Finance & Personnel Committee Meeting
Agenda
Thursday, November 17th, 2022 | 5:00 PM

City of Stanwood City Hall
10220 270th St. NW
Stanwood, WA 98292

Agenda

1. Financial Management Policy Updates

CITY OF STANWOOD
FINANCE COMMITTEE
AGENDA STAFF REPORT

ITEM NUMBER:	1
DATE:	November 17, 2022
SUBJECT:	Financial Management Policy updates
CONTACT PERSON:	David A. Hammond, Finance Director
ATTACHMENTS:	**A—**Consolidated Financial Management Policy, with proposed edits. **B—**Sole Source Justification Form **C—**Procurement Summary Memo Form

ISSUE

The issue for the finance committee is to review recommended financial management policy updates.

BACKGROUND

Staff proposes to make updates to the Consolidated Financial Management Policy every two years, as part of the biennial budget process. Staff proposes five changes, in addition to several grammatical/clerical changes.

RECOMMENDED CHANGES

1. Street Operation Fund Required Reserve – The Street Operating Fund is the only operating fund without a required minimum fund balance established in policy. Recommendation to maintain fund balance equal to two months (16.67%) of the fund's operating budget.
2. Delegate Sole Source Authority – Current policy Section 9.20, *Exemptions to competitive bidding requirements,* (see below) requires Council approval, by Resolution, of any exemption to competitive bidding requirements. Staff recommends amending this policy by delegating authority to the mayor or City Administrator to approve such exceptions, and require reporting all sole source procurements to the finance committee quarterly. The city uses sole source exceptions infrequently, and this recommendation is to promote administrative ease.

9.20 Exemptions to competitive bidding requirements

RCW 39.04.280 provides uniform exemptions to competitive bidding requirements utilized by municipalities when awarding contracts for public works and contracts for purchases.

9.20.1 Purchases that are clearly and legitimately limited to a single source of supply (Sole Source Vendor)

If, after conducting a good faith review of available resources, the requesting department director determines that there is only one source of the required materials, supplies, or equipment, a purchase contract may be awarded without complying with established bid requirements. The requesting department director will submit a written request for sole source procurement to the Finance Director, and Mayor or City Administrator ~~Council~~ for approval, and conduct price, terms, and delivery negotiations, as appropriate. The vendor must certify in writing that the City is getting the lowest offered price.

The Mayor or City Administrator ~~Council~~ shall approve all sole source purchases ~~by resolution~~ in a form that identifies the factual basis for the sole source justification and concludes that "the purchase is clearly and legitimately limited to a single source or supply." A sole source resolution shall not be required in case of emergency, under the terms and conditions specified in RCW 39.04.280(2)(b) and (c). On-going sole source purchases of materials, equipment, and supplies should be reviewed annually to ensure the pricing is still the lowest price for the City and that the conditions that justify the sole source purchase still exist.

9.20.2 Purchases involving special facilities or market conditions

By authority of RCW 39.04.280(1)(b) ~~authorizes~~ the City Council ~~by resolution~~ hereby delegates authority to the Mayor or City Administrator to waive established bidding requirements if an exceptional opportunity arises to purchase favorably priced equipment or supplies or used goods that will be sold before the City can conduct the bid process. ~~resolution~~ A procurement summary must be approved by the Finance Director and Mayor or City Administrator, and must set forth the factual basis for the special market conditions.

9.20.3 Quarterly Reporting of Sole Source Exceptions Required

A list of the contracts approved under this delegated authority each quarter will be included in the quarterly finance report to the Council.

3. Public Works Contract Change Order Delegation

Current Stanwood Municipal Code delegates authority to approve public works contract change orders up to 5 percent of the contract amount. Staff recommendation is to update the SMC to delegate authority for construction contract change orders as stated in the Stanwood Financial Management Policy, approved by council Resolution. Staff further recommends that the Public Works Director's delegated authority be expanded to five percent or $25,000.00, and that the Mayor or City Administrator be delegated authority to approve construction contract change order up to ten percent or $100,000.00. The purpose of this delegation is to ensure timely approval of contract changes that may result in contractor disputes and potentially costly delays.

Staff notes that all construction contracts are required to be presented to the City Council for final project approval, mitigating risk associated with this delegation.

Current SMC with recommended edit, to be included in upcoming code update:

2.08.130 Director of public works – Duties.
The director of public works shall be responsible for the following:

(5) Approval of construction change orders ~~up to five percent of the contract amount prior~~ as provided in chapter Nine of the Stanwood Financial Management Policy, prior to city council's approval;

Current Financial Management Policy section on Change Orders, with recommended revision:

9.12.1 Construction Contract Change Orders

Construction Contract Change orders which fall within the Council approved scope, project budget, and project contingency may be executed by the Mayor or his/her designee. Authority to approve Construction Contract Change orders is delegated by the City Council as follows:
Public Works Director—up to five percent or $25,000.00.
Mayor or City Administrator—up to ten percent or $100,000.00.

Change orders which would change the scope of the project and/or exceed the Council approved project budget beyond these stated limits, and Council approved project contingency would require additional Council action. All change orders, regardless of amount, will be reported to Council in the Quarterly Finance Report ~~on a monthly basis.~~

4. Code of Ethics suggested edits from 2021 audit, and clarifying language directing staff to use federal minimum bidding thresholds when making purchases with federal funds, i.e., staff must use the most restrictive threshold.
5. Electronic Funds Transfer Policy This change codifies within the Financial Management Policy Resolution 2022-14, EFT Policy, which was adopted by the City Council on August 11, 2022.

FISCAL IMPACT

No Fiscal Impact from these recommended policy changes.

ATTACHMENT A

CITY OF STANWOOD

FINANCIAL MANAGEMENT POLICIES

Table of Contents

1. Financial Management Goals

a. To provide a financial base sufficient to sustain municipal services, the social well-being of city residents and businesses, and the physical infrastructure of the city.

b. To be able to withstand local and regional economic cycles, to adjust to changes in the service requirements, and to respond to other changes as they affect the community.

c. To maintain an excellent credit rating in the financial community and assure taxpayers that Stanwood city government is maintained in sound fiscal condition.

d. To promote sound financial management by providing accurate and timely information on the City's financial condition.

2. Reserves

a. The city will maintain General Operating Reserves at a level equal to at least three (3) months (25%) of the total General Fund budgeted expenditures. These reserves shall be created and maintained to:

   1. Provide sufficient cash flow to meet daily financial needs.
   2. Sustain city services in the event of a catastrophic event such as a natural/manmade disaster (e.g. earthquake, windstorm, flood, terrorist attack) or a major downturn in the economy.

   In general, the city shall endeavor to support ongoing operations with ongoing revenues. The city may allow reserves to fall below this minimum on a one-time basis to support city operations. If this occurs, the city will begin to replenish these reserves within two years of a withdrawal.

b. Annual surpluses in the General Fund will be used to fund one-time operations and capital expenditures, dedicated to the Capital Improvement Program or placed in an economic contingency account if:

   1. There are surplus balances remaining after all current expenditure obligations and reserve requirements are met.
   2. The city has made a determination that revenues for the ensuing year are sufficient to support budgeted General Fund operations.

c. A surplus is defined as the difference between the actual beginning fund balance and the budgeted beginning fund balance. It consists of under-expenditures and excess revenues over and above the amounts included in the following annual budget.

d. The city may also maintain, at its discretion, an Economic Contingency to serve as a hedge against economic fluctuations, fund future one-time operational and capital needs or support city services on a one-time basis pending the development of a longer-term financial solution. The source of funding for this reserve is the biennium surplus as outlined in sections 2b and 2c above. Restoration of this reserve is at the city's discretion.

e. The city will maintain operating reserves in the following funds:

   1. Water – Sixty (60) days of Water Fund operating expenditures.
   2. Sanitary Sewer – Sixty (60) days of Sanitary Sewer operating expenditures.
   3. Storm Drainage – Sixty (60) days of Storm Drainage operating expenditures.
   4. <u>Street Operating – Sixty (60) days of Street operating expenditures.</u>

   These operating reserves shall be created and maintained to provide sufficient cash flow to meet daily financial needs and will be based upon total operating expenditures. For budgeting purposes, operating expenditures will be calculated upon the funds' total expenditure budgets excluding ending fund balances, capital purchases, and the current year's portion of principal paid on outstanding debt.

f. The city will establish a capital contingency reserve for the Water, Sanitary Sewer, and Storm Drainage Utilities in the amount of 1% of system fixed assets, which is set aside in case of an emergency. Additionally, the reserve could be used for other unanticipated capital needs or capital cost overruns.

g. In order to maintain the significant investments in utility capital assets there shall be regular, annual transfers from the utility operations funds to the utility capital project or reserve funds to be expended on future utility capital projects.

h. The city will establish a revenue stabilization reserve for the Water, Sanitary Sewer, and Storm Drainage utilities. The required fund balance shall be set at 25% of the total of water and wastewater revenues collected through monthly rates. Moneys may be withdrawn from the revenue stabilization reserves to supplement operating revenues in years of revenue shortfalls caused by reduced sales due to weather or restrictions on water use. The revenue stabilization reserves will be replenished within four years of a withdrawal.

i. Bond reserves shall be created and maintained by the Water/Wastewater and Stormwater Utilities in accordance with the provisions set forth in the bond covenants. These shall be in addition to the reserves described above.

j. The city shall additionally maintain the following Equipment Replacement Reserve Funds:

   1. Equipment Reserve Fund (General Government and Streets).
   2. Utility Equipment Reserve Funds (Water, Sewer & Drainage).

   The Equipment Reserve Funds will be maintained at a level sufficient to meet requirements of a ten year fleet and equipment replacement plan, so as to sustain an acceptable level of municipal services and prevent a physical deterioration of city assets.

k. The city shall continue a system reinvestment funding strategy, as follows

   System reinvestment funding provides the city with a long-term funding strategy for each system to mitigate the impacts to ratepayers during periods of substantial system investment. Repair and replacement costs are funded through regular and predictable rate provisions. The Equipment Reserve Funds will be maintained at a level sufficient to meet scheduled equipment replacement so as to sustain an acceptable level of municipal services and prevent a physical deterioration of city assets.

   The city will establish a system reinvestment strategy that incorporates system reinvestment funding from rates equal to annual depreciation expense net of annual debt principal payments for each utility.

l. The status of year end reserve balances compared to this policy will be reported on the Fourth Quarter Finance Report.

3. Expenditures

a. The city budget will provide for a sustainable level of service as defined in the context of the budget process.

b. The city's operating budget will not use one-time revenues to support ongoing expenditures. An example would be to hire full-time staff in response to a surge in sales tax or building/permit fees. Eventually such revenues will fall back to normal levels, while the city maintains a higher staff level that is no longer funded.

c. The city will maintain expenditure categories according to state statute and administrative regulation. Capitalization standards shall be in accordance with GFOA best practices, a policy for “small and attractive” assets (i.e. assets below the capitalization threshold that must be inventoried and tracked due to their susceptibility to theft or conversion to personal use) as required by the State Auditor.

d. The City will structure service levels in the context of financial sustainability.

e. The city will forecast its General fund and Street fund expenditures annually for the next six years. The drivers and assumptions used in the forecast will be described.

f. The city’s cost allocation plan will be updated annually. The cost allocation plan will be the basis for distribution of general government costs to other funds or capital projects (also known as indirect costs). (Cost Allocation Policy is in Section Eleven below.)

g. All compensation planning and collective bargaining will focus on the total cost of compensation, which includes direct salary, health care benefits, pension contributions, training allowance, and other benefits of a non-salary nature, which are a cost to the City. The city budget will provide for a sustainable level of service as defined in the context of the budget process.

4. Revenues

a. The city will strive to maintain as diversified and stable a revenue system as permitted by state law to shelter it from short-run fluctuations in any one revenue source. The revenue mix should combine stable revenue sources and volatile revenue sources to minimize the effect of an economic downturn. In the general fund, examples of stable revenue sources include property taxes (in normal economic times), and utility taxes, while examples of volatile revenue sources include sales taxes and building/permit fees.

b. Because revenues, especially those of the general fund, are sensitive to both local and regional economic activities, revenue estimates provided to the city council shall be conservative.

c. The city will estimate its annual revenues by an objective, analytical process using best practices as defined by the Government Finance Officers Association.

d. The city will project each major revenue stream for the next six years and will update this projection annually. The finance department will annually review and make available to the finance committee an analysis of each potential major revenue source before going to the full council for review.

e. The city will establish all user charges at a level related to the cost of providing the service and within policy parameters established by the city council.

f. In each even-numbered year, in conjunction with biennial budget development, the city will review user fees to adjust for the effects of inflation and other factors as appropriate. The city will strive to set fees for user activities, such as recreational services, at a level to support the direct and indirect costs of the activity in accordance with cost recovery policies adopted by council.

g. The city will set fees and user charges for each enterprise fund, such as water, sanitary sewer and storm drainage, at a level that fully supports the total direct and indirect cost of the activity including the cost of annual depreciation of capital assets. Additionally, for analysis and rate modeling purposes, the proposed rates shall also consider debt service coverage commitments made by the city of 1.25 times annual debt service.

5. Operating Budget

a. The base operating budget is the city's comprehensive biennial financial plan which provides for the desired level of city services as defined by the city's priorities. In each even-numbered year a biennial budget will be developed based on council priorities. In odd-numbered years a mid-biennium review will be performed and a budget amendment proposed, if necessary.
b. In order to facilitate and implement the budget process, the Mayor will propose a biennial budget calendar sometime in the first quarter of every other year as required by state law for biennial budgets. The calendar will be comprehensive in nature and generally provide for a process that resembles the Best Practices as published by the Government Finance Officers Association.

c. The goals of the budgeting by priorities process are:

- Align the budget with long-range goals and objectives
- Measure progress towards priorities
- Get the best value for each tax dollar
- Foster continuous learning in the city
- Build regional cooperation

c. "One-time" expenses require specific authority to be carried forward into subsequent budgets.

d. Biennial operating budgets should provide for design, construction, maintenance and replacement of the city's capital, plant, and equipment consistent with the capital facilities plan including the related cost for operating such new facilities.

e. The city will maintain all its assets at a level such that it protects the city's capital investment and minimizes future maintenance and replacement costs.

f. The city will develop a six-year projection of equipment replacement and maintenance needs and will update this projection every budget cycle consistent with budget development.

g. All general government current operating expenditures will be paid from current revenues and cash carried over from the prior biennium.

h. Reports on revenues and expenditures will be prepared monthly and reviewed quarterly by the city council during the year.

i. The city will avoid budgetary and accounting procedures which balance the current budget at the expense of future budgets.

j. The City of Stanwood defines a balanced budget as current fund revenues (including beginning net cash and investments) are equal to or greater than current budgeted expenditures (including ending net cash and investments).

k. The city will utilize beginning balances and other one-time revenues only for onetime/non-recurring expenditures.

l. All supplemental appropriations for programs (appropriations requested after the original budget is adopted) will be considered as a result of the availability of new revenues (such as unanticipated grants).

m. Use project/task revenues to support related expenditures (e.g., park and building permit fees).

n. All supplemental appropriations will conform to the “budgeting by council priorities” process.

6. Capital Budget

a. The city will make capital improvements in accordance with an adopted capital improvement program.

b. The Capital Improvement Program and the base operating budget will be reviewed at the same time to ensure that the city’s capital and operating needs are balanced with each other and that the Capital Improvement Program is aligned with the city’s other long-range plans.

c. The city will develop and update the six-year plan for capital improvements including operations and maintenance costs and update it every year. Capital expenditures will be forecast considering changes in population, changes in real estate development, or changes in relevant economic condition of the city and the region.

e. The city will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to council for approval. The city will use intergovernmental assistance and other outside resources whenever possible.

f. The city will balance financing methods for capital projects with the desire to meet construction deadlines.

7. Operational Controls

The City will maintain a system of financial monitoring, control, and reporting for all operations and funds in order to provide effective means of ensuring that overall City goals and objectives are met.

a. Accounting Records and Reporting.
    1. The City will maintain its accounting records in accordance with state and federal regulations, which includes requirements for data retention for archival purposes and business continuity.
    2. The City will establish and maintain a high standard of internal controls and accounting practices. The City accounts for revenues and expenditures on a cash basis.
    3. City records will be archived and destroyed in accordance with the Washington State Records Retention Schedule.
    4. The continuation of services after a disaster is critical to the success of the City. The City must ensure that its applications, data and network resources can continue and be appropriately accessible to users. The Finance Director is responsible for developing procedures for the security, storage, retention and retrieval of data to ensure operations continue during and after a disaster.
    5. Budgeting, accounting and reporting will conform to the Budgeting, Accounting and Reporting System (BARS) for Governments as prescribed by the Washington State Auditor. Changes to the City's revenue and expense accounts must be authorized by the finance department and will be made only if it's in the best interest of the overall accounting system.
    6. All known or suspected loss of public funds shall be reported to the State Auditor's Office in accordance with RCW 43.09.185.

b. Auditing. The State Auditor will perform the City's financial and compliance audit in accordance with state and federal laws. Results of the audit will be provided to the Council in a timely manner.

c. Payment Approvals. Vendor invoices shall be signed for approval by the department director or designee. Reimbursements payable to City employees shall be signed for approval as follows (employees may not approve their own reimbursement):
    - Council – approved by the Mayor, City Administrator, or designee;
    - Mayor – approved by the City Administrator or designee;
    - City Administrator – approved by the Mayor or designee;
    - Department Head – approved by the City Administrator or designee;
    - Other employees – approved by the Department Director or designee.

d. Accounts Payable. Original invoices that are received by accounts payable will be date-stamped and routed to department directors. Other invoices may be received directly by the department director or other staff, such as when items are picked up at will-call or services are performed on-site. For all invoices, department director or designees will verify that the invoiced items have been received and that the invoiced amount is correct. The accounts payable original invoices should include the correct account coding and have a required authorized approval signature. The approved invoice will be routed to accounts payable for payment, <u>within one week of receipt.</u>

e. Invoicing & Accounts Receivable—Invoices will be created within the City Accounting software only by the Finance Department or by employees authorized by the Finance Director. Accounts receivable aging reports will be monitored by the finance department and appropriate collection activity pursued.

f. Simplified Fund Structure. To the extent possible, the City will minimize the number of Funds. Funds will be created and accounted for in accordance with BARS.

g. Cash Management.
    1. The Finance Department will develop, maintain, and consistently seek to improve cash management systems which ensure the accurate and timely accounting, investment, and security of all cash assets.
    2. There are two locations where monies are received: the City Hall Finance office and the Police department.
    3. Deposits will be made every 24 hours as per RCW 43.09.240, including deposits received from the Police Dept. by the finance department.
    4. The Finance office and Police Station locations each have cash drawers. These funds are used to make change for cash payments. The amount of these cash drawers are authorized by resolution.
    5. No change shall be given when a check is presented for payment.
    6. Cash refunds are prohibited. Refunds shall be processed through the method payment was received such as by check or credit card.
    7. No one is authorized, at any time, to borrow funds from any cash drawer. Doing so will result in discipline up to and including termination.
    8. The Finance Office has a Petty Cash Fund as authorized by SMC 3.69. This fund is used to pay for or reimburse small expenditures where waiting for a payment from the normal payment process is unreasonable. No one is authorized to borrow monies from this Fund.

8. Capital Asset Accounting

a. Responsibilities. The Finance Director will establish a fixed assets system and prepare guidelines for the physical inventory. To establish the original inventory, department heads and the Finance Director shall conduct a physical inventory of all assets in each department, which shall be adopted by a resolution of the City Council.

   To assist in accountability and theft prevention, each department head shall be held responsible for all property assigned to his/her department. Under the City's

Personnel Policy Manual, theft and/or unauthorized use of city property is not allowed and may lead to disciplinary action up to and including termination and criminal prosecution. Any theft or suspicion of theft or unauthorized use should be reported to the responsible department head and the Finance Director for further investigation.

Each department head will notify the Finance Director of any additions, deletions, interdepartmental transfers, modifications, or lease of property within thirty (30) days of the transaction. The Finance Director will ensure the appropriate changes are made to the department's fixed asset records.

b. Capitalization Limit. All assets acquired with a cost of $5,000 or more per individual item will be capitalized, tagged and input into the fixed asset system. Assets acquired through capital lease financing will be capitalized in accordance with this policy. Donated fixed assets will be recorded at an estimated fair market value at the time received.

c. The Finance Director shall maintain asset records, which shall be verified by a physical inventory at least once every two years.

d. Small and Attractive Assets. Certain assets that do not meet the $5,000 limit will be tagged and tracked in the fixed asset system if they are determined to be "small and attractive assets" as determined by the Finance Director.

e. Small and attractive assets are those assets that are particularly at risk or vulnerable to loss that do not meet the City's capitalization threshold of $5,000. Departments are ultimately accountable for their small and attractive assets and therefore should implement specific measures to control such items in order to minimize the risk of loss.

f. Departments must include, at a minimum, the following assets with unit costs of $500 or more as *small and attractive:*
    a. Personal computers
    b. Laptops and notebook computers
    c. Communications equipment, both audio and visual
    d. Cameras and projection equipment
    e. Other data processing accessory equipment and components (scanners, mobile data storage devices, etc.)
    f. Other easily portable and desirable tools or equipment such as portable generators, gas-powered hand tools, etc.

g. Lost or Stolen Assets. Lost or stolen equipment must be reported to the Mayor and the Finance Director as soon as it is discovered by filing a "missing property report."

h. An annual report on the status of fixed assets and the results of physical inventory procedures will be prepared by the finance department and included in the first quarter finance department report.

9. Purchasing

The purpose of this policy is to implement the requirements of state law and, when applicable, federal guidance with regards to procurement of goods and services and the required bidding on public contracts for public works, goods, services, supplies, and materials. It is the City's policy to follow state and, when applicable, federal requirements with regard to the expenditure of public funds, to provide a fair forum for those interested in bidding on public contracts, and to help ensure that public contracts are performed satisfactorily and efficiently at least cost to the public, while avoiding fraud, waste, and favoritism in their award. For federally funded purchases and contracts, the purpose of this policy is to also ensure that there is no abuse of federal funds and that all allowable costs are accorded consistent treatment.

Except as otherwise expressly provided herein, the provisions of this policy are intended solely as a convenience and reference guide for City officials and employees. Nothing in this policy is intended to create any liability for or against the City. Without limitation of the foregoing, nothing in this policy is intended to create any enforceable right, entitlement, or cause of action in or for any third parties.

9.1 DEFINITIONS and ACRONYMS

a. "Architectural and Engineering services" means services rendered by any person, other than a city employee, to perform activities within the scope of the professional practice of architecture RCW 18.08, professional practice of engineering and land surveying RCW 18.43, and/or professional practice of landscape architecture RCW 18.96.
b. "Bid splitting" means breaking a public work project or purchase of equipment or supplies into segments. The city may not break a public works project to avoid compliance with bidding statutes. RCW 35.23.352(1).
c. "Contract" means a contract in writing for the execution of a fixed or determinable amount duly awarded after advertisement and competitive bid, or a contract awarded under the small works roster process in RCW 39.04.155.
d. "Day Labor" refers to the use of city staff to perform public works.
e. "Formal competitive bid" is the process of advertising and receiving sealed written bids from prospective vendors. The selection of the vendor is primarily based on the lowest cost from a responsible vendor.
f. "Informal competitive quotes" are price quotes from vendors that are obtained using a variety of mediums such as phone, fax, e-mail, or writing. Results must be documented and submitted to the Finance Department. The selection of the vendor is primarily based on the lowest cost from a responsible vendor.
g. "Interlocal agreements" are the exercise of governmental powers in a joint or cooperative undertaking with another public agency.
h. "SMC" – Stanwood Municipal Code.
i. "MRSC" – Municipal Research Services Center.

j. “Ordinary maintenance” is work not performed by contract and that is performed on a regularly scheduled basis (e.g. daily, weekly, seasonally, semiannually, but not less frequently than once per year), to service, check or replace items that are not broken; or work not performed by contract that is not regularly scheduled but is required to maintain the asset so that repair does not become necessary.
k. “~~OSP” – Washington’s Office of State Procurement.~~
l. “Personal services” – interchangeable with professional services – services that involve technical expertise provided by a consultant to accomplish a specific study, project, task, or other work. These activities and products are mostly intellectual in nature, and they do not include Architectural and Engineering services. Example of services include accounting, legal, comprehensive planning, and real estate services.
m. “Professional services” – see personal services.
n. “Public work,” as defined in RCW 39.04.010, means a complete project, and includes all work, construction, alteration, repair, or improvement other than ordinary maintenance executed at the cost of the city or which is by law a lien or charge on any city property. Public work projects include the related materials, supplies, and equipment to complete the project.
o. “PUD” – Public Utility District.
p. “Purchased services” – different from personal services in that these services are generally routine, repetitive, or mechanical in nature and supports the City’s day to day operations. Purchased services include janitorial, debt collections, equipment service agreements, machine repair, or delivery services. (May include ordinary maintenance.)
q. “RCW” – Revised Code of Washington.
r. “RFP - Request for Proposal” means a process that requests interested firms to submit a statement of their proposal for completing a project. Proposals are evaluated based upon the suitability, practicality, quality of the proposal and experience and cost.
s. “RFQ - Request for Qualifications” means a request only for a firm’s general capabilities, including a list of principals, previous projects, number of employees, and licenses. An RFQ does not include pricing information.
t. “Small Works Roster” is a roster of qualified contractors maintained for use in a modified formal bid process. When the contract amount for a public works project is $350,000 or less, the city may follow the small works roster process for construction of a public work or improvement as an alternative to formal competitive bid requirements.
u. “Sole Source Supplier” occurs when purchase is clearly and legitimately limited to a single supplier. These situations often arise when an agency has specific technological requirements. Examples include: (a) licensed, copyrighted, or patented products or services that only one vendor provides; (b) new equipment or products that must be compatible with existing equipment or products; (c) proprietary or custom-built software or information systems that only one vendor provides; and (d) products or services where only one vendor meets the required certifications or statutory requirements. (RCW 39.04.280(1)(a)).

v. "Use Tax" is a tax on the use of goods or certain services in Washington when sales tax has not been paid. Goods used in Washington are subject to either sales or use tax, but not both.
w. "WAC" – Washington Administrative Code

9.2 Purchasing Code of Ethics

To instill public confidence in the award of public contracts and the expenditure of public funds, the City adopts the following code of ethics regarding public contracting:

a) Actions of City employees shall be impartial and fair;
b) City decisions and policies shall be made in compliance with required procedures and within the proper channels of government structure;
c) Public employment shall not be used for personal gain, and City employees shall not solicit, accept, or agree to accept any gratuity, or anything of monetary value, for themselves, their families, or others, including city contractors or consultants, that would or could result in personal gain. Purchasing decisions shall be made impartially, based upon the City's specifications for the contract and the responses of those bidding on the contract; and
d) No employee, officer, or agent may participate in the selection, award, or administration of a contract supported by federal award if he or she has a real or apparent conflict of interest. Such a conflict of interest would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from a firm considered for a contract.

9.3 Controlling Laws

The expenditure of public funds for the purchase of and contracting for goods, services, supplies, and materials shall comply with all applicable state law requirements as set forth in the Revised Code of Washington (RCW) and the Washington Administrative Code (WAC). Where this policy conflicts with state law requirements, the more restrictive provision shall prevail. Where this policy is silent with regards to purchasing and/or bidding requirements, state law shall prevail.
Purchases and/or contracts that include federal funding shall also comply with the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, published under Title 2 of the Code of Federal Regulations (2 CFR 200), hereinafter referred to as the Uniform Purchasing Guidance. Procurements involving federal funds must adhere to the most restrictive bid thresholds, refer to City of Stanwood "Procedures for Federal Procurements."

Monitoring and Compliance

Each department director shall implement, monitor, and enforce these policies. In the event of any conflict in procurement requirements or questions about proper procedure or other requirements, the matter shall be referred to the City Administrator and/or the Administrator's designee for further action. Willful or intentional violations of public procurement requirements may result in personal penalties, financial liabilities, and/or discipline (RCW 39.30.020).

In addition to the enforcement of these policies, the department director shall insure that reasonable measures are taken to safeguard protected, personally identifiable information and other information the federal awarding agency or pass-through entity designates as sensitive or that the City considers sensitive consistent with applicable federal, state, and local laws regarding privacy and obligations of confidentiality.

9.4 Proper Authorization/Certifications

Only authorized employees acting within the scope of their authority may obligate the City in the acquisition of goods or services. Any employee purchasing goods on behalf of the City without proper authorization may be personally liable to the vendor and/or to the City and subject to disciplinary action.

For federally funded purchases and contracts, to assure that expenditures are proper and in accordance with the terms and conditions of the federal award and approved project budgets, the annual and final fiscal reports or vouchers requesting payment under the agreement must include a certification, signed by an official who is authorized to legally bind the City, which reads as follows:

> "By signing this report, I certify to the best of my knowledge and belief that the report is true, complete, and accurate, and the expenditures, disbursements, and cash receipts are for the purposes and objectives set forth in the terms and conditions of the federal award. I am aware that any false, fictitious, or fraudulent information, or the omission of any material fact, may subject me to criminal, civil, or administrative penalties for fraud, false statements, false claims, or otherwise. (US Code Title 18, Section 1001 and Title 31, Sections 3729-3730 and 3801-3812.)"

9.5 Budget Sufficiency

Each department director must ensure that purchases are initiated only when the departmental budget is sufficient to cover the anticipated cost. Expenditures that exceed departmental appropriations require a budget amendment approved by City Council. Requests for budget amendments must be submitted in writing and shall be approved by the requesting director or manager and forwarded to the City Administrator and Finance Director for review prior to being forwarded to the City Council for approval.

Financing

If a department is requesting financing for equipment or vehicles, it is necessary to work with the Finance Director. Financing documentation shall be included as part of the documentation for City Council approval to authorize Mayor or designee to sign loan or bond documents.

9.6 Breaking Down or Bid Splitting Purchases

The breaking down or bid splitting of any purchase or contract into units or phases for the purpose of avoiding the maximum dollar amount is prohibited.

9.7 Cost

Purchase cost includes sales tax, use tax, delivery charges, and any related miscellaneous charges.

9.8 Local Businesses

Local businesses should be encouraged to submit bids on City procurements that are open to everybody. When determining the lowest bid on purchase of supplies, materials, or equipment, the City may, whenever indicated in advance, take into consideration sales tax revenue it would receive from a supplier located within its boundaries pursuant to RCW 39.30.040.

9.9 Contract Authorizations

a) Expenditures are required to be included in the annual budget.
b) Contract authorizations apply to the aggregate cost of individual items, whether purchased in one order or over a series of orders. Cost is inclusive of sales tax, use tax, delivery charges, and any related miscellaneous charges.
c) The Mayor or designee may execute professional services, and purchased services contracts, up to $100,000 (one hundred thousand), as long as the contract is consistent with the adopted budget.
d) Services contracts greater than $100,000 (hundred thousand) require Council authorization.
e) Contracts of any amount that are not consistent with the adopted budget require Council approval.
f) Initial Interlocal agreements of any amount with governmental agencies require Council authorization. The Mayor or designee up to $100,000 (one hundred thousand) may execute renewal or extension of existing Interlocal agreements with governmental agencies, if the agreement's terms address renewal and the agreement is consistent with the adopted budget. All other renewals require Council approval.
g) The Mayor or designee may present any contract to the Council for approval even if the contract is not required to be approved by the Council.

9.12. <u>PUBLIC WORKS PROJECTS</u>

The preparation of plans and/or specifications and an estimate of project cost shall be authorized by the Mayor or designee for projects up to $100,000 and by the City Council for larger projects.

Type of Purchase or Project	Process	Other Requirements	Contract Authorization
Projects costing under $350K	May use Small Works Roster (the City uses the MRSC Rosters RCW 39.04.155)	• Prevailing wage • Insurance • Contract/ Performance bond* • Bid bond/deposit (unless using Small Works Roster)	• Must be budgeted • If under $100K, Mayor or designee may execute • All other must be approved by Council
Projects costing $350K or more	Formal bids	• Prevailing wage • Insurance • Contract/ Performance bond • Bid bond/deposit	• Must be budgeted • Requires Council approval
Projects costing under $65K (Alternative to the Small Works Roster)	Solicited quotes	• Prevailing wage • Contract/ Performance bond required between $10K to $40K	• Must be budgeted • Mayor or designee may execute
Projects with costs exceeding $65K for single or multiple trades and less than $300K	Must call for bids or use Small Works Roster process to solicit quotes	• Prevailing wage • Insurance • Contract/ Performance bond • Bid bond/deposit (unless using Small Works Roster)	• Must be budgeted • If under $100K, Mayor or designee may execute • All other must be approved by Council
Projects less than $2,500	One quote needed, two recommended	• Appropriate form(s) for prevailing wages • No bond • No retainage	• Must be budgeted • Mayor or designee may execute
Projects with costs less than $75,500 for single or $116,155 for multiple trades	Day Labor may be used	• For projects >$25K publish proj. description and estimated cost 15 days prior to work • For projects >$5K keep a record of the project cost (RCW 39.04.070)	Not applicable

* On contracts of $150,000 or less, at the option of the contractor, the City may, in lieu of the bond, retain ten percent of the contract amount for a period of thirty days after date of final acceptance, or until receipt of all necessary releases from the department of revenue, the employment security department, and the department of labor and industries and settlement of any liens filed under chapter 60.28 RCW, whichever is later.

Regardless of cost limits, the City may in its discretion solicit formal bids at any time.

Project budget authorization may include a project contingency, not to exceed 20% (twenty percent). If additional budget authority is needed for the project, Council must approve the increase for budget amendment prior to approval of the contract.

9.12.1 Construction Contract Change Orders

Construction Contract change orders which fall within the Council approved scope, project budget, and project contingency may be executed by the Mayor or his/her designee. Authority to approve Construction Contract change orders is delegated by the City Council as follows:

Public Works Director—up to five percent of the contract, or $25,000.00.

Mayor or City Administrator—up to ten percent of the contract, or $100,000.00.

Construction Contract which would change the scope of the project and/or exceed the Council approved project budget beyond these stated limits, and Council approved project contingency would require additional Council action. All change orders, regardless of amount, will be reported to Council in the Quarterly Finance Report ~~on a monthly basis~~.

9.12.2 Prevailing Wage Laws

Public work projects and maintenance, when performed by contract, are governed by chapter 39.12 RCW, Prevailing Wages on Public Works regardless of contract amount. It is the responsibility of the contracting employee to notify the vendor of prevailing wage requirements and obtain compliance documentation prior to awarding any public work or maintenance contract. Public work and ordinary maintenance contracts will only be awarded to contractors who document compliance with the Washington State Prevailing Wage Law. The department director or designee managing the project is responsible for collecting ongoing compliance documents. If a contractor is found to be in violation of prevailing wage laws by the Department of Labor and Industries, the City will have to withhold payment (including retainage) from that contractor.

PROFESSIONAL AND PERSONAL SERVICES

Type of Purchase	Process	Other Requirements	Contract Authorization
Architectural and Engineering Services	Request for Qualifications (RCW 39.80), individually or on-call rosters, or the MRSC Roster Process	• Publish RFQ • Must evaluate on performance and qualifications • Negotiate contract after selection	• Must be budgeted • If under $100K, Mayor or designee may execute • All other must be approved by Council
All other personal services	No process required by state law		• Must be budgeted • If under $100K, Mayor or designee may execute • All other must be approved by Council

Any professional and/or personal services contracts not part of the budget, regardless of amount, must be authorized by Council.

9.12.3 Purchases of Materials, Supplies, and Equipment

Type of Purchase	Process	Other Requirements	Contract Authorization
Items costing less than $7,500	No state law required process	Less than $3,000 require documented cost comparison. $3,000 to $7,500 obtain 3 quotes	• Must be within department budget • Department director or designee may execute
Items costing over $7,500	Must call for bids or use State Bid Contract, MRSC Vendor List, or other Interlocal bid process approved by Council	Publication of RFP if bidding	• Must be within department budget • Over $7,500 but less than $50K, Mayor or designee may execute • Over $50K, Council must authorize

9.13 Reporting

Information for ***any*** public work, personal, professional, and/or purchased services contracts approved and signed under the authority of the procurement policy ***that do not go to Council*** will be forwarded to the Mayor's office with copies to the City Administrator and the Finance Director. A list of the contracts approved under this delegated authority each quarter will be included in the quarterly finance report to the Council.

9.14 Miscellaneous

A lease of property with option to purchase, where the cost of the real or personal property to be leased exceeds the amounts specified in RCW 35.23.352, shall be treated similar to a public works project (RCW 35.42.220) subject to the same process requirements as outlined in Section 5 of this policy.

A competitive negotiation process, as an alternative to bidding, may be used for computer and telecommunications equipment, software, and services (RCW 39.04.270). Item(s) must be within budget and may be authorized by the department head if under \$7,500, by the Mayor or designee if between \$7,500 and \$50,000, and by the Council if over \$50,000.

If the public works project is for street signalization or street lighting, it is treated as a single craft or trade project for bidding purposes.

9.15 Formal Bid Requirements

The following shall apply for public work contracts and when formal bidding is required for the purchase of materials, supplies, or equipment, except as otherwise noted:

- To ensure consistency and fair process, the City will use standard forms, documents, contracts, and terms and conditions, when practical. The City's Project Coordinator will maintain templates for bid-related documents for use by departments when practical. The City may use an evaluation selection committee to promote an open, proper selection. The requesting department director will appoint committee members to act in an advisory capacity.
- Minimum qualifications and/or specifications are stated to ensure bids address the needs of the City. Minimum qualifications cannot be used to eliminate qualified contractors and vendors. Minimum qualifications should be tested against the marketplace to ensure they aren't overly restrictive.
- When practical for public works contracts, the City will conduct a pre-bid conference to allow a thorough discussion of the City's intent, scope, specifications, and terms. Interested companies should be encouraged to attend.
- Selection of a winning offer is based primarily on lowest responsive bid. Quality and expertise, however, may be a consideration to the extent legally permissible.

9.16 <u>Formal Competitive Bid (RCW 35.23.352(1)</u>

I. Publication of Notice.

After City Administrator authorization, the requesting department director (or designee) will publish the Call for Bids for sealed bids in the official newspaper or a newspaper of general circulation most likely to bring responsive bids and ensure notice is posted on the City web page, at least thirteen (13) days prior to bid submittal deadline.

II. Notice Contents for Public Works Contracts.

Notice (or advertisement) for bids should contain definite specifications and procedures for bidders to use to estimate their bids. At a minimum, a bid notice for public works must include:

a. Project title;
b. Nature and scope of work;
c. Where contract documents (plans and specifications) can be reviewed or obtained;
d. Cost to obtain a set of contract documents;
e. Place, date, and time that bids are due;
f. Place, date, and time that bid will be opened;
g. Statement that a bid bond must accompany the bid;
h. Statement that the City retains the right to reject any and all bids and to waive minor irregularities in the bids and/or the bidding process;
i. Statement that the contract involves “public work” and that workers shall receive the prevailing rate of wage pursuant to the Prevailing Wages on Public Works Act (Chapter 39.12 RCW);
j. List of the applicable prevailing wage rates or prevailing wage statement;
k. Statement that the City is an equal opportunity employer and invites responsive bids from all qualified responsible bidders;
l. The materials and equipment to be furnished, if any.

III. Notice Contents for Purchases of Materials, Supplies, or Equipment.

Notice (or advertisement) for bids should contain definite specifications and procedures for bidders to use to estimate their bids. At a minimum, a bid notice must include:

a. Name and description of requested items;
b. Where contract documents (plans and specifications) can be reviewed or obtained;
c. Cost to obtain a set of contract documents;
d. Place, date, and time that bids are due;
e. Statement that the City retains the right to reject any and all bids and to waive minor irregularities in the bidding process;
f. Place, date, and time that bid will be opened.

9.17 Bid Opening

Bids are submitted to the responsible department director or designee, where they are time and date stamped and processed. The bids shall be opened at the time and place specified in the advertisement for bids.

I. Report on Bids: The responsible department director or designee will prepare a report and recommendation on all bids received to the decision maker with the authority to approve the contract.

II. Bid Award: The City shall award the contract to the lowest responsible bidder or shall have power by Council resolution to reject any or all bids and to make further calls for bids in the same manner as the original call.

III. Bid Bonds for Public Works Contracts: Upon award of a public works contract or rejection of all bids, bid bonds shall be returned to the unsuccessful bidders. The successful bidder's bid bond or deposit shall be retained until the bidder enters into a contract with the City and furnishes a performance bond in the full amount of the contract price.

9.18 Small Works Roster (RCW 39.04.155(1) and (2))

RCW 39.04.155 provides uniform small works roster provisions to award contracts for construction, building, renovation, remodeling, alteration, repair, or improvement of real property. The Small Works Roster may be used for public work projects valued below $350,000 in lieu of formal bidding. Use of the Small Works Roster allows the City to waive the advertisement requirements of the formal competitive process.

The Washington State Municipal Research Services Center (MRSC) compiles small works rosters for cities and counties throughout the State of Washington. The City of Stanwood has contracted with MRSC to use its small works rosters for public works contracts valued below $350,000.

a) Invitations for Quotations.
   Invitations for quotations shall include an estimate of the scope and nature of the work to be performed as well as materials and equipment to be furnished. However, detailed plans and specifications need not be included in the invitation. This subsection does not eliminate other requirements for architectural or engineering approvals as to quality and compliance with building codes.

   Quotations shall be invited from all, or at least fiver (5), appropriate contractors.

b) Vendors/contractors selected from the Small Works Roster are not relieved from observing applicable legal requirements such as Contract Bond, Prevailing Wage, Retainage, etc.

c) Immediately after an award is made, the bid quotations obtained shall be recorded, open to public inspection, and available by telephone inquiry.

d) As required by RCW 39.04.200, the City must post a list of contracts awarded from the small works roster once every year. The list must contain the name of the contractor, the amount of the contract, a brief description of the type of work performed, and the date of the award.

9.19 Limited Public Works (RCW 39.04.155(3))

For public work projects with an estimated cost of less than $50,000, the City may use the Limited Public Works Process in lieu of the small works process.

a) Invitations for Quotations.

Invitations for quotations shall include an estimate of the scope and nature of the work to be performed as well as materials and equipment to be furnished. However, detailed plans and specifications need not be included in the invitation. This subsection does not eliminate other requirements for architectural or engineering approvals as to quality and compliance with building codes.

b) Number of contractors invited.

Quotations shall be invited from a minimum of three contractors from the appropriate small works roster and shall award the contract to the lowest responsible bidder. If no bids are received, see **Section 9.20.7** for guidance.

c) Notification of Award.

After an award is made, the quotations shall be open to public inspection and available by electronic request. The City shall maintain a list of the contractors contacted and the contracts awarded during the previous twenty-four months under the limited public works process, including the name of the contractor, the contractor's registration number, the amount of the contract, a brief description of the type of work performed, and the date the contract was awarded.

d) Prevailing Wage/Insurance

Vendors/contractors selected using the Limited Public Works Process are required to comply with prevailing wage and insurance requirements.

9.20 Exemptions to competitive bidding requirements

RCW 39.04.280 provides uniform exemptions to competitive bidding requirements utilized by municipalities when awarding contracts for public works and contracts for purchases.

9.20.1 Purchases that are clearly and legitimately limited to a single source of supply (Sole Source Vendor)

If, after conducting a good faith review of available resources, the requesting department director determines that there is only one source of the required materials, supplies, or equipment, a purchase contract may be awarded without complying with established bid requirements. The requesting department director will submit a written request for sole source procurement to the Finance Director, and Mayor or City Administrator, ~~Council~~ for approval, and conduct price, terms, and delivery negotiations, as appropriate. The vendor must certify in writing that the City is getting the lowest offered price.

The Mayor or City Administrator ~~Council~~ shall approve all sole source purchases ~~by resolution~~ in a form that identifies the factual basis for the sole source justification and concludes that "the purchase is clearly and legitimately limited to a single source or supply." A sole source resolution shall not be required in case of emergency, under the terms and conditions specified in RCW 39.04.280(2)(b) and (c). On-going sole source purchases of materials, equipment, and supplies should be reviewed annually to ensure the pricing is still the lowest price for the City and that the conditions that justify the sole source purchase still exist.

9.20.2 Purchases involving special facilities or market conditions

By authority of RCW 39.04.280(1)(b) ~~authorizes~~ the City Council ~~by resolution~~ hereby delegates authority to the Mayor or City Administrator to waive established bidding requirements if an exceptional opportunity arises to purchase favorably priced equipment or supplies or used goods that will be sold before the City can conduct the bid process. ~~resolution~~ A procurement summary must be approved by the Finance Director and Mayor or City Administrator, and must set forth the factual basis for the special market conditions.

9.20.3 Quarterly Reporting of Sole Source Exceptions Required

A list of the contracts approved under this delegated authority each quarter will be included in the quarterly finance report to the Council.

9.20.3 Auctions

RCW 39.30.045 authorizes the City to acquire supplies, materials, and equipment through an auction conducted by an agency of the State of Washington, an agency of the United States, any municipality or other government agency, or any private party if the items can be obtained at a competitive price.

9.20.4 Surplus Property

The City may acquire surplus property from another government without the use of competitive quotes or bids (RCW 39.33.010), when it is possible to procure obvious bargains through the procurement of surplus material, supplies, or equipment. The requesting department director will submit a written request for procurement to the Mayor for approval, and conduct price, terms, and delivery negotiations, as appropriate.

9.20.5 Purchases in the event of an emergency

Emergency is defined as "…unforeseen circumstances beyond the control of the municipality that either: (a) present a real, immediate threat to the proper performance of essential functions; or (b) will likely result in material loss or damage to property, bodily injury, or loss of life if immediate action is not taken." If an emergency situation has been declared, the Mayor or designee may make or authorize others to make emergency procurements of materials, supplies, equipment, or services without complying with the requirements of this policy when there exists a threat to public health, welfare, or safety or threat to proper performance of essential functions; provided, that such emergency procurements shall be made with such competition as is practical under the circumstances. A written determination of the basis for the emergency and for the selection of the particular contractor/vendor shall be included in the contract file. As soon as practical, a record of each emergency procurement shall be made and shall set forth the contract's name, the amount and type of the contract, and listing of the item(s) procured under the contract, which shall be reported to the Council at the next subsequent meeting. If a contract is awarded without competitive bidding due to a declared emergency, the City Council must adopt a resolution certifying the emergency situation existed no later than two weeks following the award of the contract (RCW 39.04.280(2)(b)). The persons authorized to issue an emergency proclamation under SMC 2.80.010, in the same order of succession, are authorized to declare an emergency for purposes of this bidding exemption.

9.20.6 Interlocal Agreements

The City may enter into Interlocal agreements with other public agencies similarly authorized under RCW 39.34.030. State law regarding competitive bidding shall govern any cooperative purchasing agreement. The competitive bid process of the original jurisdiction may substitute for Stanwood's if consistent with the bidding laws that apply to Stanwood. "Piggybacking" on other jurisdiction bids requires an Interlocal agreement. All Interlocal cooperative-purchasing agreements shall be presented to Council for approval.

The City of Stanwood may be able to realize savings through quantity purchasing with the following organizations:

a) US Communities Shared Purchasing.US Communities is a national collective of local and state agencies that have gathered under a non-profit to bid on items for shared purchasing. The City of Stanwood has registered with US Communities, allowing the City to use any US Communities contract that meets our needs. Cities and counties from around the country bid the US Communities contracts. They are all subject to bid laws that are similar to those in Washington, and they conduct competitive sealed bids or proposals in much the same way, if not exactly the same way, as we do in Washington. However, use the same care to review the US Communities contracts to verify that they do not violate the City's Procurement Policies and Procedures or Washington state law. All US Communities purchasing agreements shall be presented to Council for approval.

b) Department of Enterprise Services (DES)

The City of Stanwood may be able to realize savings through the DES's quantity purchasing. Use of DES requires an Interlocal agreement with the State of Washington approved by the City Council.

9.20.7 No Bids or Quotations Received

When no responsive bids or quotations are received in response to an invitation to bid or request for quotations, the department director or his/her designee is authorized to procure the required item through direct negotiations with a vendor or to rebid, or do the project with City employees for public works contracts, as the Mayor or his/her designee deems appropriate.

10. EXPENSE REIMBURSEMENT

City employees will be reimbursed for reasonable and customary expenses actually incurred while performing official City business. The City will not reimburse for expenses that have already been paid by another program or organization, or if reimbursement is available through another program or organization.

10.1 Travel

Meal and travel reimbursement should be paid at the Federal Domestic Per Diem Rate as posted by the U.S. General Services Administration. All expense payments or reimbursements for travel and/or subsistence expenses must meet the requirements set forth in the City of Stanwood Financial Procedures Manual, which establishes procedure related to obtaining travel authorization, advance travel funds, and expenditure or reimbursement for travel and subsistence expenses incurred in conduct of business of the City.

The Finance Director is responsible to create and monitor travel authorization and reimbursement procedures and forms, and to provide training and oversight of all city travel.

10.2 Meals & Refreshments at Meetings

Situations arise in which such provision of meals or light refreshments would allow work on city business or city training to continue through meal times, or in which the event atmosphere and morale of participants would facilitate progress on work activities. One example is the National Night Out; other examples include city provision of light refreshments during evening volunteer activities, such as citizen advisory boards or commissions.

The Finance Director shall provide staff guidance regarding appropriate events at which meals or light refreshments are authorized and will provide instruction to ensure appropriate approvals are obtained and documentations are maintained. The city must also consider Internal Revenue Service regulations covering the income tax consequences of providing food and beverages to employees.

10.3 Credit Cards

In accordance with RCW 43.09.2855, local governments are authorized to use credit cards or procurement cards for official government purchases and acquisitions. Cash advances on credit cards or procurement cards are prohibited. Credit cards and procurement cards may not be used to purchase alcoholic beverages. It will be the responsibility of the Finance Director to assign credit cards or procurement cards to employees that need them for City operations.

The Finance Director is authorized to obtain purchasing cards (P-Cards) by participation in the statewide contract administered by DES, ~~Office of State Procurement (OSP)~~ and to provide rules, guidance and procedures for their use. This contract allows the City to earn a quarterly rebate based on the volume spent and timely payment. The use of the P-Card does not relieve the employees from complying with other City and departmental policies and procedures.

10.4 Fuel Credit Cards

Fuel credit cards offer an efficient way for city staff to re-fuel vehicles in the course of city business. Fuel credit cards also offer a way to track fuel purchases and monitor fuel use. The Finance Director is authorized to utilize state-procured contracts to obtain fuel credit cards and to provide rules, guidance and procedures for their use.

10.5 Store-Issued Credit Accounts

The City discourages the practice of requesting new charge accounts from vendors unless the vendor will not accept a procurement card or check on delivery and the City will realize cost savings or has time constraints. It is the City's preference for employees to use the procurement cards whenever possible.

11. <u>Cost Allocation</u>

a. The City of Stanwood desires to comply with all laws and recommendations in calculating and receiving full cost recovery for services rendered to other funds.

b. Cost allocation is a method to identify and distribute indirect costs. Direct costs are costs assignable to a specific objective, whereas indirect costs are costs incurred for multiple cost objectives or not assignable to a specific cost objective without effort disproportionate to the benefit received.

c. The Washington State Auditor's Office prescribes the accounting and reporting of local governments in the State of Washington under the Revised Code of Washington (RCW) Washington State law provides, at RCW 43.09.210. It states in part:

d. *Separate accounts shall be kept for each department, public improvement, undertaking, institution, and public service industry under the jurisdiction of every taxing body. All service rendered by, or property transferred from, one department, public improvement, undertaking, institution, or public service industry receiving the same, and no department, public improvement, undertaking institution, or public service industry shall benefit in any financial manner whatever by an appropriation of fund made for the support of another.*

e. *The RCW does not specifically address how "full value" is to be determined.*

f. RCW 35A.33.122/35A.34.205/35.33.123 states:

Administration, oversight, or supervision of utility – Reimbursement from utility budget authorized. Whenever any code city apportions a percentage of the city manager's, administrator's, or supervisor's time, or the time of other management or general government staff, for administration, oversight, or supervision of a utility operated by the city, or to provide services to the utility, the utility budget may identify such services and budget for reimbursement of the city's current expense fund for the value of such services.

g. Governmental Accounting Standards Board (GASB)

The GASB is an independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments. While GASB is not a governmental agency and does not have enforcement authority, compliance with GASB is tested by the Washington State Auditor's Office's annual audit of the City.

h. The Finance Director is responsible for developing and monitoring cost allocation procedures that comply with the guidance provided by GASB, the Washington State Auditor's Office, Budgeting, Accounting and Reporting System (BARS), and the guidance in 2 CFR 200, Uniform Guidance.

12. <u>Short and Long Term Debt Policies</u>

a. Short-term debt is defined as a period of three years or less.

b. The city may use short-term debt to cover temporary cash flow shortages, which may be caused by a delay in receipting tax revenues or issuing long-term debt. The city will not use short-term debt for current operations.

c. The city may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations. All interfund short-term borrowing will be subject to council approval by ordinance or resolution and will bear interest based upon prevailing rates.

d. Long-term debt is that debt which exceeds three years.

e. The city will utilize long-term borrowing for capital improvements that cannot reasonably be financed on a pay-as-you-go basis from anticipated cash flows.

f. Acceptable uses of bond proceeds are items which can be considered capital assets. Refunding bond issues designed to restructure currently outstanding debt is also an acceptable use of bond proceeds provided that the net present value (NPV) of savings is at least four percent (4%).

g. The city will determine whether self-supporting bonds (such as special assessment improvement district bonds) are in the city's best interest when planning to incur debt to finance capital improvements.

h. The city will not use long-term debt for current operations.

i. The city will maintain good communications with bond rating agencies about its financial condition. The city will follow a policy of full disclosure on every financial report and bond prospectus including proactive compliance with disclosure to the secondary market.

j. Unlimited Tax General Obligation Bond Policy

    1. Every project proposed for financing through general obligation debt shall be accompanied by a full analysis of the future operating and maintenance costs associated with the project.
    2. Bonds cannot be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed.
    3. Before general obligation bond propositions are placed before the voters, the capital project under consideration should have been included in the Capital Improvement Program. The source of funds should describe the intended use of bond financing.

k. Limited Tax General Obligation (Councilmanic) Bond Policies:

1. As a precondition to the issuance of limited tax general obligation bonds, alternative methods of financing should also be examined.
2. Limited tax general obligation bonds should only be issued under certain conditions:
    a) A project requires monies not available from alternative sources;
    b) Matching fund monies are available which may be lost if not applied for in a timely manner; or
    - Catastrophic conditions.

l. Financing of Lease Purchases

i. Under State law, the public may vote to approve bond issues for general government purposes in an amount not to exceed 2.5% of assessed valuation (AV). Within the 2.5% limit, the City Council may approve bond issues and/or lease purchases up to 1.5% of the City's total AV. In addition, state law provides for an additional 2.5% of AV for parks and open space purposes with a vote of the public.

ii. Lease purchase financing may be used when the cost of borrowing or other factors make it in the city's best interest.

13. <u>Grant Administration</u>

1. Applications for grants must be reviewed by the city administrator and/or the mayor prior to submission. Grants in the amount of $25,000 or less may be approved by the mayor. Grants in excess of that amount are subject to the approval of the city council.
2. The department director receiving the grant shall be designated the grant manager and as such is responsible for all grant compliance and recordkeeping requirements. This includes:
    a. Monitoring to ensure grant activities are properly performed.
    b. Submitting grant reimbursement requests in a timely manner with the required supporting documentation. Reimbursement requests shall be submitted to the finance department for review prior to submittal to grantor.

    c. Maintaining complete records. This includes the grant application, the grant contract and amendments, any correspondence with the grantor, grant reimbursement requests and supporting documents, any reports submitted to the grantor, etc.
    d. Coordinating with the finance department to ensure that all grant accounting and reporting requirements are met.
3. Financial transactions relating to grants are subject to more specific accounting and financial reporting requirements than other types of transactions. In order to ensure the City correctly accounts for and report grants, the grant manager must forward copies of the following to the finance director within thirty (30) days of receipt:
    a. Copies of the grant agreement and all amendments.
    b. Copies of any extensions of time authorized by the grantor.
    c. Copies of all grant billings and supporting documentation.
    d. Notification of the close of the grant.
    e. Notification of any audit to be performed by the grantor.

14. Investment Policies

14.1 Policy:

It is the policy of the City of Stanwood to invest public funds in a manner which will provide the maximum security of the principal while meeting the daily cash flow demands of the city and highest investment return while conforming to all Washington statutes governing the investment of public funds, in this specific order.

14.2 Scope:

This investment policy applies to all financial assets of the City of Stanwood other than any Fiduciary funds which include, but is not limited to Deferred Compensation Plan funds managed externally; Contractors Deposit funds; and such funds excluded by law or bond covenant.

The applicable funds are accounted for in the City's Annual Financial Report and include:

General Fund
Special Revenue Funds
Capital Project Funds
Enterprise Funds
Debt Service Funds (unless prohibited by bond covenant)
Internal Service Funds
Any new fund created by Council, unless exempted by Council.

14.3 Prudence:

Investments shall be made with judgment and care - under circumstances then prevailing - which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

a. The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

14.4 Objective:

The primary objectives, in priority order, of the City's investment activities shall be:

a. Safety: Safety of principal is the foremost objective of the City of Stanwood. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

b. Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

c. Return on investment: The City's investment portfolio shall be designed with the objective of attaining a market rate of return given the City's risk constraints and cash flow requirements.

14.5 Delegation of Authority:

Management responsibility for the investment program is assigned to the Finance Director (SMC 2.08), who shall establish and monitor written procedures for the operation of the investment program, consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

a. Investment Committee: The Finance Committee and the Finance Director shall serve as the Investment Committee. The committee shall meet quarterly and provide overall guidance with regard to investment transactions. The committee will review and authorize financial dealers and institutions as provided for in Section 7.

14.6 Ethics and Conflicts of Interest:

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Mayor any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City of Stanwood, particularly with regard to the time of purchases and sales.

14.7 Authorized Financial Dealers and Institutions:

The Finance Director will maintain a list of broker/dealers and financial institutions authorized to provide investment services to the city. Authorized broker/dealers and financial institutions will be limited to those that are approved by the Investment Committee and meet one or more of the following:

- Financial institutions approved by the Washington Public Deposit Protection Commission (RCW 39.58); or,
- Primary dealers recognized by the Federal Reserve Bank; or,
- Non-primary dealers qualified under the U.S. Securities and Exchange Commission Rule 15C3-1, the Uniform Net Capital Rule, and a certified member of the Financial Industry Regulatory Authority (FINRA)~~National Association of Securities Dealers~~.

Each authorized broker/dealer or financial institution will be selected by creditworthiness, required to maintain an office in the State of Washington, and required to regularly submit annual reports, including audited financial statements. Additionally, broker/dealers are required to complete a broker/dealer questionnaire or any other information that may be required by the City to assess the qualifications of the firm. An annual financial statement is required to be on file for each financial institution and broker/dealer with which the City invests.

14

8 <u>Authorized Investments</u>:

Authorized investments are securities and investments authorized by state statute as defined in RCW's 39.58 and 39.59. Authorized investments include:

a. Investment deposits, including certificates of deposit, with qualified public depositories as defined in RCW 39.58.

b. Certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States (such as the Government National Mortgage Association).

c. Obligations of government-sponsored corporations which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. (These include but are not limited to Federal Home Loan Bank notes and bonds, Federal Farm Credit Bank consolidated notes and bonds, and Federal National Mortgage Association notes, bonds and guaranteed certificates of participation.)

d. Bankers' acceptances purchased on the secondary market.

e. Bonds of the State of Washington and any local government in the State of Washington which have, at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency.

f. Repurchase agreements for securities listed in 2, 3, and 4 above, provided that the transaction is structured so that the City of Stanwood obtains control over the underlying securities and a Master Repurchase Agreement has been signed with the bank or dealer.

g. State Investment Pool.

h. Commercial Paper purchased in the secondary market and having received the highest rating by at least two (2) Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase and adhering to the investment policies and procedures adopted by the State Investment Board.

i. Mutual funds used specifically for debt issues related to arbitrage.

j. Investment Pool Offered by Local Government (e.g. Snohomish County Investment Pool)

14.9 <u>Safekeeping and Custody</u>:

All security transactions, including collateral for repurchase agreements, entered into by the City of Stanwood shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Finance Director. Certificates of Deposit in the City's name, or confirmations of them, will be delivered to and held in the Finance Department.

14.10 <u>Diversification</u>:

The City will diversify its investments by security type and institution. The following schedule provides the maximum holdings in any one type of investment or with any one issuer.

Type of Security	Maximum Holdings
Certificates of Deposit	50% of Portfolio 10% per Issuer 20% of Issuer's Net Worth
U.S. Treasury Notes, Bonds or Certificates	100% of Portfolio
U.S. Government Sponsored Corporations	100% of Portfolio
Bankers Acceptances	25% of Portfolio 10% per Issuer
State of Washington or Local Government Bonds	25% of Portfolio 10% per Issuer
Repurchase Agreements	25% of Portfolio 25% per Dealer
State or Investment Pool Offered by Local Government (e.g. Snohomish County Investment Pool)	100% of Portfolio
Commercial Paper	10% of Portfolio 10% per Issuer
Mutual Funds	Arbitrage related only
Other Authorized Investments	10% of Portfolio

Separate guidelines containing additional or more restrictive limitations for certain investment instruments are contained in the investment procedures document.

14.11 <u>Maturities</u>:

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow or restricted by state guidelines, the City will not directly invest in securities maturing more than five years from the date of purchase. However, the City may collateralize its repurchase agreements using longer-dated investments.

Separate guidelines containing additional or more restrictive limitations for certain investment instruments are contained in the investment procedures document.

14.12 Internal Control:

The Finance Director shall establish a process of independent review by an external auditor. This review will provide internal control by assuring that policies and procedures are being complied with. Such review may also result in recommendations to change operating procedures to improve internal control.

14.13 Performance Standards:

The City of Stanwood's investment portfolio will be designed with the objective of attaining a rate of return commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

a) **Average Rate of Return:**
The basis used by the Finance Director to determine whether an average rate of return is being achieved shall be the 2 year average of the 2-Year Treasury Note.

14.14 Reporting:

The Finance Director will include a report on investments held and the portfolio’s returns compared to benchmark in the City's Quarterly Financial Report.

14.15 Investment Policy Review:

The City of Stanwood's investment policy shall be reviewed on a biennial basis by the Finance Committee and any modifications made thereto must be approved by the City Council.

15. Authorization & processing of ACH/Electronic Funds Transfers

15.1 PURPOSE AND SCOPE

The City of Stanwood makes payments to vendors and employees by electronic funds transfer and also receives funds from various parties as a routine business practice. All such payments must be properly authorized and executed to reduce the risk of erroneous or fraudulent transactions.

15.2 INTERNAL CONTROL REQUIREMENTS

To protect EFT transactions from internal and external threats, the following controls will be adhered to:

a. Implementation of bank offered security measures to prevent unauthorized individuals from initiating or modifying a transfer, i.e., use of positive pay.

b. Each user initiating or approving bank transactions must have separate bank User IDs.

c. Separate users must initiate and authorize electronic transactions.

d. Use of pre-established templates for specific transaction types and specific accounts may be authorized in advance by the Finance Director, however, new templates must be initiated by one user and authorized by the Finance Director.

e. The process for creating, securing, sending and authenticating direct deposit transmittal files to prevent unauthorized modification or submission is documented below.

f. Adherence to City of Stanwood computer policies and procedures to protect the computers and computing processes used for EFTs from computer malware.

g. Regardless of payment method, i.e., wire transfer, ACH or paper warrant (check), employees shall adhere to the authorization and processing requirements outlined in Section 13 in the City Procurement Policies and Procedures Manual.

h. Changes to employee direct deposit must be processed using the Direct Deposit Authorization Form, under no circumstances will account changes be authorized by telephone or email.

i. Changes to vendor ACH accounts must be processed using the EFT (ACH/Wire Transfer) Authorization Form, under no circumstances will account changes be authorized by telephone or email.

15.3 Types of Payments Made via ACH:

a. **Vendor Payments:** In its normal course of business, the City of Stanwood remits the following types of vendor payments via ACH: Supplier payments, Employee reimbursements, routine payments to the WA State Treasurer.

b. **Wire Transfers:** transfer for investment purchases, bond proceeds, interest payments and maturities are routinely processed by wire between the City and US Bank (custodial account) and between the City and the Local Government Investment Pool.

c. **Customer Direct Debit:** Customers have the option to direct the city to directly debit their bank account to make their payments.

d. **Payroll – Fulltime Employees:** in order to standardize procedures and reduce the number of individual transactions, the City of Stanwood highly encourages all employees to be paid by ACH direct deposit.

e. **Payroll – Part-time Employees:** The city will offer all part-time employees the option to be paid by ACH direct deposit.

f. **Payroll – Temporary Employees:** The city will offer all temporary employees the option to be paid by ACH direct deposit.

For suppliers and employees being paid by paper warrant (check), the city shall adhere to the requirements for payment approvals and accounts payable documentation and processing as described in City of Stanwood Financial Management Policy, and other applicable laws.

With very few exceptions, checks issued to suppliers should only be delivered to the supplier by United States mail or its equivalent. Payroll checks may be delivered directly to the employee. Exceptions must be documented and authorized by the Finance Director. Under no circumstances is a check to be mailed earlier than the dated date of the check.

15.4 TRAINING

To ensure consistent compliance with procedures, employees tasked with processing, reconciling and record-keeping will train in proper procedures and internal controls prior to conducting these functions.

15.5 DEFINITIONS

a. Automated Clearing House (ACH) - A nationwide payment and collection system that provides for electronic distribution and settlement of funds. Although the term Electronic Fund Transfer (EFT) is technically more inclusive than the term ACH, the term EFT is often used synonymously with ACH and Wire Transfer. Wire transfers execute directly between two accounts, as opposed to a clearinghouse, so they process more quickly, but they are more expensive.

b. Electronic funds transfer (EFT) - refers to the disbursement from a bank account by means of wire, direct deposit, ACH or other electronic means.

c. NACHA (National Automated Clearing House Association) is the steward of the electronic system that connects all U.S. bank accounts and facilitates the movement of money among them. NACHA

15.6 RECORD-KEEPING

a. Transaction records will include:

   i. Chronological number of the EFT payment.

   ii. Time and date of disbursement.

   iii. Payee - name, address and account number.

   iv. Amount of disbursement.

   v. Purpose of disbursement.

   vi. BARS or other accounting system expenditure/expense account number.

   vii. Name and number of fund(s).

   viii. Disbursing bank's unique transaction identification number, if available.

   ix. Receiving bank or financial institution's identification number.

b. A file must be maintained of authorizations by payees who have thereby agreed to have moneys added to their accounts electronically.

c. The Finance Director should notify the disbursing bank that access to files, records and documentation of all EFT transactions involving the Finance Director should be provided to the State Auditor when required for the conduct of the statutory post audit.

15.7 <u>PROCEDURES:</u>

a. <u>Origination of ACH File</u>:

I. ACH File Database: The City of Stanwood creates ACH files from SpringBrook, which are downloaded in proper ACH format.

II. Transmission: Several options are available to transmit the file to the ACH originating bank, either through a gateway provider, or directly to the bank. The City of Stanwood generates and transmits payroll, employee reimbursement and supplier payment files via Keybank.

III. Retention: ACH and EFT data files are required to be maintained for six years after the end of the fiscal year (per Local Government Records Retention Manual, DANS GS2011-185.

b. <u>Authorizations</u>

i. All employees whose net pay is to be direct deposited must complete a Direct Deposit Authorization Form. This form is submitted to the city Payroll Office along with a deposit slip for a Savings Account or a voided check for a Checking Account. In lieu of a deposit slip or voided check, the employee may provide documentation from the employee's financial institution indicating the transit-routing number and the account number.

ii. The authorization form shall provide the employee the ability to change bank account information. Employees should notify the Payroll Office immediately but no later than seven working days prior to the effective pay date. Exceptions may be granted up to 4 working days prior to pay date for closed or compromised accounts.

iii. An employee desiring to discontinue participating in the ACH program may submit a revocation request. The request will be acted on depending upon whether participation is mandatory or not.

iv. Retention of authorization forms and any requests for revocation of authorization will be maintained until superseded and released from all audits.

v. The City of Stanwood does not allow telephone or email initiated entries or changes to authorizations.

c. <u>Transaction Advices</u>

i. Participating employees are provided a hard copy Direct Deposit advice (paystub) on the payroll pay date, specifying details of the employee's gross pay, tax withholdings, statutory and voluntary deductions, net pay and other information.

ii. Suppliers being paid by ACH credit will be advised of the payment by email.

d. <u>Cancellation of Transactions</u>

i. If it is learned that a supplier or employee does not have a right to a payment or the payment amount is in excess of the amount due the supplier/employee, then the payment is to be cancelled. Actions to take will depend upon where the payment is in the timeline of the transaction.

1. If the ACH file has not been transmitted to KeyBank but the payment process has been finalized, staff will void the batch to remove the incorrect payment.

2. If the ACH file has not been transmitted to KeyBank and the

ACH process has begun, staff will remove the incorrect payment prior to finalizing the batch.

3. If the ACH file has already been transmitted to KeyBank, staff would complete a KeyBank ACH Service Request for Item Delete/Reversal and fax to KeyBank.

e. <u>Cut-off Times and Close Outs</u>

i. The following cutoff times are established for ACH file transmissions:

1. The ACH file auto-generated at the conclusion of the payroll process is scheduled to transmit two (2) banking days prior to payroll issue/check date.

2. The ACH file transmission for suppliers is generated two (2) banking days prior to issue/check date.

f. <u>Funding outbound ACH transactions</u>

i. Funding of ACH files is deemed to be a critical function that must be performed accurately and timely, in order to avoid the overdrawing of bank accounts.

ii. The settlement bank account which accommodates the funding of outbound ACH transactions for Payroll and outbound ACH Supplier transaction is the City's General Bank Account held at Key Bank.

iii. Funding of ACH/EFT transactions must occur for settlement no later than the following day.

g. <u>Reporting of inbound ACH transactions</u>

i. The settlement bank account which accommodates the receipt of inbound ACH transactions is the City's General Bank Account held at Key Bank.

ii. The city receives notice monthly from the Office of State Treasurer (OST) about two days prior to receipt. The transmittal is recorded in various funds and revenue accounts and is posted by the cashier as part of the daily cashiering batch.

iii. The city receives notice daily from Automated Funds Transfer Service (AFTS) for utility payments made via lockbox. These are recorded into Springbrook via the appropriate FTP protocols.

iv. For online permit payments made via OrbiPay (hosted by Key Bank), notice is retrieved from the OrbiPay website by the cashier using a unique ID assigned specifically to that cashier. Individual payments as listed on the notice report are posted by the cashier into his/her daily cashiering batch. Payments are deposited by the OrbiPay system directly into the City's General Checking account held by Key Bank.

v. Utility payments made online utilize merchanttransact.com, which is owned by SpringBrook, or Checkfree. Payments made in this manner are imported into Springbrook using the appropriate FTP protocol. Payments are deposited by Merchant Transact directly into the City's General Checking account held by Key Bank.

vi. As additional departments allow online payments, protocol will mirror item iv under this section.

h. <u>Reconciliation</u>

i. All Bank Statements shall be reconciled monthly as part of a global reconciliation.

ii. Individuals responsible for bank account reconciliations should not also be responsible for handling cash. Additionally, these individuals should only have inquiry access to Key Bank, thus negating their ability to record receipts or process disbursements.

iii. All Bank Reconciliations are performed in accordance with BARS Manual standards. Completed bank reconciliations are reviewed by a second reviewer and recorded accordingly. Any reconciling item adjustments are recorded and reviewed by a second reviewer as part of the monthly reconciliation process.

iv. All reconciliations are reviewed, signed, and dated by a second Finance Department employee or the City Administrator. All journal entries for adjustments are prepared by the responsible party and reviewed by a second Finance Department employee once completed.

v. All outstanding items are reconciled prior to the end of the succeeding month. Large checks over 6 months old are reviewed monthly. Abandoned checks are escheated to the state each year per state regulations.

I. <u>Returns</u>

i. In the case of outbound transactions for supplier and payroll payments, an ACH Returns account is not utilized. Instead, the returns will be credited to the settlement bank account at KeyBank from which the funds were originally disbursed.

ii. Returned items are monitored as part of the daily deposit process. Any returned items are forwarded to the appropriate Finance staff member (Payroll for Direct Deposit and AP for all other ACH payments), to be researched and either voided or reissued as appropriate. A second Finance Department employee reviews all such returns and their related disposition.

j. Paying Invoices

i. All invoices for banking services received (e.g., KeyBank, etc.) shall be paid timely, in accordance with established City of Stanwood procedures for accounts payable.

ii. Responsibility for inspecting the invoices received and approving for payment is that of the Finance Department.

k. Signatures and Approvals:

i. The U.S. Federal ESIGN Act of 2000 gives the same legal protection to online signing as to traditional pen-and-paper signing.

ii. The City of Stanwood utilizes Adobe Pro e-sign for routing of documents and for the collection of signatures.

iii. Approval Signatures collected through Adobe Pro's e-sign routing process are original and official.

15.8 REFERENCES

i. City of Stanwood Financial Management Policy, Section 7.c.- Payment Approvals.

ii. RCW 39.58.750 – authorizes local government use of EFT and directs the State Auditor to prescribe accounting procedures for EFT transaction processing.

iii. BARS MANUAL Section 3.8.11 – provides accounting procedures and recommended internal controls to safeguard local government resources when utilizing EFT.

iv. BARS MANUAL Section 3.1.9 – provides guidance regarding appropriate bank reconciliation practices.

v. E-Commerce Contacts:
   1. The Finance Department will maintain an updated list of WaFed contacts.

15.9 FORMS

i. EFT (ACH/Wire Transfer) Authorization Form (authorization to pay vendors by ACH)

ii. Direct Deposit Authorization Form (payroll)

iii. Direct Debit Authorization Form (utility bill payment method)

GLOSSARY OF INVESTMENT TERMS

AGENCIES: Federal agency securities.

ANNUAL FINANCIAL REPORT: The official annual report for the City of Stanwood. It is based on a December 31st fiscal year end and is submitted to the State Auditor no later than May 31st of the following year. The State Auditor reviews and issues opinions on the City's annual financial reports on a biennial basis.

ASKED: The price at which securities are offered.

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

BID: The price offered for securities.

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities:

delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DISCOUNT: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U. S. Treasury bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) An independent federal agency that insures deposits in member banks, currently up to $100,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing & Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: An independent agency of the U.S. government that plays a central role in monetary policy, domestic payment systems, and the regulations of financial institutions.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations and other institutions. Security holder is protected by full faith and credit of the U. S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term pass-throughs is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written agreement covering all future transactions between the investor and dealer or financial institution. The agreement defines the nature of the transactions, identifies the relationship between the parties, establishes normal practices regarding ownership and custody of the collateral securities during the term of the investment, provides for remedies in the event of a default by either party, and otherwise clarifies issues of ownership.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

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

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PUBLIC DEPOSIT PROTECTION COMMISSION: The Public Deposit Protection Commission provides security for public treasurers in Washington State by protecting public deposits which exceed the amount insured by the FDIC. It also minimizes participating depositaries’ liability for defaulting institutions

PRIMARY DEALER: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange commission (SEC) registered securities broker-dealers, banks, and a few unregulated firms.

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 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 PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

REPURCHASE AGREEMENT (RP OR REPO): A transaction between a securities dealer and an investor in which the dealer sells the security to the investor with an agreement to buy the security back at a specific time and price that will result in a predetermined yield for the investor.

SAFEKEEPING: A service provided/contracted with a financial institution for the settling and holding of securities on behalf of the customer. In the case of book entry securities; holding of securities in the customer's name.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SEC RULE 15C3-1: See uniform net capital rule.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

TREASURY BILLS: A non-interest bearing discount security issued by the U. S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BOND: Long-term U. S. Treasury securities having initial maturities of more than ten years.

TREASURY NOTES: Intermediate term coupon bearing U. S. Treasury securities having initial maturities of from one to ten years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum 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.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

City of Stanwood

ATTACHMENT B

SOLE SOURCE JUSTIFICATION
PURCHASING MATERIALS and SERVICES

Your Name:	Department:
Vendor Name:	Cost Estimate:
Vendor's Address:	Vendor E-mail:
Vendor Contact Name:	Vendor Phone:

1. **Describe the product, services or system**. Attach all information

2. **Here are eligible reasons for sole source. Check all boxes below that apply to your sole source.**

   ☐ **Compatibility to existing City standard or to existing equipment, inventory, systems, data programs or service.** Describe and list efforts to find other sources.

   ☐ **Licensed or patented product with only one dealer.** Describe. Attach documentation if available, to confirm your source is the only dealer or supplier for this region.

   ☐ **Authorized Service Provider, Repair and/or Warranty Services.** Describe:

   ☐ **Unique design:** Requires unique features that are essential, aesthetic requirements, or not practical to match to existing design or equipment. Describe:

   ☐ **Used item:** Surplus item bought through an auction, used or at a bargain price. Describe:

   ☐ **Delivery Date:** Only one supplier can meet required delivery date. Describe. List efforts to find other suppliers to meet the delivery date.

   ☐ **Project or Research Continuity:** Product, systems, services or data must comply with an ongoing project, research, data testing or analysis. Results would be interrupted or compromised without continuity. Describe:

   ☐ **Requirement by Funding Source:** Lender, grantor (such as Federal government) or other provider of funds requires the specific product, service or system.

   ☐ **Legal Monopoly:** Only one supplier, such as electricity, water, or sewage.

   ☐ **Other:** Please describe:

Signature of Requestor:	Date:
Signature of Dept. Head:	Date:
Signature of Finance Director:	Date:
Signature of City Administrator:	Date:

ATTACHMENT C

City of Stanwood

10220 270th Street NW
Stanwood, Washington 98292
(360) 629-2181

Procurement Summary Transmittal

Date Contract/Agreement Executed ________________________

Vendor Name ________________________

Contract Amount $________________________

Type of Contract (Professional Services,
Materials/Equipment, Public Works) ________________________

Method of Vendor Selection (Small Works,
Competitive bid advertised ________________________

Budget Account ________________________

Contract Executed By: ________________________

Please attach a copy of the draft contract/agreement with this transmittal.