



DATE: May 6, 2021  
TO: MPWD Finance Committee  
FROM: Monique Madrid, Management Analyst  
Tammy Rudock, General Manager  
RE: Outline of Draft Financial Management Policy

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## MEMORANDUM

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**Recommendation:** Staff recommends the Finance Committee Members receive and discuss the following information regarding the development of the Financial Management Policy (FMP). Staff also recommends the Committee Members provide feedback and any additional items they might like to have included in the FMP prior to finalization.

**Background:**

The MPWD has several policies including those with financial information. The FMP is intended to be a comprehensive collection of these documents. Some information from other public agency policies and other miscellaneous information has been reviewed and included where appropriate during the development of the draft FMP.

**Existing Financial Documents:**

The FMP includes a list of existing MPWD Policies and Resolutions which will be superseded following the adoption of the final version of the FMP. These policies include but are not limited to: Capitalization, Procurement, Statement of Investment, Cash Reserves, Debt Management, Statement of Investment, among others. The new manual will be a single document with most of the MPWD financial policies. This simplifies the ease of reference for staff, Directors, vendors/contractors, and the general public.

**Overview:**

The FMP consists of 11 sections, which includes:

1. Purpose
2. Introduction
3. Internal Control Concepts
4. Organizational Structure and Financial Management Roles
5. Financial Policies
6. Budget
7. Procurement
8. Travel and Employee Expense Reimbursement
9. Credit Cards and Lines of Credit
10. Records Management
11. MPWD Financial Management Policy Manual History

**Development Review Process:**

The review process of the FMP will include staff, peers, and the Finance Committee members prior to the consideration and adoption by the MPWD Board of Directors. The staff reviewing the document include:

- General Manager
- Operations Manager
- Administrative Manager
- All Supervisors
- Management Analysts
- Finance Committee (detailed review)
- Financial Auditor
- District Treasurer
- Municipal Finance Advisor
- Dr. Peter Hughes (if available)
- District Counsel
- General Manager (final review)
- Finance Committee (for final vetting)
- Board of Directors (with Finance Committee support and/or recommendation)

**Internal Controls:**

MPWD has detailed Internal Control procedures, which were previously drafted using collaboration among a consultant, staff, and a forensic auditor. These controls were included in the draft version of the FMP and will be updated during review by various staff/peers. The review provided an opportunity to update the procedures to match current MPWD practices and legal requirements of the MPWD.

**Financial Management Roles:**

This section includes the Control Environment, Risk Assessment and Information and Communication sections and will also be updated to match current practices and legal requirements.

**Financial Policies:**

This section is the longest and most detailed portion of the policy and governs areas such as Asset Protection and Fraud in the Workplace, Financial Recordkeeping, Asset Safeguarding, Control Activities, Capitalization Methodology, Cash Management, Cash Reserves, Debt Management, Inventories, Investment of District Funds, Payroll and Related Liabilities.

The Asset Protection and Fraud in the Workplace were added to the policy due to the level of importance of these matters and the associated risk factors. The remaining sections are fairly routine and most of these policies were developed in recent years.

**Budget:**

Included in this section are Budget Administration which includes the Budget Process, Capital Improvements, Tiered Rate Structure and Budget Approval. The Tiered Rate Structure involves the utility billing. The detailed Tiered Rate and Fee Structure is currently imbedded in the Water Service Ordinance 103. Staff will be discussing where they believe this section should be located to best serve the MPWD, its ratepayers, and the Board of Directors and Staff.

**Section 7 Procurement:**

During the development of this policy, consideration was given to the authorized spending limit of the General Manager for procurement without Board approval. An analysis comparing the 2005/2006 approved budget to the 2005 Procurement Policy and the current approved budget 2020/2021 to the updated/proposed FMP limits. The calculation of these comparisons is inserted below for your review. The current budget is nearly twice the 2005 budget. The approved budget in 2005/2006 as compared to the spending limit is 32% or approximately \$25,000. The approved budget in 2020/2021 as compared to a 32% spending limit is approximately \$56,000 which for simplicity purposes was rounded down to \$50,000.

Staff recognizes this level of authority is the Board’s decision. However, when using the budget percentage of 32% compared to the spending limits as a guideline it seems prudent to increase the spending limits of the General Manager in the Procurement Section from \$25,000 to \$50,000. Additional consideration was given to the amount of inflation during the period-of-time between 2005 and 2021, or approximately 15 years since the spending limit of \$25,000 was established. Consideration was also given to the increase in the cost of contractors, construction materials, and professional services. Staff also consulted with District Counsel and it was reported that most agencies use \$50,000 as the limit for procurement by their General Managers.

| Relationship of budget to GM procurement spending authority |                        |                         |                          | Created 2/5/2021 MM |                     |
|-------------------------------------------------------------|------------------------|-------------------------|--------------------------|---------------------|---------------------|
| <b>Budget to General Manager Spending Limits</b>            |                        |                         |                          |                     |                     |
|                                                             | 2005/2006              | 2020/2021               | Percentage Increase      |                     |                     |
| Ops                                                         | \$ 5,851,897.00        | \$ 14,853,348.00        |                          |                     |                     |
| Facility Main                                               | \$ 1,040,000.00        | \$ -                    |                          |                     |                     |
| Cap                                                         | \$ 950,000.00          | \$ 1,451,000.00         |                          |                     |                     |
| Cap (COP)                                                   | \$ -                   | \$ 1,479,498.00         |                          |                     |                     |
| <b>Totals</b>                                               | <b>\$ 7,841,897.00</b> | <b>\$ 17,783,846.00</b> | <b>227%</b>              |                     |                     |
|                                                             |                        |                         |                          |                     |                     |
| Percentage of budget to authorization limit                 | Budget                 | Percent                 | Equivalent of Auth level | Current level       | Requested level     |
| 2005/2006                                                   | \$ 7,841,897.00        | 0.32%                   | \$ 25,094.07             | \$ 25,000.00        |                     |
| 2020/2021                                                   | \$ 17,783,846.00       | 0.32%                   | \$ 56,908.31             |                     | <b>\$ 50,000.00</b> |

The recommended authorized limit increases to the Procurement section are as follows:

**Section 7.A. Budget Appropriations.**

1. Non-Budget items: increase is from \$5,000 to \$10,000.

**Section 7. B. Construction, Contracts, and Materials.**

1. \$50,000 or less (previously \$25,000 or less) – When the estimated cost of the construction work or materials is equal to or less than Fifty Thousand Dollars (\$50,000), the General Manager is authorized to award the contract, but shall report on the award of any such contract at the next meeting of the Board of Directors. Each contract in this

category must be evidenced by preparing and submitting the proper authorized documents(s) and the executed contract.

2. Exceeding \$50,000 (previously \$25,000) – Construction contracts involving an estimated cost of work more than Fifty Thousand dollars (\$50,000) must be approved by the Board of Directors.
3. \$50,001 - \$100,000 (previously \$25,001 - \$50,000) – In cases when the estimated cost of the construction work or materials is greater than Fifty Thousand and One Dollars (\$50,001) but equal to or less than One Hundred Thousand Dollars (\$100,000), the award of contract may be based on informal bids obtained by the General Manager. The General Manager shall not be required to advertise formally for the solicitation of bids for such contracts. To the extent possible, the General Manager shall obtain at least three informal, written bids before entering a contract.
4. Exceeding \$100,000 (previously \$50,000) – In cases when the estimated costs of the construction work or materials is greater than One Hundred Thousand Dollars (\$100,000), the award of contract shall be based on competitive bid process in which sealed bids are submitted in response to an advertisement in a newspaper of general circulation in San Mateo County and are publicly opened at the specified time. The award of contract shall then be made to the lowest responsive and responsible bidder.

Section 7. C. Procurements of Equipment or Supplies.

1. \$50,000 or less (previously \$25,000) – When the estimated cost of equipment or supplies, is equal to or less than Fifty Thousand Dollars (\$50,000), the General Manager is authorized to award the contract, but shall report on the award of any such contract at the next meeting of the Board of Directors. A contract in this category must be evidenced by preparing and submitting the proper authorized document(s), and the executed contract. To the extent possible, the General Manager shall obtain at least three competitive quotations before entering a contract.
2. Exceeding \$50,000 (previously \$25,000) – Contracts for equipment or supplies covering an estimated cost more than Fifty Thousand Dollars (\$50,000) must be approved by the Board of Directors.
3. \$50,001 - \$100,000 (previously \$25,001 - \$50,000) – When the estimated cost of equipment or supplies is greater than Fifty Thousand and One Dollars (\$50,001) but equal to or greater than One Hundred Thousand Dollars (\$100,000), the award of the contract may be based on informal bids obtained by the General Manager. The General Manager shall not be required to advertise formally for the solicitation of bids for such contracts. To the extent possible, the General Manager shall obtain at least three informal, written bids before entering a contract.
4. Exceeding \$100,000 (previously \$50,000) – When the estimated cost of equipment or supplies is greater than One Hundred Thousand Dollars (\$100,000), the award of contract shall be based on a competitive bid process in which sealed bids are solicited through an advertisement in a newspaper of general circulation in San Mateo County and are publicly opened at the specified time. The award of contract shall be made to the lowest responsive and responsible bidder.

Section 7. D. Professional Services Contracts.

2. \$50,000 or less (previously \$25,000) - The General Manager is authorized to retain professional consultants where the cost of work is equal to or less than Fifty Thousand Dollars (\$50,000) and shall report on the award of any such contract at the next meeting

of the Board of Directors. To the extent possible, the General Manager shall obtain at least three competitive quotations before entering into such a contract.

3. Exceeding \$50,000 (previously \$25,000) – Professional Service Contracts covering work the cost of which is more than Fifty Thousand Dollars (\$50,000) must be approved by the Board of Directors. The award of contract may be based on a Competitive Negotiation Process or Request for Proposals.

**Section 7. G.** Leases, Licenses, and Concessions

\$50,000 (previously \$25,000) - Other than equipment operating leases that are included in the operation budget, the General Manager shall not enter into any lease, license, concession contract, lease-purchase contract, or installment contracts more than \$50,000 without prior authorization from the Board of Directors.

**Section 7.J.** Exclusions from Procurement Policy

This section was added and includes routine non-discretionary services for items such as utilities, regulatory licensing or fees, legal advertisements, inventory items and Association dues.

**Section 9** Credit Cards and Lines of Credit.

**Section 9. N.**

- A. Currently, the Personnel Manual governs the issuance and use of District credit cards. Issuance is limited to the General and Operations Manager. The current limits were pre-established in 2012 and there is no formal record of same.

Expansion of the policy is included in this section with more attention to detail, use, limitations, and user forms. The detailed expansion and user forms have been developed based on the recommendation of the MPWD's Financial Auditor and by request of the General Manager.

It is recommended the General Manager be authorized to approve a credit card for a staff member who demonstrates a true business need for the card. The General Manager will hold the sole discretion to determine the limit necessary, not to exceed \$5,000 to support the business need of any staff member who is approved for a District credit card. The new credit card forms include a Holder Agreement, User Agreement, and a Use Policy.

All forms require the staff member's signature. The new forms will enable the General Manager to ensure strict adherence to the policy and provide all card holders the ability to clearly understand how and what are the allowable card uses and limitations.

Due to the minimal number of staff members who hold a credit card, and the passage of time warranting review and updates, limit increases are proposed as listed below.

Proposed Limit Increases:

| User                                         | Current Limit | Proposed Limit                           | Maximum District Limit |
|----------------------------------------------|---------------|------------------------------------------|------------------------|
| District Total                               | \$10,000      | \$50,000                                 | \$50,000               |
| General Manager                              | \$7500        | \$35,000                                 | N/A                    |
| Operations Manager                           | \$2500        | \$15,000                                 | N/A                    |
| Other Staff (additional cards when approved) | N/A           | \$5,000 (not to exceed with GM approval) | N/A                    |

- B. Purchasing account (Home Depot, Office Depot), limits will be established by internal control procedures.

**Section 10.** Records Management – This section refers the reader to the Records Retention and Destruction Policy.

**Section 11.** MPWD Financial Management Policy History – This section lists the approving legislation (Resolution number and date of adoption) and outlines the history of the FMP for future reference.

**Future Updates:**

Currently, the MPWD has a review cycle of every two years (biennial) for most policies. Staff will be recommending changing to every three (3) years for review, or as necessary when there are new legal requirements or policies developed.