



San Diego Local Agency Formation Commission

Website: www.sdlafco.org

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Andrew L. Vanderlaan
Public Member

February 4, 2013

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Vice Chairman

John Ingalls
Santa Fe
Irrigation District

TO: Local Agency Formation Commission

FROM: Executive Officer

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SUBJECT: San Diego LAFCO Purchasing and Capitalization Procedures

Attached are draft procedures covering: (1) LAFCO purchasing, procurement, bidding, and (2) capitalization, depreciation, and asset inventory. These procedures were developed in response to one of the recommendations of LAFCO's outside Auditor (MHM, P.C.). MHM recommended that the Commission adopt purchasing and capitalization policies and suggested that the County of San Diego's policies could be used as a starting point for establishing procedures specific to LAFCO's needs. MHM further suggested that LAFCO could adopt different/lower thresholds for procurement and capitalization than the County due to the relatively small size of LAFCO. LAFCO staff and its accountant (SMA Accounting, Inc.) reviewed the County's policies and tailored relevant sections to LAFCO's needs. The draft procedures also contain provisions linking purchasing activities to budgetary approval. After the procedures were drafted, LAFCO staff referred the draft documents to audit committee members Vanderlaan, Ingalls, Mathis, and MacKenzie for review. The committee provided valuable comments and changes were made based on the committee's input prior to the February LAFCO Meeting. Since the committee's review, LAFCO staff has been testing the procedures on an interim basis to identify any potential issue areas; however, no significant issues have been identified as of this writing. We believe that the procedures will provide effective guidance for Commission purchases, inventory control and capitalization of assets, while also achieving conformance with budgetary actions/approvals. Therefore, it is

Alternate Members

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Sam Abed
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Jo MacKenzie
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Harry Mathis
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RECOMMENDED: That your Commission

Receive and approve the audit committee's draft purchasing and capitalization procedures as contained in Attachment 1.

Respectfully Submitted,

Executive Officer

Michael D. Ott

MICHAEL D. OTT
Executive Officer

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Counsel

Thomas Bosworth

Attachment 1: Draft LAFCO Rules, Articles VIII and VIII

**RULES
SAN DIEGO
LOCAL AGENCY FORMATION COMMISSION**

**ARTICLE VIII
Administrative Procedures
Purchasing, Procurement, and Bidding**

- 8.1 Purchasing, Procurement, and Bidding Procedures for Goods and Services
- 8.2 Requisitions Less than \$1,000
- 8.3 Requisitions More than \$1,000 and Less than \$10,000
- 8.4 Requisitions of \$10,000 to \$124,000
- 8.5 Professional and Specialized Services and Special Departmental Expenditures
- 8.6 Travel Expenses

8.1 PURCHASING, PROCUREMENT, AND BIDDING PROCEDURES FOR GOODS AND SERVICES

Section 8.1 of the Commission's Rules establish LAFCO's Purchasing, Procurement, and Bidding Procedures. LAFCO staff shall procure goods and services in conformance with relevant budgetary actions, in accordance with the following procedures (*except Independent Auditor Services, which must have commission approval at any level*):

8.2 REQUISITIONS LESS THAN \$1,000

If the estimated value of the purchase of supplies, services or equipment is less than \$1,000, the LAFCO purchasing clerk may:

- a. Select a vendor, without bid upon receiving approval from the Executive Officer;
- b. Complete the purchase transaction;
- c. Process the invoice for payment; and
- d. After supplies, services or equipment have been received or ordered, submit the invoice to the Executive Officer for consideration and approval.

8.3 REQUISITIONS MORE THAN \$1,000 AND LESS THAN \$10,000

If the estimated value of the purchase of supplies, services or equipment is more than \$1,000, but less than \$10,000, the LAFCO purchasing clerk shall:

- a. Obtain two (2) comparative cost estimates and document the reason for the selected vendor.
- b. Prepare and submit a requisition or similar document to the Executive Officer for consideration and approval.
- c. The Executive Officer will either approve or deny the purchase order to the selected vendor.
- d. After supplies, services or equipment have been received or ordered, submit the invoice or similar document to the Executive Officer for payment.

8.4 REQUISITIONS \$10,000 TO \$124,999

If the estimated value of the purchase of supplies, services or equipment is \$10,000 or more, but less than \$125,000, the purchasing clerk shall follow Procedures (a-i) below. If the value of the purchase is greater than \$124,999, then the proposed purchase shall be subject to Commission approval:

- a. Post a notice inviting bids/proposals on the Commission's website; advertise in public notice/legal section of 3 local general distribution newspapers, and

direct mail to prospective contractors at least ten days before the date of opening of the bids.

- b. Solicit bids/proposals by written and telephonic request to prospective vendors.
- c. Require bids/proposals to be in writing.
- d. Seek at least three bids/proposals.
- e. Recommend the responsible vendor with the lowest bid price in conformity with the specifications and/or qualifications as appropriate.
- f. Prepare and submit a requisition or similar document to the Executive Officer for review and approval.
- g. The Executive Officer will issue a purchase order or contract to the selected vendor.
- h. After supplies, services or equipment have been received, submit the invoice to the Executive officer for payment.
- i. Where otherwise required by this section, the following procurements, contracts or transactions are exempted from the provisions of this section, at the discretion of the Executive Officer:
 1. Emergency procurements for construction, equipment or repairs;
 2. Goods or services that can be reasonably obtained from a single source;
 3. Sufficient, satisfactory bids are not received;
 4. Items required to match or compatible with other goods, furnishings, materials or equipment previously purchased by the Commission;
 5. Utility services and related charges;
 6. Goods, services and/or professional services obtained from or through agreement with any governmental, public or quasi-public agency where the agency contracted for goods, services and/or services through a competitive process;
 7. Real property leases or purchases and related title and escrow fees, to the extent permitted by law or Commission authorization;
 8. Insurance and bonds;
 9. Advertising in magazines, newspapers or other media;
 10. Library collection materials or services or other books or periodicals;
 11. Membership dues, conventions, training, travel arrangements including hotels, car rentals and airfare;
 12. Surplus personal property owned by another government, public or quasi-public entity;
 13. Situations where solicitations of bids or proposals for goods, services and/or professional services would be impractical, unavailing, impossible, or not in the best interests of the Commission.

8.5 PROFESSIONAL AND SPECIALIZED SERVICES AND SPECIAL DEPARTMENTAL EXPENDITURES

For purposes of this section, Professional Services and Specialized Services and Special Departmental Costs shall mean the procurement of services that involve the exercise of professional discretion and independent judgment based on advanced or specialized knowledge, expertise or training gained by formal study or experience. Professional and Specialized Services and Special Department Costs shall further mean those services that the Executive Officer has determined the Commission lacks staffing or has insufficient personnel with the necessary training and expertise to perform the services or to perform such services in a timely manner.

- a. It is in the best interest of the public, as allowed by State Law that contracts for professional and special services be awarded based on the demonstrated competence and professional qualifications necessary for the satisfactory performance of the services required. The Executive Officer may negotiate with qualified firms or individuals to obtain a fair and reasonable price for the services and is not required to award a contract to the lowest responsible bidder.
- b. Procurement of professional or special departmental services where the total cost of services provided in a twelve month period is less than \$10,000, services may be procured using a simplified and cost effective operational procedure.
- c. Professional or special departmental services, where the cost of services provided in a twelve month period is more than \$10,000 but less than \$125,000 shall be procured as follows:
 1. The purchasing clerk shall obtain the names of at least three firms or individuals that are, or have within the preceding twelve months, provided substantially similar services to public agencies. The Executive Officer may waive the requirements for solicitation of multiple proposals/bids if only one individual or firm can reasonably provide the professional services based on specific skills and knowledge pertinent to LAFCO and it is in the best interest of the Commission to waive the requirement.
 2. A request for proposal shall be provided to all potential candidates outlining the scope of services required, time frame for completion, pricing structure, liability insurance information and coverage and other pertinent information. Professionals must submit their responses in the specified format no later than the stated final due date for proposals. The response must include liability insurance information and coverage.

3. The evaluation process will be based on the criteria stated in the request for proposal but will generally include the scope of services offered, the professional's capabilities and previous experience in the field.
4. After the proposals are evaluated, the Executive Officer will negotiate an agreement with the selected professional. If an agreement is not reached within a reasonable time, the Executive Officer will terminate discussion with the first candidate and open negotiations with the second choice.
5. The Commission's Counsel may waive the bid requirements of this chapter when it is necessary or convenient for the management of the Commission's affairs.

8.6 TRAVEL EXPENSES

It is a requirement of the Commission that commissioners and employees will use due diligence in determining and evaluating the need for travel in carrying out the Commission's business needs. Each incidence of travel shall be clearly justifiable, as to cost, value derived, and the number of individuals required to attend. Every effort should be made to assure that the key elements or results of any meetings, conferences, workshops, or other presentations while in a travel status are clearly communicated to those who will benefit from such events.

**RULES
SAN DIEGO
LOCAL AGENCY FORMATION COMMISSION**

**ARTICLE VIII
Administrative Procedures
Capitalization, Depreciation, and Asset Inventory**

- 9.1 Capitalization, Depreciation, and Asset Inventory Procedures
- 9.2 Capitalization of Fixed Assets
- 9.3 Depreciation of Fixed Assets
- 9.4 Inventory Control

9.1 CAPITALIZATION, DEPRECIATION, AND ASSET INVENTORY PROCEDURES

The Commission generally follows the County of San Diego's accounting procedures when making decisions regarding the capitalization and depreciation of assets, however, these procedures must be tailored to LAFCO's specific needs. Accordingly, LAFCO's Capitalization, Depreciation, and Asset Inventory Procedures apply to items purchased or leased directly by the San Diego LAFCO in conformance with the following capitalization, depreciation, and inventory control procedures:

9.2 CAPITALIZATION OF FIXED ASSETS

1. All fixed assets including land, buildings, machinery and equipment, with an original cost of more than \$7,500 owned by the San Diego LAFCO, will be subject to accounting and reporting (capitalization) per this LAFCO procedure. All costs associated with the purchase or construction shall be considered, including freight and transportation charges, site preparation expenditures, installation charges, professional fees, and legal costs directly attributable to asset acquisition.
2. The capitalization threshold of more than \$7,500 shall be applied to individual units only. For example, ten desks purchased through a single purchase order each costing \$1,000 will not qualify for capitalization even though the entire purchase totaled \$10,000.
3. A repair to a fixed asset will generally not be capitalized unless the repair extends the useful life of the asset. In that case, it would represent an improvement and is subject to the capitalization procedure and should be evaluated separately.
4. An improvement that extends the useful life of a fixed asset will be capitalized only if the improvement meets the \$7,500 threshold. Note: An improvement to a fixed asset that originally had a cost below the threshold, but now exceeds \$7,500 as a result of the improvement, should be combined as a single asset at the total cost (original cost plus the cost of the improvement) and capitalized.
5. Miscellaneous other assets and goods valued less than \$7,500 are not subject to the above capitalization provisions.

9.3 DEPRECIATION OF FIXED ASSETS VALUED AT MORE THAN \$7,500

The straight-line method with an assumed salvage value of zero shall be used to depreciate all fixed assets valued at more than \$7,500 based on the useful lives determined at the time of purchase. Depreciation will begin the month following purchase.

- Machinery & Equipment – 3 to 5 years
- Furniture & Fixtures – 5 to 7 years

9.4 Inventory Control

1. LAFCO staff shall be responsible for establishing and maintaining systems and procedures that properly safeguard all assets whether the cost of the asset is above or below \$7,500. Inventory control is applied only to movable fixed assets that cost more than \$7,500 (machinery, equipment, furniture, vehicles, etc.) and not to land, buildings, or other immovable fixed assets. An annual inventory shall be conducted of all LAFCO assets valued at more than \$1,000. The list will be prepared by a designated member of the LAFCO staff and will be subject to approval by the Executive Officer
2. The Executive Officer shall designate a staff member who will be responsible for monitoring LAFCO's fixed assets. This staff member will submit the required paperwork to the Executive Officer for the acquisition and disposal of fixed assets. This staff member will also tag the newly acquired asset and will audit the inventory on an annual basis.
3. Fixed assets purchased directly by LAFCO with a value above \$7,500 shall be tagged to provide efficiency when conducting inventory, to allow the Commission's auditors to verify the Commission is in control of its fixed assets, and to provide an accurate record of the Commission's capital expenditures.
4. LAFCO staff shall be responsible for supplying a Fixed Asset ID Tag for any new fixed asset(s).
5. In order to acquire a new fixed asset, outside of the County of San Diego's procurement system, the Commission's procedures outlined in this section shall be followed. Although the procedures herein apply to fixed assets that meet the capitalization threshold of more than \$7,500, all miscellaneous general assets and goods purchased outside of the County of San Diego's procurement system with an original cost of more than \$1,000 must be inventoried.
 - a. Asset Addition Form: Upon receipt of the fixed asset valued at more than \$7,500 or other assets and goods valued at more than \$1,000, an *Asset and Goods Addition Form* shall be completed. This form shall be attached to the vendor invoice, if available, and submitted to LAFCO's purchasing clerk for payment. If the new asset is replacing an old asset, the method of disposal should be indicated on the bottom of the form. In addition, LAFCO must follow procedures for deleting the old asset (see instructions that follow).
 - b. Fixed Asset ID Tag: Upon receipt of the Asset Addition Form from the LAFCO purchasing clerk will furnish Asset ID Tag.
6. The Executive Officer is responsible for determining whether an asset is obsolete, damaged beyond repair, no longer needed, lost or stolen. Disposal of a fixed asset

shall be reported regardless of the original cost of the asset.

- a. Fixed Asset Deletion Form: LAFCO's purchasing clerk must fill out an Asset Deletion Form for all assets meeting the cost criteria in this procedure that are being disposed. Additional documentation should be attached to this form. Some examples would be the bill of sale, a copy of the purchase agreement stating the trade-in value of the old asset, documentation from a donated item, police report for a stolen asset, etc.
 - b. Assets Being Sent to Auction or Donation: A list of assets being sent to auction or donated must be received by the Executive Officer for approval. LAFCO may use the Asset Deletion Form to report the items requested for auction/donation.
7. LAFCO's purchasing clerk is responsible for accurately recording fixed assets, miscellaneous assets, and goods meeting the cost criteria in this procedure, providing Asset ID Tags to a designated individual, scheduling auctions with the vendor, working as a liaison to schedule annual department audits, and maintaining the appropriate documentation for outside audit purposes. LAFCO's bookkeeper will handle all fiscal year-end transactions for fixed assets, including depreciation.
- a. Addition or Deletion Form: When the LAFCO purchasing clerk receives an Addition or Deletion Form, any additional documentation that is available should be obtained (Purchase Order, purchase agreement with trade-in information, etc).
 - b. Fixed Asset ID Tag: The LAFCO purchasing clerk will create an Asset ID Tag for newly purchased assets. The ID number is logged on the Fixed Asset Addition Form and in the corresponding Excel file.
 - c. Auction Payment: Upon receipt of payment from the vendor for any item(s) sold, the information should be recorded. The documentation received should be filed with the Fixed Asset Deletion Form.
 - d. Maintaining Audit Files: Any additional documents should be filed with its respective Addition or Deletion Form, according to fiscal year.
8. The Executive Officer may schedule a random audit to "spot check" the inventory of various assets. This will ensure that assets are being accounted for properly.
9. LAFCO will conduct an inventory on an annual basis either based on the fiscal or calendar year. The LAFCO purchasing clerk will send a list of all fixed assets to assigned staff. A designated person will check the list and make any necessary changes and send it back to the purchasing clerk and Executive Officer for update.