments in entities that support the betterment of communities, while still fulfilling its fiduciary responsibilities under the prudent investor standard. Examples of considerations are as follows.

1. Encourage investments in entities that promote environmental stewardship, taking into account climate change, carbon emissions, pollution, biodiversity, deforestation, and food and water waste
2. Encourage investments in entities that value health and safety, including clean air and water, nutrition and human health, and protections for life, resources, and property
3. Encourage investments in entities that support fairness and treating people equally without discrimination related to sex, race, age, disability, color, religion, veteran status, genetic information, and other protected classes
4. Encourage investments in entities that provide customer satisfaction through high quality products, excellent service, value for money, and community relations initiatives
5. Encourage investments in entities that uphold good governance and respect for the law, through proper internal policies and controls, transparency, and protections for stakeholder rights
6. Encourage impact investing in the Gallup community through local banks and credit unions that can provide funds to homeowners and small businesses
7. No investments are to be made in bonds issued by foreign countries or foreign corporations that support terrorism and genocide

CITY OF GALLUP

Glossary of Investment Policy Terms

Accredited Investor: Under the SEC amendments, this refers to any entity, including Indian tribes, governmental bodies, funds, and entities organized under the laws of foreign countries, that own “investments,” as defined in Rule 2a51-1(b) under the Investment Company Act, in excess of \$5 million and that was not formed for the specific purpose of investing in the securities offered.

Accrued Interest: Interest earned but not yet received.

Active Deposits: Funds which are immediately required for disbursement.

Agencies: Agencies of the Federal government set up to supply credit to various classes of institutions (EG S&Ls, small business firms, students, farmers, housing agencies, etc.). Examples include Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB) and Federal Farm Credit Bank (FFCB).

Amortization: An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

Asked Price: The price a broker dealer offers to sell securities.

Bankers' Acceptance (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Basis Point: 1/100th of 1 percent of yield. If a yield increases from 8.25% to 8.50%, the difference is referred to as a 25 basis point increase.

Bear Market: A period of generally pessimistic attitudes and declining market prices.

Bid Price: The price a broker dealer offers to purchase securities.

Bond: A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Book Value: The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

Broker or Municipal Securities Broker: A Person or Firm which acts as an intermediary by purchasing and selling securities (in the case of a "municipal securities broker," municipal securities) for others rather than for its own account. For purposes of the Securities Exchange Act of 1934 the term does not include a dealer bank. The term is also colloquially used to refer to a municipal securities broker's broker.

Broker/Dealer: A general term for a securities firm which is engaged in both buying and selling securities on behalf of customers and also buying and selling on behalf of its own account. The term would not be used to refer to a dealer bank or a municipal securities broker's broker.

Bull Market: A period of generally optimistic attitudes and increasing market prices.

Callables: Securities that the issuer has the right to redeem prior to maturity.

Certificate of Deposit: A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CDs are typically negotiable.

Collateral: Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public monies.

Comprehensive Annual Financial Report (CAFR): The official annual financial report for the City. It includes combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP).

Constant Maturity Treasury (CMT): An average yield of a specific Treasury maturity sector for a specific time frame. This is a market index for reference of past direction of interest rates for the given Treasury maturity range.

Coupon: The annual rate of interest that a bond's issuer promises to pay the bond holder on the bond's face value.

Credit Analysis: A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

Credit Risk: Default Risk. The risk that an investor will not receive scheduled principal or interest payment. "Safety of Principal is foremost objective of Investment Program.

Current Yield: The interest paid on an investment expressed as a percentage of the current price of the security.

Delivery vs. Payment: Delivery of securities with a simultaneous exchange of money.

Demand Account: An account with a commercial bank from which check withdrawals may be made at any time.

Discount: The amount by which the par value of a security exceeds the price paid for the security.

Discount Security: A security which can be purchased for less than the par value.

Environmental, Social, and Governance (ESG): Refers to a set of standards for a company's operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

Federal Home Loan Banks (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

Governmental Accounting Standards Board: The independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments.

Liquidity Risk: The risk that funds will not be available for payments of liabilities without prematurely liquidating a security at a loss.

Local Agency Investment Fund (LAIF): The aggregate of all funds from political subdivisions that are placed in the custody of the State Chief Finance Officer for investment and reinvestment.

Market Value: The amount a seller may expect to obtain in the open market.

Market Risk: The risk that the change in value of a security or portfolio due to a change in the level of interest

rates will significantly change the market value of the security or portfolio.

Medium-Term Notes: All corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the U.S. or by depository institutions licensed by the U.S. or any state and operating within the U.S.

Money Market: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

Nationally Recognized Statistical Rating Organization (NRSRO): A rating organization designated by the SEC as being nationally recognized

Offer: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.)

Par: 100% of face value of a security.

Par Bond: A bond selling at its face value.

Placement Service Certificates of Deposit: Deposits placed at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of deposits.

Portfolio Duration: Indicator of the effect of an interest rate change on a bond price. The longer the duration, the greater the expected change in a portfolio's value when interest rates change.

Portfolio Yield: The percentage of interest earned on a portfolio of securities.

Premium: The amount by which the price paid for a security exceeds the security's par value.

Primary Dealer: A group of government securities dealers that serve as trading counterparties of the New York Fed in its implementation of monetary policy. This role includes the obligations to: (i) participate consistently in open market operations to carry out U.S. monetary policy pursuant to the direction of the Federal Open Market Committee (FOMC); and (ii) provide the New York Fed's trading desk with market information and analysis helpful in the formulation and implementation of monetary policy. Primary dealers are also required to participate in all auctions of U.S. government debt and to make reasonable markets for the New York Fed when it transacts on behalf of its foreign official account-holders.

Premium Security: A security that can be purchased at a price in excess of the par value.

Prudent Person Rule: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state-- the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

Qualified Institutional Buyer: With the SEC's amendments of Rule 144A, this includes any institutional investors under the accredited investor definition that are not otherwise enumerated in the definition of "qualified institutional buyer," provided they satisfy the \$100 million threshold.

Rebalancing: The process of realigning the proportions of assets in a portfolio as needed.

Reinvestment Risk: The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by the holding.

Repurchase Agreement (Repo): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate them for this.

Supranational Obligations (Supranationals): Development banks that share the same goal of providing an

improved standard of living in their member countries, but each having different mandates. There are three banks (supranationals) in which New Mexico local agencies can invest in their debt obligations: the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB).

Swap: The sale of one issue and the simultaneous purchase of another for some perceived advantage.

Treasury Bills: U.S. Treasury Bills which are short-term, direct obligations of the U.S. Government issued with original maturities of 13 weeks, 26 weeks and 52 weeks; sold in minimum amounts of \$10,000 in multiples of \$5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.

Uniform Net Capital Rule: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a minimum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

U.S. Government Agencies: Instruments issued by various U.S. Government Agencies most of which are secured only by the credit worthiness of the particular agency.

Yield: The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield Curve: The yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.

Yield to Maturity: The rate of income on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

MANUAL OF POLICIES AND PROCEDURES

SECTION 6

CAPITAL ASSETS

SATUTORY PROVISIONS

"The governing authority of each agency shall, at the end of each fiscal year, conduct a physical inventory of movable chattels and equipment costing more than five thousand dollars (\$5,000) and under the control of the governing authority. This inventory shall include all movable chattels and equipment procured under Section 15-3B-16, NMSA, 1978, also known as the "Property Control Act". Section 12-6-10, NMSA, 1978.

"Upon completion, the inventory shall be certified by the governing authority as to correctness. At the time of the annual audit the state auditor shall satisfy himself as to the correctness of the inventory by applying generally accepted auditing procedures." Section 12-6-10, NMSA, 1978.

"Each agency shall maintain one copy of its fixed asset inventory in its files." Section 12-6-10, NMSA, 1978. No inventory is required to be filed with any state office. "No agency shall be required to list any items costing five thousand dollars (\$5,000) or less." Section 12-6-10, NMSA, 1978.

The capital asset listing of land, buildings and building improvements, equipment and vehicles and construction in progress over \$5,000 is required by statute. However, **this amount limitation does not prohibit the preparation of an additional listing of equipment items costing less than five thousand dollars.** (A supplemental fixed asset listing for items less than \$5,000 is suggested). The listing maintains necessary control for "theft sensitive" items such as: tools, chairs, desks, bookshelves, computers, tables, recorders which may cost less than five thousand dollars. The supplemental fixed asset listing is advisable and often beneficial to safeguard assets against unauthorized use, and to prevent theft.

AUTHORITY

The General Services Department (GSD) through its Financial Control Division and its Property Control Division has the statutory responsibility to establish standards including a uniform classification system of inventory items, and to promulgate regulations concerning the system of inventory accounting for chattels and equipment required to be inventoried, and the governing authority of each agency shall install that system. (Section 6-5-2, NMSA 1978) The General Services Department of the NM State Purchasing Division (GSD) Rule 88-101, "Standard Fixed Asset Control and Accounting Regulations" establishes procedures for the control and accounting of all fixed assets of state agencies in New Mexico including the City.

POLICY

1. The City shall record additions to capital assets at the time acquired, and betterments of existing capital assets at the time the betterment is completed in the accounting records.
2. All capital assets of the City shall be reported in the City's Government wide Statement of Net position. Disclosure of additions and deletions must be included in the notes to the financial statements.
3. A listing for all capital assets must be maintained which includes the original fund acquiring the asset. Any activity for the year must balance with expenditures of the acquiring fund.
4. Capital assets shall be recorded at the time of acquisition at cost as determined by the amount paid for purchased assets or at the cost of construction for constructed assets, or at the estimated fair market value for donated capital assets.
5. Capital assets should be reported using the following asset classes:
 - Land
 - Construction in progress
 - Buildings
 - Misc. Improvements
 - Equipment
 - Infrastructure
6. The amount to be recorded as "Construction in Progress" (CIP) in the City's year-end Financial Statements should be determined each year. When construction is completed "Construction in Progress" should be reduced and the appropriate capital asset classification should be increased.

CAPITAL ASSET CONTROLS

Each Department shall establish controls over its capital assets in order to safeguard them and establish accountability for their custody and use. Such controls will apply to:

- **Authorization to Acquire Fixed Assets:** Procedures for requesting purchase and approval to purchase by management charged with determining that the purchase is consistent with the business objectives of the department, has been approved in the budget, and is economically reasonable.
- **Receiving purchases:** The individual receiving goods should be able to attest to the delivery, date of delivery, and condition of the goods received, but have no access to the accounting records.

- **Tagging the assets:** Newly received capital assets shall be tagged at the time they are received. Tags will be issued by Finance once the asset is delivered and received in the Financial Management System. Each tag shall have the City of Gallup with a unique fixed asset number so that each item may be positively identified.
- **Assigned Location:** The City shall record the assigned location of the capital assets. If the asset is reassigned, the new location should be updated in the capital asset record.
- **Fund and Department:** Capital assets must be associated with the fund that purchased them for the purpose of accurately reporting financial performance. If the asset is reassigned, the accounting records should be updated.
- **Individuals responsible for tracking use and location:** The City shall assign specific individuals to be responsible and accountable for tracking fixed assets within their Department. Individuals are properly trained regarding paperwork required to transfer assets and written procedures including forms are in place.

WHY AND HOW CAPITAL ASSETS ARE REPORTED

GASB 34 (Governmental Accounting Standards Board pronouncement 34) was implemented for governmental entities with fiscal year ending dates after June 15, 2001, requiring the reporting and depreciation of capital assets. The rationale is that capital assets have useful lives that extend beyond a single reporting period. A more accurate reflection of economic change from period to period is achieved by recording improved economic position when an asset is acquired and the subsequent deterioration as the asset is “used up” (depreciated).

Capital assets are acquired through purchase, capital lease, donation or construction. These acquisitions are accounted for as follows:

- In the City’s accounting records the purchase of a capital asset is charged as an expense to capital outlay and expensed in the City’s fund financial statements.
- Simultaneously, a record of these purchases is entered into a Capital Asset Schedule or listing to be used in preparing the Statement Net Position in the City’s annual financial statements. The Statement of Net Position does not recognize the monies expended to acquire the capital asset, but records the exchange of one asset (cash) for another (the capital asset) and recognizes an expense over the useful life of the asset as depreciation expense.
- Donated assets must be recorded at their fair market value and depreciated over their useful lives.

THE ACCOUNTING SYSTEM

HOW DOES THE CITY TRACK CAPITAL ASSETS?

Designing and establishing the capital asset accounting system of the City requires systematic planning in basic areas such as:

- Establishing the objectives of the capital asset system and making policy decisions that affect the establishment and maintenance of the system.
- Designing system to generate lists of capital assets in sequences useful for managing them.
- Designing the plan for taking inventory, verifying and testing the data.
- Determining when and how to implement controls over additions and deletions to the inventory.
- Fixing accountability for the custody of individual items and determining who is responsible for the care and maintenance of the inventory at various Departments.

THE CAPITAL ASSET RECORD

An adequate capital asset accounting system ensures the City will meet statutory requirements, produce records and reports, and properly guard assets. A policy on the dollar value at which capital assets will be included in the system is referred to as the “capitalization” policy. Consideration needs to be given to the uses of the system for insurance recoveries or other determinations of what is a permanent asset and what is a consumable. The capital asset record contains the information necessary to identify each item or lot in the inventory and may include but is not limited to:

- Record number identifying item by class and item number.
- Tag number affixed to asset.
- Description of the property identifying the category of the asset (land, building, transportation vehicles, or equipment, construction in progress), including legal descriptions of real property and improvements.
- A serial number or other identification number or information.
- Manufacturer name (not the vendor’s name, unless vendor is manufacturer).
- The source of property (purchased, constructed, or donated) including the fund and object code of the original expenditure entry.
- The acquisition, completion, or donation date.
- Reference to a source document (voucher/invoice, construction contract, trust agreement, etc.).
- The acquisition or construction cost of assets or the estimated fair market value of donated assets.
- Documentation of who holds title to the property.
- The location and condition of the property. The location should include specifically the Department and the custodian of that property.

- Special insurance, maintenance, and repair instructions.
- Disposition information on assets removed from inventory (date of disposal and sales price, lost, stolen, or surplus).
- Estimated life of assets for the City are as follows:

Asset Class	Years
Land	NA
Infrastructure	40
Buildings	40
Misc. Improvements	40
Equipment	6
Computers	5

MAINTAINING THE CAPITAL ASSET SYSTEM & INTERNAL CONTROLS

ACCOUNTING

The City should adopt appropriate policies and procedures that will ensure that assets that should be capitalized are properly recorded and records are adjusted when assets are disposed of or revalued.

It is important that the asset management system (AMS) is restricted to utilization by authorized personnel that have been adequately trained regarding capital assets. All entries must be reviewed and approved by CFO to prevent inaccurate data. A periodic review and reconciliation must be performed between the asset management system and the City's general ledger.

Standard data collection processes and periodic physical inventories ensure correct information is recorded in a reasonable time frame and provide a basis for reconciliation of accounting and inventory records.

Other than the acquisition and disposal of assets, other events that may require entries to the accounting system are location transfers, additional construction or demolition, and other improvements or changes in the physical appearance of the asset that should be reflected in its valuation. Changes as a result of theft, fire, water damage or other events should be noted. These adjustments should be recorded in the individual capital asset record. The internal control system should ensure that transactions are noted and recorded. If adjustments are numerous, a capital assets journal may need to be maintained to accumulate the database necessary for adjusting the general ledger and individual asset records.

Internal control and information flow regarding asset additions or deletions should ensure that the individual responsible for maintaining the capital asset records is included

in the process. Documents that may be required are receiving reports, invoices, lease agreements, progress billings on construction contracts, itemized work sheets of costs on self-constructed assets, board resolutions of declared surplus items, property insurance claims, etc.

Small attractive or theft sensitive assets such as computers and hand held electronic devices that are not capitalized according to federal minimums, but to which the City desires to apply a security control, will need similar internal controls and recording of information. When assets are transferred from locations or sites, or when they change internal ownership by department, the City should ensure these changes are communicated to the department responsible for the capital asset records.

RECONCILIATION OF CAPITAL ASSET RECORDS

Maintenance of the capital asset records requires that several reconciliations and reports will be performed and/or generated periodically through the year.

- Reconcile physical inventory to individual capital asset records.
- Reconcile individual capital asset records to general ledger accounts.
- Reconcile capital outlay expenditures to total additions in capital assets.
- Analyze expenditure object details for additions to lists of assets that are not capitalized.
- Reconcile significant capital grants to the investment in capital asset accounts.
- Analyze proceeds from insurance claims and sales or auction lists, claim reports, etc., to total capital asset disposals.
- Reconcile capital assets transferred to other locations, custody, or fund/account groups with assets transferred from other locations, etc.

PHYSICAL INVENTORY

During fiscal year, the City shall conduct a physical inventory of its fixed assets consisting of those with a historical cost of five thousand dollars (\$5,000) or more.

A physical inventory of capital assets verifies the existence and the condition of the asset. The inventory is useful in determining the value of the asset, both for market value and financial reporting purposes.

Department Heads or their designee will be responsible for completing the inventory by the deadline established by Finance each fiscal year. Department Heads or their designee should have the proper training, skills, and knowledge to conduct the annual inventory.

A systematic checklist approach should be employed to ensure that locations are not missed or duplicated in the inventory process. Procedures should instruct the staff about processes to employ when locating assets that appear to meet the capitalization policy but do not appear on the prelists. Procedures should also include clear instructions on how to record observations about the condition of assets.

Internal control guidelines should be employed in determining who will conduct the inventory to ensure that whoever has day-to-day custody of the asset is not the individual conducting the inventory. If the practical situation calls for the custodian of the asset to take the inventory, then the inventory results should be spot-checked for accuracy by the Department Head or another qualified individual.

Completed inventory records should be reconciled to the individual capital asset records. If the inventory process is conducted on a routine periodic basis, then the prelists would have been reasonably accurate and up-to-date, resulting in the reconciliation concerning itself with:

- Identifying those assets that were not added to or deleted from the capital asset records at the time of their acquisition or disposal, and
- Investigating and making a final determination of assets not located. Other reconciliations mentioned in the prior section on accounting for capital assets might also need to be conducted as a result of the physical inventory.

The results of the physical inventory shall be recorded in a written inventory report, certified as to correctness and signed by the governing authority of the City.

DEPRECIATION OF CAPITAL ASSETS

Depreciation of capital assets is required under GASB 34 for all fund types for City.

The City will depreciate all capital assets using the straight-line method using the useful lives prescribed by GASB 34. (See estimated useful lives)

General guidelines regarding the recording of depreciation on capital assets are:

- Depreciation of capital assets is required for the preparation of the Statement of Net Assets required in the City's government wide financial statements.
- Scrap value can be ignored in establishing the amount to depreciate, unless it is expected to exceed 10 percent of the original cost of the asset.

- Depreciation must be based on a reasonable estimate of the length of time that the City expects to use the asset in its operations.
- An asset that is declared surplus or is held for possible future use is an investment and should not be depreciated.
- The amount of depreciation charged must be constant for each time period, called the straight-line depreciation method, or for each unit of service such as quantity of output, hours or miles of operation, etc.
- Depreciation must be based on the entire cost of the asset including any donated or contributed amounts.
- When it is necessary to revise the estimates of useful life of an asset, such changes should be applied prospectively. The rate should be recalculated based on the remaining useful life at the time of the revision, and the new rate should be applied in the present and future accounting periods with no changes made to prior periods.
- All useful life, in service dates and depreciation conventions must be approved prior to calculating depreciation. The asset management system should compute depreciation automatically and compute totals to be entered into the City's financial statements.

VALUATION OF PROPERTY AND EQUIPMENT

Generally accepted accounting principles require the use of "historical cost" to measure an entity's investment in property and equipment.

Historical cost simply means actual cost at the time of acquisition. It includes the invoice cost of the item plus any applicable sales tax, freight, consultant fees, architects, construction contractors, installation charges or any other costs related to acquiring the assets or preparing the asset for use. Such cost represents the value to be derived over the useful life of the asset through depreciation. When items are disposed of in any manner, their cost is removed from the capital asset account. Any accumulated depreciation is also removed from the depreciation allowance account.

Valuation of existing inventory of property and equipment can be made on the basis of:

ACTUAL HISTORICAL COST of each item (if records are available to support such costs)

- The actual cost should include the invoice cost paid by the City plus tax, freight charges, or costs of other forms of transportation for delivery to the City, whether added to the invoice or paid separately to a carrier. To these costs the City should add any labor and other costs of installation. Labor and other costs of installation

by the vendor will usually be included in the original invoice price or may be billed separately by the vendor.

ESTIMATED HISTORICAL COST (based on date of acquisition)

- Appraisal companies have the ability to compute the estimated historical cost on the basis of the estimated date of acquisition of the particular items. Costs developed in this manner are acceptable in either establishing a new inventory or adding to the inventory items that may have been missed in the establishment of the initial inventory. Once the inventory listing is established, it is necessary to update it for current year purchases and disposals of capital assets.
- Reasonable estimate of acquisition cost. If the original acquisition cost cannot be traced through the City's records, a reasonable estimate of original acquisition cost may be used. Methods of determining such reasonable estimates of cost are many and varied. It is important for auditing purposes that the methods employed be carefully documented, stating the method used, rationale for the decision and City's approval as stated in the board minutes. While it is not necessary to use the same method for each item, the methods should be designed to produce a consistent result. Care should be exercised in the establishment of each item's cost. Among the methods that may be employed are the following:
 - a) Compare the item with a similar one of more recent acquisition for which a price exists. Adjust that price through a formula that would eliminate the effect of inflation/deflation for the number of years the older item has been owned.
 - b) Research bid files for bids on similar items and apply any necessary inflation adjustments.
 - c) Seek assistance from vendors who manufacture or sell items similar to the items you are attempting to price.
 - d) Check with other Agencies that may have purchased similar items.

In accepting donated items, the CFO should approve the valuations based on their fair market values as of the dates of acceptance and properly record these items on the capital asset listing.

CONSTRUCTION IN PROGRESS

As a project of the City is constructed, the cumulative expenditures are captured on the Capital Assets Schedule tagged to indicate "Construction in Progress" (CIP). All costs related to the project to date are captured on the schedule. Depreciation will not start until all costs for the project are entered and the project is accepted and placed in use. The resources used in the acquisition or construction of the project are considered expenditures of the Capital Project Funds and are recorded as they occur.

When the project is completed and ready for operations, the balance in the construction-in progress account is transferred to the appropriate descriptive account title, within the schedule, such as land and improvements and/or building and improvements.

SUPPLY ASSETS

Since it is important that separate inventory accountability be maintained for the two lists, it is suggested that two Expenditure Object Codes for Capital Assets be maintained for all funds:

- 48. Capital Assets (\$5,000 and over)
- 44. Non-Capital (Supply) Assets (under \$5,000)

No equipment item should be placed into use until it is properly tagged by the responsible person and recorded on the capital asset schedule. Care should be taken that tags are not easily removed and that the proper tag is placed on each item as it is received.

SUPPLIES VS. EQUIPMENT

One of the purposes of this supplement is to provide guidance for distinguishing between supplies and equipment. Guidance consists of criteria for classifying an item as a supply, criteria for classifying an item as equipment, and a delineation of built-in equipment.

CRITERIA FOR SUPPLY ITEMS

Any article or material which meets any one or more of the following conditions:

- It is consumed in normal operations.
- It loses its original shape or appearance with use.
- It is expendable. If the article is damaged or some of its parts are lost or worn out, it is usually more feasible to replace it with an entirely new unit rather than repair it.
- It is an inexpensive item having the characteristics of equipment whose small unit cost makes it inadvisable to capitalize the item.
- It loses its identity through incorporation into a different or more complex unit or substance.

CRITERIA FOR EQUIPMENT ITEMS

An item that is moveable or a fixed unit of furniture or furnishings, an instrument, a machine, an apparatus, or set of articles which meets all of the following conditions:

- It retains its original shape and appearance with use.
- It is non-expendable, in that if the article is damaged or some of its parts are lost or worn out, it is usually more feasible to repair it rather than replace it with an entirely new unit.
- It represents an investment of money which makes it feasible and advisable to capitalize the item.
- It does not lose its identity through incorporation into a different or more complex unit or substance.

BUILT-IN EQUIPMENT consists of two types: 1) equipment built into buildings and 2) equipment built into grounds. Expenditures for these two types of built-in equipment are recorded under different accounts.

1) Equipment built into buildings consists of equipment items that are integral parts of the building. That is, the equipment is permanently fastened to the building, functions as part of the building, has a useful life approximately equal to that of the building, and causes appreciable damage to the building if removed. Expenditures for initial, additional or replacement equipment built into buildings are recorded under Capital Outlay Expenditure Object Code 48.10.

Expenditures for repairs of such equipment are recorded under expenditure Object Code group 44.10. Examples of built-in equipment are: counters, shelving, and service systems such as air conditioning, heating, lighting, intercommunications and water systems.

2) Equipment built into grounds consists of equipment items that are permanently attached to the grounds and functions as part of the grounds. Expenditures for initial, additional, or replacement equipment built into the grounds are recorded under Capital Outlay Expenditure Code 48.45, Land Improvements. Expenditures for repairs of such equipment are recorded under Expenditure Object Code group 44.90. Examples of built-in equipment are: flagpoles, gates, lawn sprinkling systems, and underground storage tanks which are not a part of a service system.

INVENTORY POLICY

1. All Inventory items will only be delivered to Warehousing with the exception of the Vehicle Shop.
2. Upon arrival inventory items will be immediately unpack, and reconciled to the purchase order.
3. If items match the purchase order, items will be inventoried, and the vendor invoice will be approved for payment. (Note: Items that do not have a valid purchase order will not be accepted and will be immediately returned to vendor (with the exception of automatic reorder points). In the unusual and infrequent event extra items are included that do not match the purchase order the department head can have the option to accept the items by creating a change order).
4. Automatic reorder points will be continuously monitored by department heads, to adjust for seasonal activity, various projects, and be aimed at providing the city its inventory needs at the lowest possible inventory levels.
5. All departments must complete two inventories, one for fixed assets having an acquisition value of \$5,000 or more and one for departmental inventory.
6. The annual inventory count's will be completed and turned into the finance department before June 30 of every year.
7. To obtain inventory a stock requisition must be filled out and approved by the department head requesting the inventory. Upon approval of the stock requisition the inventory will be issued and expensed to the requesting department.
8. Department heads should continuously monitor inventory for obsolete items. Once obsolete items are identified a stock requisition should be created, and the inventory items should be expensed to obsolete inventory expense.
9. Before an asset disposition or auction a notice of sales must be posted two times in the local newspaper. Each posting must be a minimum of seven days apart before the assets are sold.

MANUAL OF POLICIES AND PROCEDURES

SECTION 7

CASH CONTROLS

PURPOSE

The City must establish internal controls over cash and cash equivalents to insure that assets are protected and are accounted for in a professional and timely manner. The controls need to reflect the COSO Standards 1994 report issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and standards adopted by the American Institute of Certified Public Accountants and the federal Office of Management and Budget. There are variations in the controls needed depending on the process required by the size and complexity of the governmental originations and its susceptibility to waste, fraud and abuse.

DIVISION OF DUTIES

Segregation of incompatible duties will be implemented in the City. Implemented effectively, this control reduces the risk that any employees will be able to carry out and conceal errors or fraud in the normal course of their duties without being detected. In general, there are three categories of duties or responsibilities that are examined when segregation of duties is discussed:

- Custody of assets.
- Authorization or approval of transactions affecting those assets.
- Recording or reporting of related transactions.

Ideally employees performing any one of the above functions would not also have responsibilities in either of the other two functions. The objective of segregation of duties is to prevent one person from having access to assets and responsibility for maintaining the accountability or authorizing transactions affecting those assets. The level of risk present should also be considered when developing a plan to segregate incompatible duties. When a high level of risk is present (e.g., when dealing with negotiable assets such as cash, negotiable checks, and inventories), there is a greater need for proper segregation of duties.

The responsibilities for cash receipts and cash disbursements are separate whenever feasible. Likewise, the responsibilities for preparing checks and approving checks is separate from the recording or entering of invoices in accounts payable and the general ledger. Users of automated Financial Management Systems may set up routing and approval criteria in the security section of the system to ensure that approvals are obtained by authorized personnel. In governmental systems, the budget and encumbrances to the budget present additional internal controls over spending. Therefore budgets and encumbrances must be maintained and updated.

COLLECTION AND DEPOSIT OF FUNDS

The responsibility for collection and deposits is separate from the recording of cash receipts and general ledger entries. The City designates an employee who does not have general ledger responsibilities or access to the Financial Management System (FMS) to prepare a daily log to record all receipts. Funds should be receipted with either pre numbered receipts by the person collecting the money, or on a cash register or register linked to the FMS. Initial collections may be tracked by roster, ticket sales, or sub receipts. Deposits should be prepared by a cash custodian other than the person collecting the funds or running the cash register and deposited daily at a local bank in accordance with the 24 hour rule. (6.20.2.14, NMAC) During bank reconciliation process, deposit amounts are compared with the cash receipt entries to verify timeliness of deposits. Any unexplained differences should be thoroughly investigated and corrective action taken immediately.

Further separation of duties may be affected if there is a separate employee designated to deposit funds, which have been secured in a tamper proof bag, and sent directly to the bank or given to a money carrier. Validated deposit amounts are compared to depositor prepared deposit slips daily, and all receipts are posted immediately upon receipt. Daily cash receipts are compared to the bank statement to verify timeliness of deposits by the person in the finance department completing this task to create an audit trail. All cash should be kept in a secure location prior to deposit in the bank.

Checks are identified on the deposit slip by maker and amount. If a receipt is voided, all copies shall be marked "VOID" and retained in the daily balancing records. They shall be made available to the City's IPA during the annual audit. Auditors may check the Cash Receipts Journal to verify that there are no missing receipt numbers or skips in the sequence compared to deposit dates to verify that procedures are being followed.

DISBURSEMENT OF FUNDS

Payment for goods and services

A Purchase Order must be submitted and approved by authorized persons before goods, services or merchandise is ordered. The Financial Management System should not allow a purchase order if there is not sufficient budget in the account code string being charged.

Cash disbursements shall be for the following transactions: (1) invoices for goods and services received, (2) disbursements for employment of casual or other labor not under contract, (3) disbursements for contracts (other than payroll), (4) contracted payroll disbursements, and (5) requests for reimbursements.

Disbursements and supporting documents shall include, but not be limited to the following:

- approved purchase order

- bona fide invoices
- purchase order receiving copies that bear the signature of the City employee responsible for receiving supplies, equipment and services, as required by the Procurement Code, Section 13-1-157, NMSA, 1978;
- the signature of the employee who certifies that the payment demand invoice has been examined, footed and cross footed to ensure that amount requested is proper and justified, and that all items of justification for payment are made in order as required by Section 6-5-8, NMSA, 1978;
- bid proposals, or reference to bid proposals, quotations, contractual agreements, state purchasing office or General Services Administration (GSA) agreements, travel reimbursement requests that indicate dates, time of departure, time of arrival, mileage readings, and any other items of justification for payment ;
- accounts payable documentation such as “closed” purchase order or “open” purchase order for only the remaining amount due in order to prevent duplicate payments.

MINIMUM CASH BALANCE

The City’s policy for maintaining a minimum amount of cash for operations is to minimize any sudden and unplanned discontinuity to programs and operations and for unforeseen contingencies. The City will maintain the following cash balances based upon either expenditures for the budget year, a specific dollar amount or specific operating days based upon expenditures for the budget year:

General Fund 20%
 Environmental Surcharge \$500,000
 Lodger’s Tax \$500,000
 Gas Tax \$500,000
 Infrastructure GRT \$500,000
 Vehicle Replacement Fund \$500,000
 Solid Waste 180 days
 Navajo Gallup Fee 180 days
 Water 180 days
 Electric 180 days
 Waste Water 180 days
 Risk Management \$2,000,000

Any proposals for spending will take these minimums into consideration so that we do not fall below these amounts.

Please note at this time that water and waste water are below these amounts and rate increase requests are pending and will be presented for approval to bring the cash on hand up to the appropriate level.

CASH MANAGEMENT

The City has a written cash management plan that includes an annual budget that is updated and maintained monthly. The CFO should be competent to analyze monthly reports that are presented in a format that meets state and City guidelines. The plan should encompass a monitoring mechanism to ensure that management is able to quickly recognize changing conditions and is able to take appropriate action to mitigate the risk. Such changing conditions could include such conditions as a change in the unit value, a change in the funding formula, a change in the reimbursement process from the federal or state governments, a change in the GRT tax or an emergency situation requiring unplanned use of cash.

Each fund must be accounted for in a separate self-balancing set of accounts for its assets, liabilities, equity, revenues, expenditures or expenses (as appropriate), and transfers. This requirement refers to identification of accounts in the accounting records but does not necessarily extend to physical segregation of assets or liabilities. For example, ***it is not necessary to have a separate bank account for each fund unless required by law, bond indenture, or other reason.*** Effective general ledger control minimizes the need for multiple bank accounts. Bank accounts should be kept to a minimum number in order to minimize unnecessary transfers between bank accounts and confusion in the accounting records.

It is imperative to good internal control that all financial transactions are recorded immediately. No “manual” checks will be allowed, but rather control procedures should be in place to fully utilize features in the Financial Management System. All procedures should be followed by properly voiding or correcting errors with journal entries. Any departure from these procedures should be noted in the evaluation of the internal controls for cash and corrective action should be taken.

CASH RECONCILIATION TO BANK BALANCES

Each calendar month every bank used by the City will supply bank statements for all City accounts either electronically or by mail. If no errors were made by the bank or the City, if all deposits made and all checks drawn by the City reached the bank within the same month, and if no other transactions occurred that affected either the City or the bank's record of cash, the balance of cash reported by the bank to the City should be the same as that shown in the City's own records as of the same point in time. Thus, comparison of the balance shown on the bank statement with shown in the City's own records should verify the latter.

For various reasons, the condition listed above seldom occurs. In most cases, checks issued by the City close to the end of the month do not reach the bank within the same month; deposits made by the City on the last day of the month may not be recorded by the bank until the following month; and such items as service charges by the bank or interest earned are not brought to the attention of the City until the bank statement is received by the City. Hence, there are differences between the City's record of cash and

the bank's record requiring a reconciliation to determine the nature of the differences between the two amounts.

Bank reconciliation is a schedule indicating and explaining any differences between the bank's and the City's cash records. If the difference results only from transactions not yet recorded by the bank, the City's record of cash is considered correct. However, if some part of the difference arises from other items, an adjustment of either the banks or the City's records is required.

The City's Financial Management Systems provide an efficient and accurate bank reconciliation tool, if used in its entirety. The automated bank reconciliation requires listing any adjustments made to the accounting records such as journal entries that are not a result of either deposits or disbursements coming from either the cash receipts journal or the disbursement (Accounts Payable or Payroll Payable) journal. A large number of adjustments may indicate an internal control problem exists. Care must be taken that the criteria and bank accounts are set up correctly in the system.

A widely used form, entitled Reconciliation of Bank and Book Balances, is composed of two distinct sections. One section begins with the balance on the bank statement and works to a balance the bank statement would show if all transactions were recorded. The second section starts with the balance shown by the City's records and works to a balance after all transactions are recorded properly, so that the adjusted bank balance is the same as the adjusted book balance.

Adjusting entries are required to record items properly recognized by the bank but not yet recorded per the books.

CASH ADVANCE

Approval for out-of-town travel advances per pages 44-54 must be obtained according to City's policy from the Department Manager and Department Head, with additional approval of the City Manager for all out of state travel. A Travel Approval and Reimbursement Request form for permission to travel must be completed before the trip and reconciled no more than 15 days after the trip with all receipts attached. The City has a reimbursement policy that is strictly followed to meet IRS regulations. A reimbursement that is requested that does not comply with policy will be denied in order to not jeopardize the City's position with IRS regarding the reporting of travel reimbursements. Uniform application of City policy is necessary so that there is no question or appearance of partiality to a particular employee.

INTER-FUND CASH TRANSFERS

Inter-fund transfers of cash among separate funds of the City are not receipts or expenditures of the City. Such transactions are temporary or permanent transfers of previously receipted cash from one fund to another.

TEMPORARY INTER-FUND TRANSFERS

Temporary inter-fund transfers are transfers of cash from one fund/sub fund to another. Most transfers of this type are temporary cash loans to be repaid at a predetermined date that is approved by the Governing Board, but no later than one year from the approved transfer. Accounts utilized are "due from" and "due to" accounts to indicate inter-fund receivable(s) and payable(s).

PERMANENT INTER-FUND TRANSFERS

Permanent inter-fund transfers are transfers of cash from one fund to another that will not be returned to the fund that provided the cash. Permanent inter-fund transfers should be approved in the City's budget by the Governing council and submitted to the DFA.

On an annual basis all unexpended general fund approved expenditure budget cash will be transferred to a vehicle and equipment replacement fund based upon period 12 financial reports. This amount will be presented to the Council in the subsequent year for budget and transfer approval prior to movement of the funds. The full amount available will be transferred to the vehicle replacement fund up to a fund balance of \$2,500,000. The balance will be calculated using the vehicle replacement fund fiscal year beginning balance plus the transfer less current approved expenditures. Any funds above this amount will be transferred into a separate fund to be utilized for capital improvement projects.

CORRECTION OF POSTING ERRORS

Posting errors are usually found when the City performs the bank reconciliation process. All errors to cash should be investigated by the CFO before the posting of an adjusting entry. An adjusting journal entry should be proposed and approved by the CFO personnel to be posted to the City's General Ledger to indicate necessary corrections. Cross referencing a correcting entry to the original error should be inserted under the "Description" column of the entry. An example notation would be "To correct JE # 345". All Adjusting Journal Entries should be printed and compiled in numerical order in a file for the fiscal year to be reviewed by the City's IPA.

ISSUING DUPLICATE CHECKS

If the original check has not cleared the bank a stop-payment should be filed before any duplicate is issued and the party applying for the duplicate shall file with the fiscal officer of the City an affidavit which shall state that the original check has been lost or destroyed or was never received. Please refer to Section 6-10-60, NMSA, 1978.

Each check issued by City shall have printed on its face the words, "void after 90 days". Refer to Section 6-10-57(F) NMSA, 1978. Whenever any warrant/check is unpaid for one

year after its date, the fiscal officer shall cancel it in accordance with Section 6-10-57(A), NMSA, 1978. The finance department shall keep a register of all canceled checks. The register shall show the number, date and amount of each warrant/check, the name of the payee, the fund out of which it was payable and date of cancellation, in accordance with Section 6-10-57(B), NMSA, 1978. The face amount of each check canceled shall revert and be credited to the fund against which the check was drawn. The entries shall be made to the City's General Ledger in a timely manner. A control procedure should be written and checked for compliance.

CITY POLICY

This listing includes control procedures of the City to affect Internal Control over the Cash and other liquid assets of the City. While the finance department maintains the ultimate control over these assets, there are multiple persons and departments involved in both the Revenue Cycle and the Expenditure Cycle. Thus it is important to detail the processes necessary to protect the assets of the City.

DIVISION OF DUTIES

- Persons processing requests for reimbursements from the state and federal government are separate from those receiving and posting receipts.
- Persons approving requests for reimbursement shall not make general ledger entries.
- Bank reconciliations are prepared by persons independent of cash receipt responsibilities.
- The purchasing and receiving functions are separate.
- The purchasing and inventory functions are separate.
- Accounts payable is separate from purchasing and receiving.
- Accounts payable and general ledger functions are separate.
- Administrative review exists over all receipts and expenditures.

GENERAL CASH RECEIPTS AND COLLECTIONS

- The City maintains policies and procedures for the handling of cash in each department.

- All City employees handling cash must be familiar with cash handling policies and sign an affidavit that they have read and understand the policies, and agree to abide by those policies.
- The finance department will compare the bank receipt to the daily cash reports in every accountable unit and trace to the recording of amounts in the FMS.
- Daily deposits are sent by courier in sealed bank bags.
- Cash drawers are reconciled daily.
- Cash over and short explanations are in writing and signed.
- Checks are restrictively endorsed.
- There is a daily reconciliation of cash receipts.
- Cash is deposited daily.

GENERAL REVENUE CYCLE CONTROLS

- All expected revenue is properly and timely budgeted in the City's general ledger.
- All reimbursement requests are submitted on a timely basis.
- Loans between funds are monitored and minimized by good cash flow control practices.
- Pre-numbered receipts are used to receipt cash received at remote sites or by accountable units within the City.
- The finance department will monitor the receipt books and deposit slips submitted by each the accountable units to insure that all receipts are timely deposited and that there are no missing receipts.

GENERAL EXPENDITURE CONTROLS

- An authorized vendor list is used and vendors are properly approved before being placed on the list.
- Vendor history is maintained/verified and used for inclusion on an authorized vendor list.
- Purchase requisitions are properly authorized.

- Purchase orders are used and are properly authorized.
- Purchase requisitions and purchase orders are pre-numbered.
- All vendors are instructed to send invoices bearing the purchase order number directly to the accounts payable department.
- All vendors are instructed not to accept orders without a purchase order number.
- Accounts payable verifies the mathematical accuracy of vendor invoices.
- The requested payment transaction journal is approved by the CFO or Accountant prior to checks being printed.
- Supporting documents are attached to invoices submitted for payment approval.
- Check controls are in place.
- Manual checks are not used.
- Finance and purchasing staff are required to take vacations.
- The purchase order, receiving report, and vendor invoice are matched prior to invoice entry.

MANUAL OF POLICIES AND PROCEDURES SECTION 8

BUDGET PLANNING, PREPARATION AND MAINTENANCE

PURPOSE

The purpose of the City's Operating Budget is to provide a statement, expressed in financial terms, that serves as the primary tool for planning and controlling operations. To achieve this basic purpose, a comprehensive budget must be integrated with the City's Financial Management System (FMS) to ensure that objectives of planning, coordinating, evaluating, and controlling are attained. The primary objectives of the budget system are to:

- Assist the formulation of an integrated plan of operations and the understanding of how each of the City's department contributes to the overall mission.
- Provide a means of communication between the various levels of management by stating the objectives of each department or fund within the City and the resources necessary to achieve them. It also provides a means of justifying the overall budget.
- Integrate with the accounting systems to reflect expenditures and commitments to date and the balance of resources available.
- Provide a means of measuring and guiding performance by comparing planned (budgeted) revenues and expenditures against actual revenues and expenditures.
- Support and reflect the City's financial forecast plan.
- Provide historical data required for realistic budget preparation.
- Provide state and federal entities crucial data relative to the levels of legislative appropriations and federal funding to address the needs of City's residents.

FISCAL YEAR

The period covered by the official Operating Budget is a fiscal year. The fiscal year is defined as a twelve month period, beginning July 1 and ending June 30, to which the annual Operating Budget applies.

STATUTORY AUTHORITY

6-6-2 NMSA 1978 Local Government Division Powers and Duties

The local government division of the Department of Finance and Administration has the power and duty in relation to local public bodies to:

- A. Require each local public body to furnish and file with the division, on or before June 1 of each year, a proposed budget for the next fiscal year;
- B. Examine each proposed budget and, on or before July 1 of each year, approve and certify to each local public body an operating budget for use pending approval of a final budget;

- C. Hold public hearings on proposed budgets;
- D. Make corrections, revisions and amendments to the proposed budgets as may be necessary to meet the requirements of law;
- E. Certify a final budget for each local public body to the appropriate governing body prior to the first Monday in September of each year. The budgets, when approved, are binding upon all tax officials of the state;
- F. Require periodic financial reports, at least quarterly, of local public bodies. The reports shall contain the pertinent details regarding applications for federal money or federal grants-in-aid or regarding federal money or federal grants-in-aid received, including details of programs, matching funds, personnel requirements, salary provisions and program numbers, as indicated in the catalog of federal domestic assistance, of the federal funds applied for and of those received;
- G. Notify the secretary of finance and administration if a municipality or county has failed to submit two consecutive financial reports required by Subsection F of this section;
- H. Upon the approval of the secretary of finance and administration, authorize the transfer of funds from one budget item to another when the transfer is requested and a need exists meriting the transfer and the transfer is not prohibited by law. In case of a need necessitating the expenditure for an item not provided for in the budget, upon approval of the secretary of finance and administration, the budget may be revised to authorize the expenditures;
- I. With written approval of the secretary of finance and administration, increase the total budget of any local public body in the event the local public body undertakes an activity, service, project or construction program that was not contemplated at the time the final budget was adopted and approved and which activity, service, project or construction program will produce sufficient revenue to cover the increase in the budget or the local public body has surplus funds on hand not necessary to meet the expenditures provided for in the budget with which to cover the increase in the budget; provided, however, that the attorney general shall review legal questions identified by the secretary arising in connection with such budget increase requests;
- J. Supervise the disbursement of funds to the end that expenditures will not be made in excess of budgeted items or for items not budgeted and that there will not be illegal expenditures;
- K. Prescribe the form for all budgets, books, records and accounts for local public bodies; and
- L. With the approval of the secretary of finance and administration, make rules relating to budgets, records, reports, handling and disbursement of public funds or in any manner relating to the financial affairs of the local public bodies.

6-6-5 NMSA 1978 Record of Approved Budget.

Upon receipt of any budget approved by the local government division, the local public body shall cause such budget to be made a part of the minutes of such body.

6-6-6 NMSA 1978 Approved Budgets; Claims or Warrants In Excess of Budget; liability.

When any budget for a local public body has been approved and received by a local public body, it is binding upon all officials and governing authorities, and no governing authority or official shall allow or approve claims in excess thereof, and no official shall pay any check or warrant in excess thereof, and the allowances or claims or checks or warrants so allowed or paid shall be a liability against the officials so allowing or paying those claims or checks or warrants, and recovery for the excess amounts so allowed or paid may be had against the bondsmen of those officials.

6-6-9 NMSA 1978 Limitation On Municipal Expenditures During Year Officials' Terms Expire.

It shall be unlawful for the governing board or council of any city, town or village in the state of New Mexico to disburse, expend or contract for the expenditure of more than the proportionate share of the fiscal year budget during any fiscal year in which the terms of office of such officials will expire, as the number of months such officials are in office bears to the entire fiscal year.

6-6-10 NMSA 1978 Violation of Expense Limit; Penalty.

Any member of any board of county commissioners, or of any entity, or of any governing board or council of any municipality, or any other official who shall violate the provisions of Sections 6-6-7 through 6-6-10 NMSA 1978 [6-6-7, 6-6-9 and 6-6-10 NMSA 1978] shall be deemed guilty of a misdemeanor, and upon conviction thereof shall be punished by a fine of not more than five hundred dollars (\$500) or by imprisonment for not more than six months or both [and] upon conviction under the section the position shall be declared vacant. Any official whose duty it is to allow claims and issue warrants therefor, who issues warrants or evidences of indebtedness contrary to the provisions of Sections 6-6-7 through 6-6-10 NMSA 1978 [6-6-7, 6-6-9 and 6-6-10 NMSA 1978] shall be liable to his respective county, school district or municipality for such violations and recovery may be made against the bondsmen of such official.

6-6-11. Yearly Expenditures Limited to Income; Bateman Act.

It is unlawful for any board of county commissioners, municipal governing body or any local school board, for any purpose whatever to become indebted or contract any debts of any kind or nature whatsoever during any current year which, at the end of such current year, is not and cannot then be paid out of the money actually collected and belonging to that current year, and any indebtedness for any current year which is not paid and cannot be paid, as above provided for, is void. Any officer of any county, municipality, school district or local school board, who shall issue any certificate or other form of approval of indebtedness separate from the account filed in the first place or who shall at any time use the fund belonging to any current year for any other purpose

than paying the current expenses of that year, or who shall violate any of the provisions of this section, is guilty of a misdemeanor.

6-6-12. Exemptions from Bateman Act.

Insurance contracts not exceeding five years, joint projects between two or more local public bodies not exceeding five years, lease-purchase agreements, lease agreements, contracts providing for the operation or provision and operation of a jail by or with another local public body or by an independent contractor entered into by a local public body set out in Section 6-6-11 NMSA 1978 and guaranteed energy savings contracts and installment payment contracts or lease-purchase agreements pursuant to guaranteed energy savings contracts are exempt from the provisions of Section 6-6- 11 NMSA 1978, and such contracts, lease-purchase agreements, lease agreements and jail contracts are declared not to constitute the creation of debt.

OPERATING BUDGET – PREPARATION

The Operating Budget should be prepared by the City Manager with the assistance of Finance who should have the expertise to 1) technically construct and place budget appropriations, and, 2) perform necessary research to provide reliable estimates, 3) manage the activity, fund, program, or location related to specific budget allocations and; 4) ensure designated cash appropriations do not exceed available cash balance. These functions should closely follow Department of Finance & Administration (DFA) and all federal and state requirements.

Once the Operating Budget is prepared it should be reviewed by all Department Heads who should understand and follow the budgeted expenditure guidelines and discuss with the CFO any expenditure requests.

The budget then should be approved by the City Council before June 1 of every fiscal year.

OPERATING BUDGET – SUBMISSION GUIDELINES

Section 6-6-2 A NMSA 1978. Budgets; submission

On or Before June 1 of each year, the City shall submit to the DFA an operating budget for the City for the ensuing fiscal year.

DESIGNATED CASH APPROPRIATIONS IN EXCESS OF AVAILABLE CASH BALANCE PER SECTION 6-6-1 NMSA (THE BATEMEN ACT)

During the budget preparation process the CFO will be responsible to ensure that if budgeted expenditures exceed budgeted revenues that there is available cash to cover the differences in budgeted expenditures in excess of budgeted revenues. This area will be tested by the City's Independent Public Accountant during the year-end audit and can result in audit findings is cash balances are not sufficient to cover the differences between revenues and expenditures.

ANNUAL REPORTING

All governmental and proprietary fund budgets are required to be audited and disclosed in the financial statements every fiscal year. The following is an example of the general fund budget disclosure that is required in the annual audit:

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final	Non-GAAP Basis	Final to actual
Revenues				
Taxes:				
Property Taxes	\$ 2,354,528	\$ 2,354,528	\$ 2,234,583	\$ (119,945)
Gross receipts	21,175,000	21,175,000	18,135,545	(3,039,455)
Gasoline and Motor vehicle	138,000	138,000	135,853	(2,147)
Other	-	-	-	-
Franchise tax	1,600,000	1,600,000	1,577,196	(22,804)
Intergovernmental income:				
Federal operating grants	-	68,015	30,984	(37,031)
Federal capital grants	-	-	-	-
State operating grants	20,000	250,116	183,450	(66,666)
State capital grants	-	-	-	-
Charges for services	719,000	3,400,000	3,438,885	38,885
Licenses and fees	252,500	252,500	218,011	(34,489)
Interest income (loss)	400,000	400,000	233,371	(166,629)
Miscellaneous	353,250	376,121	588,440	212,319
Total revenue	<u>27,012,278</u>	<u>30,014,280</u>	<u>26,776,318</u>	<u>(3,237,962)</u>
Expenditures				
Current				
General government	10,330,000	10,330,000	10,278,595	51,405
Public safety	10,994,000	10,994,000	10,993,571	429
Public works	900,000	900,000	848,702	51,298
Culture and recreation	3,950,000	3,950,000	3,922,356	27,644
Capital outlay	5,678,000	5,678,000	5,627,761	50,239
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>31,852,000</u>	<u>31,852,000</u>	<u>31,670,985</u>	<u>181,015</u>
Excess (deficiency) of revenues over expenditures	<u>(4,839,722)</u>	<u>(1,837,720)</u>	<u>(4,894,667)</u>	<u>(3,056,947)</u>
Other financing resources (uses)				
Designated cash (budgeted increase in cash)	4,839,722	1,837,720		
Transfers in	1,950,000	1,969,469	7,088,995	5,119,526
Transfers out	(4,497,000)	(4,497,000)	(4,309,818)	187,182
Total other financing sources (uses)	<u>(2,547,000)</u>	<u>(2,527,531)</u>	<u>2,779,177</u>	<u>5,306,708</u>
Net Change in fund balance	(7,386,722)	(4,365,251)	(2,115,490)	(2,115,490)
Fund balance - beginning of year			13,553,204	13,553,204
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,437,714</u>	<u>\$ 11,437,714</u>
Net change in fund balance (non-GAAP budgetary basis)			(2,115,490)	
Adjustments to revenue for taxes			3,830,849	
Adjustment to expenditures for salaries, maintenance, and supplies			(857,574)	
Net Change in fund balance (GAAP basis)			<u>\$ 857,785</u>	

In the above example note that total expenditures in the Variance Favorable (Unfavorable) column has a positive balance of \$181,015 which indicates that total final budget did not exceed the cash base expenditures for this fund. If this variance was negative the City would incur an audit finding. This is because budgetary control for the City is at the fund level and an over expenditure at this level is not allowed. Also note that the original budget and final budget have a net change in fund balance of (\$7,386,722) and (\$4,365,215) respectively meaning that the city must have available cash to supplement the excess of expenditures over revenues. If the city does not have the available liquidity in this fund this would result in an audit finding.

BUDGET MONITORING AND MAINTENANCE

As budgeted funds are expended, periodic monitoring of the budget should be conducted on a monthly basis by the Department Heads and the Finance Department. Each level of the City's organization should be responsible for monitoring those budget items for which it is responsible. The financial management system will provide various reports (including trial balances, cash balances and detail for all account codes) in useful formats to aid the user in determining the status of a fund in relationship to the initial budget. The frequency of management's review of budget to actual comparisons should be done at least monthly.

BUDGET FORECASTING

Financial forecasting is the practice of projecting the quantitative impact of trends and changes in the City's operating environment on its future operations. It is, therefore an integral part of the City's ongoing planning and budgeting efforts. Financial forecasting is important for several reasons.

- First, forecasting facilitates planning efforts by quantifying the future costs/benefits of strategic decisions. These budgetary priorities may be evaluated based upon their long-term impacts.
- Secondly, forecasting identifies clear trends, needs, and issues that must be addressed and evaluated in the preparation of budgets. For example, in a City where population forecasts reveal growing populations, administrators recognize the need for increased resource allocations for additional staff and infrastructure.
- Finally, forecasting enhances decision making at all levels of the City. Forecasts provide valuable insight into the future issues that may affect the City allowing administrators to deal with them proactively, rather than reactively. It creates the framework for anticipatory management of the City.

FORECASTING FOR BUDGET DEVELOPMENT

One of the most important components of *budget development* is financial forecasting. Financial forecast should take into consideration what percent various revenue and expense categories are to the total operating budget. For example gross receipt taxes constitute approximately 60% of governmental revenues, and salary expenses constitute approximately 47% of governmental expenditures in the City's 2015 operations. Thus, predictions for future salary treatments and GRT rates become extremely important forecast assumptions in budget development. Forecasting also provides a fiscal impact analysis that may be integrated into the budget development process and those decisions can and should be evaluated for their long term results.

The GFOA recommends that governments at all levels forecast major revenues and expenditures. The forecast should extend several years into the future. The forecast, along with its underlying assumptions and methodology, should be clearly stated and made available to stakeholders in the budget process. It also should be concisely presented in the final budget document. The forecast should be regularly monitored and periodically updated. The key steps in a sound forecasting process include the following:

- A. **Define Assumptions.** The first step in the forecasting process is to define the fundamental issues impacting the forecast. The results of this initial step will provide insight into which forecasting methods are most appropriate and will help create a common understanding among the forecasters as to the goals of the forecasting process. There are four key questions to consider when defining assumptions for the forecast:
 - 1) What is the time horizon of the forecast?
 - 2) What is the objective of the governments forecasting policy? For example, a "conservative" forecast underestimates revenues and builds in a layer of contingencies for expenditures. This might make it harder to balance the budget, but reduces the risk of an actual shortfall. On the other hand, an "objective" forecast seeks to estimate revenues and expenditures as accurately as possible, making it easier to balance the budget, but increasing the risk of an actual shortfall. Therefore, a government should be transparent concerning its own forecasting policy and underlying assumptions.
 - 3) What are the political/legal issues related to the forecast? Be aware of current laws or expected changes in laws that affect forecasts.
 - 4) What are the major revenues and expenditure categories?
- B. **Select Methods.** Determine the quantitative and/or qualitative forecasting methods that will be used. Keep in mind that the chosen method for one program may differ for another. While complex techniques may get more accurate answers in particular

cases, simpler techniques tend to perform just as well or better on average. Also, simpler techniques require less data, less expertise on the part of the forecaster, and less overall effort. Three basic models of forecasting to consider include:

- 1) **Extrapolation.** Extrapolation uses historical revenue data to predict future behavior by projecting the trend forward. Trending is very easy to use and is commonly employed by forecasters. Moving averages and single exponential smoothing are somewhat more complex, but should be well within the capabilities of most forecasters.
- 2) **Regression/econometrics.** Regression analysis is a statistical procedure based on the relationship between independent variables (factors that have predictive power for the revenue or expenditure source) and a dependent variable (expenditure source being predicted). Assuming a linear relationship exists between the independent and dependent variables, one or more independent variables can be used to predict future revenues or expenditures.
- 3) **Hybrid forecasting.** Hybrid forecasting combines knowledge-based forecasting (knowledge-based forecasting consists of using the forecasters own knowledge and feel for the situation, rather than data and statistics, as the basis for the forecast) with a quantitative method of forecasting. Hybrid forecasting methods are very common in practice and can deliver superior results.

C. Implement Methods. Making the forecast and using forecast ranges are included within the implementation methods.

- 1) **Making the forecast.** Put into practice one or more of the forecasting methods described above.
- 2) **Forecast ranges.** It may be wise to develop a range of possible forecast outcomes, with the use of different scenarios. Multiple projections should be a part of a well-planned and thoroughly discussed approach.

D. Use Forecasts. The purpose of a forecast is to inform and assist in decision- making. Three items that are essential to a compelling and informative forecast presentation include:

- 1) ***Credibility of the forecaster.*** Credibility of the forecasts presenters is essential if a forecast is to be trusted.
 - a. Have a transparent forecast process.
 - b. Address how the forecast compares to widely accepted economic or financial forecasts from outside organizations.
 - c. Describe forces acting on your revenues or expenditures that might cause the actual results to be higher or lower than the forecast.
 - d. Stay within acceptable accuracy tolerances for forecasts.

- e. Avoid over promising on the level of forecast accuracy to set appropriate expectations. Note to the audience that years estimated farther out are less reliable.
 - f. Be careful about using forecasts to raise an alarm about an impending crisis.
- 2) *Presentation approach.* A good forecast presentation revolves around a clear message. The following steps can be helpful in promoting clarity:
- a. A clear, simple, and reasoned statement of the forecast message is vital.
 - b. Build the message around a baseline set of assumptions that represent a reasonable level of consistency with status quo conditions. An exception to status quo conditions might be changes in the financial/economic environment that are widely appreciated and/or assumptions about changes in the environment. Such exceptions should be clearly stated.
 - c. The assumptions should be made very clear, and be supplemented with salient information. The forecaster should explain how the assumptions lead to the forecast, without delving into the details of the specific methods.
 - d. The message should address the implications of the forecast in terms of budget shortfalls or surpluses, changes in reserve levels, and other metrics that would be meaningful to the audience.
 - e. Involving other staff in the forecasting process in these steps will also help ensure that understanding of the method is shared by key potential supporters. It may even prove possible to involve other staff directly in the presentation, which may increase credibility.
- 3) *Linking forecast to decision-making.* In order to maximize decision makers' interest in the forecast, it will be important to emphasize the importance of the forecast as a key factor in the planning and budgeting process. This means imparting a long-term perspective to the budgeting process and emphasizing financially sustainable decisions. The following financial policies might be particularly helpful for promoting interest in financial forecasting:
- a. A reserve policy, which establishes the desired level of reserves to maintain. A policy on reserves implies the need for forecasting tools to see if reserve levels will remain within desired parameters given future spending and revenues.
 - b. A policy on maintaining structural balance, which requires recurring expenditures to be covered by recurring revenues. A forecast is required to tell if this will occur into the future, facilitating the considerations of long-term implications of decisions.
 - c. A long-range financial planning policy, which commits officials to considering the long term implications of decisions made today.
 - d. Capital improvement plans should employ a long-term planning horizon.

CASH FORECASTS

The cash forecast is critical to ensuring that the City will not experience a fiscal crisis from a cash shortage. Because cash shortages may make the City unable to meet its payment obligations, shortages can also affect its bond rating. Accurate cash forecasts enable the City to anticipate potential cash shortages and take preemptive corrective actions.

Ideally, cash forecasts should be developed for the fiscal year on a monthly basis. These forecasts should at a minimum, consider the timing of federal and state reimbursements, other receipts, disbursements and *outstanding loans to other funds*.

FORECASTING - ANNUALLY AND MULTI-YEAR

Consider the following as basic steps in the planning process to predict future estimates that are meaningful and productive for the City.

- Conduct formal and or informal needs assessments.
- Design operation to attain the City's goals and objectives based upon the results of the needs assessments. (Capital asset Master Plans are an excellent example of forecasting certain needs as they include financial data and information related to infrastructure, facilities, projections on population and economic data, etc.

Prepare budgets to support the financial fore

MANUAL OF POLICIES AND PROCEDURES
SECTION 9
GRANTS AND FEDERAL FUNDS

FEDERAL PROGRAMS INTRODUCTION

It is important for the City to become familiar with federal regulations to ensure that specific requirements which are not covered under state rules and regulations and governed by state statute are followed in accordance with federal rules and regulations.

Entities shall follow the most current U.S. Education Department General Administrative regulations regarding Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments and the Code of Federal Regulations regarding Uniform Federal Assistance Regulations.

These federal regulations are amended annually by the federal government. In addition, OMB Circular A-133 sets of standards for recipients of Federal grants. These govern financial management systems, procurement policies and procedures and property management. The Single Audit Act of 1984 (P.L. 98-502) Statute as well as the Single Audit Act Amendments of 1996 (P.L. 104-156) provide detailed templates to policies and procedures in this regard.

The Compliance Supplement is a large and extensive guide created by the OMB for Single Audits, and is considered the most important tool of both the auditor and the recipient when performing, or being subject to, a Single Audit. It was created following amendments in 1996 to the Single Audit Act and serves to identify existing important compliance requirements that the Federal Government expects to be considered as part of a Single Audit.

UNIFORM ADMINISTRATIVE REQUIREMENTS

Compliance with federal regulation is a condition of receiving federal funds. These requirements can be found in 34 CFR, Part 80, 34 CFR, Part 75 for federal direct grant programs, 34 CFR, part 76 for state administered programs. The overall objective of the federal cost principles is to ensure that similar types of organizations doing similar work with federal funds follow the same cost principles and procedures. These principles are found in OMB Circular A-87, Cost Principles for State and Local Governments.

GRANTS

Those entities receiving federal or state grants that are awarded must have a proper financial management system (FMS) in place in order to receive and expend funds in accordance with certain mandated standards including but not limited to:

- Fiscal control and accounting procedures are sufficient to prepare required reports pertaining to grants;

- Accurate, current and complete disclosure of the financial results of each grant program;
- Accounting records that identify the source (by CFDA number and grantor agency);
- Effective control and accountability for all grant funds, property and other assets;
- Comparison of actual expenditures with budgeted amounts for each grant;
- Source documentation such as receipts, canceled checks, paid bills, payroll records, time and effort records, contract and sub grant award documents must be readily available and support accounting records;
- Cash management procedures to minimize the time elapsing between expenditure of funds and requests for reimbursements;
- Procedures for determining reasonableness and allow ability of grant costs in accordance with appropriate OMB Circulars, EDGAR, and NM regulations, and the terms of grant agreements.

BUDGETING REQUIREMENTS FOR FEDERAL AND STATE GRANTS

Grants must have funds budgeted in the format provided in the grant application. It is important that the CFO and the Department Head's collaborate to ensure that the program objectives and funding requirements are mutually understood and followed, and the budget is accurately translated from the application format to the Financial Management System format used to account for the grant.

ADMINISTRATIVE COSTS

Administrative costs may be either a direct cost to the program or an indirect cost to the program.

A **direct cost** is a cost that can be identified specifically with a particular cost objective of the grant, such as a grant project, service or other activity of an organization. Typically costs for personnel who supervise the activities of the program staff, direct costs for personnel who perform fiscal and reporting activities related to the grant or costs, and/or contracted services associated with the administration of the program are charged directly to the grant (supported by time and effort documentation to the program if applicable). Additionally, costs for supplies and materials, or equipment requested for administrative use and other operating costs requested for administrative purposes may be charged directly to the grant if allowed under the terms of the grant.

An **indirect cost** is a cost that has been incurred for common, joint or multiple objectives of the city that cannot be readily identified with any one particular cost objective. These

costs include the operating and maintaining of shared facilities, general administration and general expenditures such as budgeting, accounting, human-resources, legal and purchasing departmental costs. Centralized services such as information systems and accounting administration are also indirect costs.

INDIVIDUAL TIME AND EFFORT DOCUMENTATION

Generally, salaries and benefits may be charged to federal programs if they are properly allocated. Requirements have been summarized for purposes of this policy manual, It is important that the City maintain appropriate documentation by cost objectives. A cost objective may be a particular grant award or other category of cost that requires the grantee to track specific cost information. Thus, a single federal program may have more than one cost objective. These cost objectives may be defined in accounting terms by the fund or function code.

An employee who works on a single cost objective must complete a semi-annual certification that indicates the employee worked solely on that program for the period of the certification. The certification can be simple. For example:

I hereby certify that for the period January 1 through June 30, 2010, one-hundred percent (100%) of my time and effort was spent on XYZ, Part A activities.

In some instances the requirement for a semi-annual certification may be satisfied through payroll coding and time and attendance certification pursuant to payroll authorizations.

- The employee must be assigned to a dedicated function code;
- The employee must be coded to that function in the payroll system and cannot benefit other programs and/or department; and
- The supervisor responsible for certifying payroll cannot have the authority to assign the employee to another program or activity.

Employees working on multiple cost objectives must maintain "Personnel Activity Reports" (PAR) that reflect the following:

- **After the fact record:** The PAR must be created after the work has been executed.
- **Total activity:** The PAR must account for the total activity for which each employee is compensated, including part-time schedules or overtime.
- **Monthly:** The PAR must be prepared at least monthly and must coincide with one or more pay periods.
- **Signed:** The employee must sign the PAR.

PROCUREMENT AND SUB CONTRACTS

Grantees must maintain a procurement and contract system that ensures all contractors/subcontractors, including consultants, perform in accordance with the terms, conditions, and specifications of the contracts.

DISPOSITION OF EQUIPMENT PURCHASED WITH FEDERAL FUNDS

When property acquired with grant funds is no longer needed for the original purpose or for other activities currently or previously supported by the grant, these rules for disposition need to be followed.

- Equipment with a current per-unit fair market value of less than \$5,000 and equipment with no further use value may be retained, sold, or otherwise disposed of, with no further obligation to the federal government. Records should be maintained.
- All other equipment may be retained or sold, and the federal government shall have a right to an amount calculated by multiplying the current fair market value or the proceeds from sale by the federal share of the equipment (see Section 74.142). If part of the federal share in the equipment came from an award under which the exemptions in Section 74.135 were applicable, the amount due shall be reduced pro rata. In any case, if the equipment is sold, \$100 or 10% of the total sales proceeds, whichever is greater, may be deducted and retained from the amount otherwise due for selling and handling expenses.

FLOWTHROUGH REIMBURSEMENTS

As soon as expenditures begin accumulating, department need to establish a frequency for submitting Requests for Reimbursement (RfRs). In order to minimize loans needed from other funds, it is suggested that the City submit requests as often as is allowed to minimize the amount required from loans.

APPROPRIATENESS OF EXPENDITURES

Departments should have individuals in place who understand the terms of the grant and are able to analyze and approve expenditures based not only on use of proper account coding, but also on the appropriateness of the expenditure to achieve the objectives of the grant and its allow ability under the terms of the grant and state regulations relating to expenditures and the elimination of waste, fraud and abuse.

MANUAL OF POLICIES AND PROCEDURES SECTION 10

BONDS, CAPITAL PROJECTS AND DEBT SERVICE

INTRODUCTION

This area details the regulations and procedures for conducting bond elections, and for the accounting of bond issues, Capital Projects Funds, and Debt Service Funds. Capital Projects Funds are used for the acquisition, construction, and/or improvement of capital assets including real and/or personal property (i.e., land, buildings, furniture/fixtures, equipment, etc.). Capital expenditures within the various funds are not discussed in detail within this section. These items are more clearly defined in, section 2 Purchasing, and regulated by the State Procurement Code (Section 13-1-1 through 13-1-199, NMSA, 1978 and in Supplement 12, Accounting for Capital Assets.

GENERAL OBLIGATION BONDS

Capital projects and improvements are funded from three primary sources: bond issues, local taxes and State/Federal funds. Bonds issued by the City shall be in compliance with Sections 6-15-1 through 6-15-13, NMSA, 1978. The most commonly issued bonds are general obligation (G.O.) bonds. The City must first convince the voters of the need to approve taxes to fund the capital needs. Debt must be approved by a majority of the voters voting.

CONSTITUTIONAL LIMITATIONS ARTICLE IX SECTION 13

The City shall not contract any debt except by an ordinance, which shall be irrevocably until the indebtedness therein provided for shall have been fully paid or discharged, and which shall specify the purposes to which the funds to be raised shall be applied, and which shall provide for the levy of a tax, not exceeding twelve mills on the dollar upon all taxable property within the City sufficient to pay the interest on, and to extinguish the principal of, such debt within fifty years. The proceeds of such tax shall be applied only to the payment of such interest and principal. No such debt shall be created unless the question of incurring the same shall, at a regular election for councilmen, of the City at any special election called for such purpose, have been submitted to a vote of such qualified electors thereof as have paid a property tax therein during the preceding year, and a majority of those voting on the question by ballot deposited in a separate ballot box when voting in a regular election, shall have voted in favor of creating such debt. A proposal which does not receive the required number of votes for adoption at any special election called for that purpose, shall not be resubmitted in any special election within a period of one year. For the purpose, only, of voting on the creation of the debt, any person owning property within the corporate limits of the City, who has paid a property tax therein during the preceding year and who is otherwise qualified vote in the county where such city, town or village is situated shall be a qualified elector. (As amended November 3, 1964.)

DEBT MANAGEMENT PLAN

Debt Capacity

The New Mexico Constitution, Article IX, Section 13, limits the amount of bonds outstanding to 12% of the Taxable Assessed Value (A.V.).

Assessed Valuation

The City may wish to analyze the trend of the assessed value over several years to determine the average growth or decline in values of both residential and nonresidential properties to determine the timing of elections to ensure continuous funding to meet the requirements of the City.

History of Tax Rates

Tax rates also need to be analyzed to determine the costs to each household of property owners.

Bond Cycling Program

In addition, the City needs to have a debt management plan that times bond sales on a preset schedule (i.e., every 1, 2, 3 or 4 years) for major capital projects. Close monitoring of changes such as the reduction of debt, increase in tax valuation, or other external forces is required to stabilize the property taxes for City improvements with little or no increase in taxes as one bond is paid down or off and another is put in place. The City should contract with a bond advisor to help with this aspect of the planning process.

Refunding of Bonds

It is sometimes advantageous for the City to “refund” a previous bond issue if bond market interest rates have decreased. The City can often combine bond refunding with a new bond sale.

THE BOND SALE

Bond Sale Calendar

In accordance with Sections 6-15-1 and 6-15-2 NMSA, 1978, when the City contemplates the issuance of bonds in whole or in part from ad valorem taxes (property taxes), the City shall forward a Notice of Proposed Issuance of General Obligation Bonds and Bonding Capacity Certification, to the Department of Finance & Administration (DFA) at least two weeks prior to initiating any proceedings for such issue in the consideration of any proposal to issue bonds.

To comply with Section 6-15-2, NMSA 1978, the City is required to file a completed Bond Indebtedness Retirement Schedule and a copy of the legal opinions issued by bond counsel and the New Mexico Attorney General. These documents are to be sent to the DFA immediately after closing of the bond sale.

All G.O. bonds, except refunding bonds, issued under lawful authority by the City shall be issued in accordance with Sections 6-15-3 through 6-15-8 NMSA, 1978. Refunding bonds are encompassed in Sections 6-15-11 through 6-15-13 NMSA, 1978.

In accordance with Section 6-15-9 NMSA, 1978, no bonds shall be issued or sold by the City after the expiration of four (4) years from the date of initiation of proceedings for the election authorizing the issue, except for reasons as addressed in Sections 6-15-9 and 6-15-10 NMSA, 1978.

The City shall maintain a register or retirement schedule to enable the City report to the DFA the dollar amount of bonds and interest that have matured and amounts outstanding and for note disclosures required in the annual financial audit.

The retirement schedule should be made a part of the minutes of the governing council in-case the bond indenture is misplaced or lost so there will be a record of terms and conditions and a payment schedule.

Bonds must be sold at a public sale and delivered within four years of the date of the resolution authorizing the election (Section 6-15-9, NMSA, 1978). The lowest rate offered including price and coupon rates is considered the best bid. Maturity of the bonds is limited to twenty years. (Section 6-15-7, NMSA, 1978)

ARBITRAGE (Internal Revenue Code, Section 148)

Arbitrage is defined as any income earned on invested bond proceeds which is in excess of the amount which would have been earned if the bond proceeds had been invested at a yield equal to the yield on the bonds. The IRS permits the City to earn arbitrage on invested bond proceeds under certain, limited conditions:

- If the City has issued \$5 million or less in a calendar year, it may earn unlimited arbitrage on the bond proceeds for a period not exceeding three years from the issue date;
- The City may earn and retain unlimited arbitrage even if it issues more than \$5 million, provided it can expend the bond proceeds over a two year period and meet certain periodic spending tests;
- There are also no arbitrage limitations if all of the bond proceeds are spent within six months;

- If the City issues more than \$5 million in a calendar year and cannot meet the spending exception, earned arbitrage must be rebated to the IRS. The rebate is actually made on the fifth year after issue so the City may have an accrued rebate liability in the years preceding actual payment.

The purpose of prohibiting arbitrage is to prevent the issuance of tax exempt bonds for the purpose of investing the proceeds to make a profit. This would mean that a long-term investment could be made only at an interest rate equal to or less than the interest paid on the tax exempt bonds. The city should refer to IRS regulation on arbitrage for specific guidance.

BOND PRINCIPAL AND INTEREST PAYMENTS

Debt service funds shall be established if legally required or when resources are being accumulated to meet principal and interest payments that will be made in future periods. A single debt service fund shall be used to account for a restricted portion of a general property tax that is used to finance principal and interest payments on all general obligation bonds. Debt service funds shall be used only for the retirement of general long-term debt and for payment of collection costs. Any funds remaining after all debts have been paid may be transferred after request for transfer has been approved by the department and DFA pursuant to Section 6-10-43, NMSA 1978.

All bonds authorized by the City to be sold become general obligations of the City, backed by its full faith, credit, and taxing power. This debt should be recorded in the minutes, by adoption of a Bond Resolution, within 24 hours of accepting bids for a City's bonds.

A register or retirement schedule is required in order to enable the City to report to the DFA. The schedule will show dollar amount of bond principal and interest payments that have been paid and those still outstanding.

Disposition of Interest Income and Residual Equity

After a project is completed which was funded by a bond issue and funds remain in the Capital Projects Fund, disposition is as follows:

These funds are transferred to Debt Service for retirement of debt related to the bonds issued;

If funds remain after the retirement of the specific debt then funds may be used to pay other bond obligations of the City;

If a balance remains in an interest or sinking fund after the retirement and payment in full of the bonded indebtedness for which the interest and sinking fund was created, shall be used for nonrecurring expenditures only. (Section 6-10- 43, NMSA, 1978;

Interest and sinking fund balances.) Nonrecurring expenditures include capital outlay but not salaries or operating expenditures.

CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Revenues received from local, state and federal sources should be properly recorded.

Special Capital Outlay – Local

This Fund/Sub fund is established to receive local revenue derived primarily from the proceeds of large sales of City property and for which the board has requested separate accountability. Use is restricted to the acquisition or construction of major capital facilities, other than those financed by proprietary and/or trust funds. This Fund/Sub fund-revenue account code is also to be used to receive insurance recoveries for the replacement of City buildings, gifts or bequests, and construction for large capital outlay projects.

Special Capital Outlay – State

Special Capital Outlay State, is established to receipt state revenue for specific purposes such as construction of facilities, remodeling and equipment, paving, or any other miscellaneous state capital outlay grant. In no case are these funds available for salaries and benefits.

Legislative Appropriations which are appropriations made by the legislature directly to the City to fund special projects for the City and should be accounted for in a capital outlay fund.