

City of Socorro

Asset and Risk Management

An effective asset and risk management program controls city costs by ensuring adequate protection against significant investment and asset losses, and by helping obtain the lowest possible insurance premiums.

A government should seek investments with maximum interest earning potential while safeguarding funds and ensuring liquidity to meet fluctuating cash flow demands. Effective tax management involves quick and efficient tax collections that allow the government to meet its cash flow needs and earn the highest possible amount of interest.

The government's programs for employees' health insurance and workers compensation and assets should be cost-effective and should protect the government from financial losses.

Capital asset management should account for government property efficiently and accurately, and should safeguard it against theft and obsolescence. Capital asset expenditure planning and control are critical to the long-term financial health of any government. Generally, expenditures for capital assets require significant financial resources; decisions are difficult to reverse and the investment affects government financial performance over a long period of time. Policies and procedures are used to ensure that capital assets are properly recorded and protected. This chapter evaluates the effectiveness and efficiency of:

- risk management organization;
- cash management;
- investment policies and procedures;
- insurance coverage;
- capital asset management; and
- bond issuance and indebtedness.

Risk management organization

Risk management has become an essential part of government operations. Administrators must begin cost containment programs to offset rising costs for health, property and liability insurance coverage.. Successful risk management programs must have strong support from the governing body, elected officials and senior financial administrators.

Risk management is closely related to safety and security as well as human resources and financial management.

The city of Socorro does not have an official Risk Management officer. The Personnel director handles risk management duties, which primarily consist of assessing and procuring the city's insurance needs and tracking worker's compensation claims. In addition, payroll envelopes usually include a safety information sheet from the National Council on Compensation Insurance.

There are four categories of Texas Law Enforcement Certification: basic, intermediate, advanced and master. Socorro has its own police force of 18 officers. They have all received basic peace officer certification. In addition, three have received intermediate certification, two have received advanced certification and three have received master certification. The Socorro Police

Department uses the *El Paso County Emergency Preparedness Plan* and a back-up 9-1-1 line for large disasters. The 9-1-1 line allows the police department to answer emergency calls from the Lower Valley in the event of loss of telephone service in or around El Paso. Socorro's police department also has a local plan for events such as bomb threats, flooding, crowd control, and other situations. The police coordinate with the volunteer fire department (VFD) whenever possible.

A volunteer fire department that is affiliated with and funded by El Paso County Emergency Services District #2 serves the city. The Emergency Services District is a tax-supported public agency. The VFD has 37 firefighters, paramedics and emergency medical technicians. Some also hold certifications in hazardous materials handling, search and rescue, vehicle extractions and confined space rescue. The VFD uses the *El Paso County Emergency Preparedness Plan* for all situations.

FINDING

Socorro does not have an emergency preparedness plan.

While the police department uses the county's plan for large disastrous events, the city does not maintain a municipal emergency preparedness plan.

Socorro has panic buttons in the cash receiving areas but the police have not tested them and are unaware of their existence. Maps of the building layout are posted, with exits identified. The Rio Vista building, which houses the municipal court and Planning Department, is equipped with eight security cameras and fire alarms. The cameras monitor the city hall and municipal court 24 hours a day, seven days a week. The film is saved for seven days and available for review if necessary. Otherwise, data is rerecorded over after seven days.

There are several fire extinguishers, but many employees do not know where they are located. The city has no prescribed course of action in the event of fire, robbery or natural disaster, and does not hold drills. The city tested the fire alarms once in the last 19 months.

A comprehensive emergency preparedness plan instructs employees of the best course of action in emergency situations. The risk of damage to city property or injury to city employees increases if there are not well thought out and practiced procedures. There is no prescribed course of action in the event of fire, robbery or tornado. The city does not hold drills.

Best Practice: Emergency Preparedness for Government Facilities

A variety of sources provide emergency management training, including an organization called Market Access. This organization publishes the *Homeland Defense Journal* online and offers a two-day course entitled "Emergency Preparedness for Government Facilities" three to four times per year at various locations, including Dallas. The course covers topics such as creating an emergency management plan, staff training, communication, regulation, facilities improvements and possible financial aid for emergency preparedness. Details are at <www.marketaccess.org>.

The Texas Municipal League also has six videos available to members including Evacuation: Surviving a Fire; Emergencies: Hurricanes, Tornadoes and Floods; Emergency Planning; Disaster Preparedness; Public Building Security and Emergency Action Planning.

Best Practice: Homeland Security Grants

The Homeland Security Office and the Office of Justice Programs offer grants for security personnel and equipment. Information on these grants is available at <www.dhs.gov/dhspublic/> and < www.ojp.usdoj.gov/lawenforcement/funding.htm >. The Texas Engineering Extension Service (TEEX), which coordinates Homeland Security programs and projects with the federal government, provides funds to the Rio Grande Council of Government, which in turn will disburse these funds to local municipalities based on grant applications. These funds can be used for a variety of emergency situations. TEEX also provides training on a variety of topics at the Texas A&M University campus in College Station and at other locations. More information is available at the TEEX web site, <<http://teexweb.tamu.edu/>>.

Best Practice: City of Palestine Hazard Mitigation Action Plan

The city of Palestine published its Hazard Mitigation Action Plan in 2004. It is a thorough analysis of possible hazards facing the city, both natural and man-made. It includes the likelihood of the disasters occurring, as well as demographic and geographic data. The plan includes short- and long-term mitigation plans for floods, tornados, wildfires, earthquakes, winter storms, droughts and other hazardous events. The complete plan is awaiting FEMA approval. It is online at <www.palestine-online.org/Mitigation%20Action%20Plan.pdf>.

RECOMMENDATION:

Develop an emergency preparedness plan and train staff members to follow it.

The city should develop procedures for emergencies such as fires, bombs, tornados, contagious diseases and robberies. Plans should include evacuation when appropriate and officials should review the plans annually for emergency identification and appropriateness of action. This could be done by an emergency preparedness committee or an individual, such as the police chief or human resource director. The city should test the plans and drill employees who will use them regularly.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

FINDING

Socorro's asset risk management is not well coordinated or organized.

Because of the city's small administrative staff, the Human Resources director performs the limited risk management duties. These consist of purchasing insurance and including a safety newsletter with each paycheck. There is no risk management officer or committee, and no formal link between training, risk assessment and insurance coverage. The city also lacks a risk management program.

The city staff, the police department and the VFD do not coordinate their efforts. The city employees have received no instruction from the VFD on the best procedures during a fire or other emergency. Likewise, there is no coordination among individual departments. This lack of coordination, instruction and drilling could result in significant loss of property and life.

There are several resources available to cities for developing and implementing a risk management program (**Exhibit 7-1**).

**Exhibit 7-1
Risk Management Resources
For Small Local Governments**

Resource	Description	Website Address
<i>Limiting Small Town Liability</i>	Report published by the National Center for Small Communities	http://www.riskinstitute.org/FP/DOCS/LimitingLiability.pdf
Public Entity Risk Institute	National nonprofit organization committed to assisting small local governments in risk management	www.riskinstitute.org/
Public Risk Management Association	An association of public sector risk managers	www.primacentral.org
Association of Governmental Risk and Insurance Pools	National association of risk pools providing resources to small communities	www.agrip.org
National Association of Towns and Townships	National association dedicated to educating lawmakers about risk management	www.natat.org
National League of Cities	National League of Cities Risk Information Sharing Consortium assists cities in intergovernmental risk-sharing pools and other risk management issues	www.nlc.org
International City/County Management Association (ICMA)	National organization whose mission is to enhance the quality of local government; <i>Risk Management: A Comprehensive Approach</i> is prepared by ICMA	www.icma.org
<i>Risk Management for Public Entities</i>	Publication on risk management issued as part of the Insurance Institute of America's Association in Risk Management certificate program	www.aicpcu.org

Source: Texas Comptroller of Public Accounts, Local Government Division, May 2006.

RECOMMENDATION:

Designate a risk management officer and implement a formal risk management program.

The city should designate the Human Resources director as the formal risk management officer.

The city should also develop a formal risk management program that links the individual efforts of each department. The program should contain a risk management mission statement and the city should conduct regular risk assessments. Developing employee training and educational programs will help ensure that the city's risk management activities are implemented properly.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

Cash management

An effective cash management program can provide a city with additional revenues to fund essential programs and operations. High priority should be given to maximizing the return on investments while ensuring the safety and liquidity of investments. Effective cash management programs:

- provide market rates of return through various investments;
- are based on a comprehensive written investment policy approved by the governing body; and
- allow personnel to become skilled in managing investment procedures and techniques.

Properly documented cash management policies and procedures establish a system of internal controls that can prevent or reduce the likelihood of both honest errors and intentional fraud or embezzlement of government funds.

It is the job of the investment or financial officer to earn the best rate available on assets and to plan for any necessary short-term loans. Cash flow forecasts identify when given amounts of cash will be needed and, therefore, the length of time during which the funds can be invested or borrowed. Cash flow forecasting involves identifying the amount of money available each day, month and year, and estimating the amount of revenue expected from each source and when it is expected, as well as the amount and date of expected expenditures. Some governments use sophisticated software to produce a wide variety of reports; others use a spreadsheet.

The senior accountant performs the city of Socorro's cash management. The senior accountant is responsible for day-to-day oversight of the city's cash on hand. This is done by monitoring bank balances, transferring funds between accounts to cover cash flow needs, overseeing the deposit process and reconciling monthly bank accounts. The city maintains 16 accounts, including savings, regular checking, and negotiable order of withdrawal (NOW) checking as shown in **Exhibit 7-2**. As of December 2005, the city of Socorro had more than \$4.3 million in cash at its depository, First National Bank of Fabens.

Exhibit 7-2
City of Socorro
First National Bank of Fabens
Account Balances on December 9, 2005

Account Name	Account Type	12/09/05 Balance
Child Safety Fund I	Savings	\$760
Child Safety Fund II	Savings	\$3,357
Debt Service	NOW Checking	\$36,519
Court Building Security Fund	Savings	\$29,996
Construction Fund	NOW Checking	\$74,762
Maintenance & Operating	NOW Checking	\$1,703,658
Payroll	NOW Checking	\$216,615
Homebuyers Assistance	Regular Checking	\$49,805
SPD (STANDS FOR?) Seized & Forfeited	Savings	\$15,800
Local Law Enforcement	Regular Checking	\$495
Tourism	Savings	\$22,357

Court Technology Fund	Savings	\$13,398
Certificates of Obligation 2001	Savings	\$269,092
Texas Community Development Program Funds	Regular Checking	\$21,926
Park Funds	Savings	\$141,692
Socorro Construction Fund 2004	Regular Checking	\$1,730,495
Total		\$4,330,727

Source: City of Socorro Cash Summary, December 2005.

The senior accountant is the city's designated investment officer and is also responsible for all general ledger accounting, accounts payable and cash flow monitoring. The senior accountant, mayor, city manager and Planning Department director have signature authority on city accounts, and two signatures are required on all city checks.

FINDING

Socorro issues refunds only by check.

The city implemented a policy that requires city employees to issue all refunds, whether from the municipal court or other [other what?], by city check. The city does not give cash refunds. This internal control reduces the likelihood of employee fraud by reducing access to cash and requiring additional levels of authorization.

COMMENDATION

Socorro has good cash refund procedures.

FINDING

The municipal court separates the functions of receiving, reconciling, and custody of cash.

The municipal court has two receiving clerks, each with her own cash box. Each clerk has the only key to her box and can only receive payments. The clerks cannot delete any entries or issue returns. Only the deputy clerk and municipal clerk can void transactions and perform other administrative duties. At the end of the day, each receiving clerk balances the other clerk's box based on software-generated daily reports for each cash box. All funds are placed in a safe for overnight keeping, and an armored carrier picks them up twice a week.

Different personnel should authorize record and have custody of the cash. Whenever there are not enough personnel to divide these duties, the city should use other procedures such as increased monitoring. Socorro's municipal court has done a good job separating these duties.

COMMENDATION

The municipal court maintains an appropriate separation of cash management duties.

FINDING

The city of Socorro does not seek bids for its depository banks or have a contract with its current bank.

The city of Socorro's depository bank is First National Bank of Fabens (FNBF). The city has worked with this bank since 1996. The city has a copy of the FNBF proposal from the 2000 request for bids and the bank has a copy of the subsequent depository services contract drawn up by the city attorney. Neither entity, however, has a copy of a formally executed contract.

In the absence of a contract, the city is earning the current interest rates offered by FNBF for its various accounts. The eight savings accounts are earning 0.75 percent and the three negotiable order of withdrawal (NOW) accounts are earning 0.35 percent.

The bank charges the city its standard rate for services such as wire transfers, safety deposit boxes, coin wrappers, and foreign and domestic exchanges. Some banks may waive these fees, depending on the entity's account balances. The city has not negotiated any special arrangements for these services.

As outlined in Chapter 105, Local Government Code, before awarding a depository services contract, a city council must obtain applications for depository services from one or more bank, credit union or savings association. The designated officer, usually the treasurer, must request, receive and review applications for depository services. The designated officer must give notice to banks, credit unions and savings associations requesting the submission of applications for depository services. The notice must be published at least once no later than 21 days prior to the deadline for receipt of applications in a general circulation newspaper in the municipality.

In addition to compliance with the Local Government Code, seeking depository bids usually results in the most advantageous arrangement. Competition may motivate banks to increase services and interest rates or decrease fees to obtain the city's business.

The designated officer presents the specifications of each application to the city council, which then selects the depository or depositories. The selection must be recorded in the minutes of the city council meeting. A city cannot enter into a contract for more than five years.

***Resource: Government Finance Officers Association (GFOA)
Recommended Practice for Procurement of Banking Services***

The GFOA recommends that state and local governments undertake the following practices to ensure effective banking services at reasonable costs.

1. Periodically initiate competitive-bidding and a negotiations process for major banking services, including requests for proposals and covering services, fees, earnings credit rates and availability schedules for deposited funds.
2. Have contracts for banking services that specify services, fees and other components of compensation.
3. Establish a relationship manager who will best understand the needs of the city and be able to provide service improvement recommendations.

4. Evaluate the benefits and costs of paying for services through direct fees, compensating balances or a combination of the two.
5. Evaluate the city's needs against the costs and benefits of specific banking services.
6. Perform a cash management review and comprehensive evaluation prior to the issuance of a request for proposals to ensure that the cash manager asked for all required and optional banking services.

The GFOA website is www.gfoa.org.

Source: Government Finance Officers Association

RECOMMENDATION:

Review the state law requirements for bank depositories and implement measures that ensure compliance with them.

The city should advertise for bank depository services and should enter into formal contracts with the selected financial institutions. The contracts should specify the terms under which banks will keep the city's funds, including a description of services, fees and security measures. Also, the contract should specify interest earned on balances.

FISCAL IMPACT

This recommendation can be implemented with existing resources.

FINDING

The city of Socorro maintains 16 bank accounts; four of which do not earn interest.

In December 2005, Socorro maintained 16 accounts with First National Bank of Fabens. These accounts total more than \$4.3 million and include maintenance and operations, payroll, certificates of obligation and various court fees. Of those accounts, \$496,452 was in savings accounts that earned 0.75 percent interest. Approximately \$2 million was in NOW accounts that earned 0.35 percent interest. The remaining \$1.8 million was in checking accounts that did not earn any interest. In March 2006, El Paso banks were offering the following interest rates:

**Exhibit 7-3
City of El Paso
Alternative Interest Rates**

	First National Bank of Fabens	Bank of America	Wells Fargo Bank	State National Bank
Regular Checking	0%	0%	0%	0%
Interest Checking	0.35%	0.10%	0.10%	
Less than \$ 24,999				0.30%
\$25,000-\$49,999				0.40%
\$50,000 or more				0.50%
Business Checking			0.75%	
Commercial Savings	0.75%	0.50%	0.20%	0.60%

Source: First National Bank of Fabens, Bank of America, Wells Fargo Bank, State National Bank.

Some Texas cities consolidate cash accounts and use bookkeeping techniques to segregate individual funds. These bookkeeping methods are usually acceptable under state and federal

guidelines. Consolidating accounts can also reduce administrative work such as monthly reconciliations and increase earnings on idle funds. It also reduces the bank’s need for pledged collateral.

RECOMMENDATION:

Consolidate bank accounts while ensuring adequate security and maximizing interest.

Consolidating the city’s checking and savings accounts and using the city’s accounting software to separate cash balances would streamline the monthly reconciliation process. However, the city should only consolidate funds to the extent allowed by state law and other regulations. For example, state law does not require the city to maintain four court fee accounts or to maintain the hotel tax account in separate savings accounts. Indenture agreements, however, may prohibit the consolidation of the debt service accounts. Likewise, the grant conditions may require separate bank accounts and general ledger accounts. The city should examine the grant documents for these requirements.

A subsequent section of this report recommends the city invest \$2.5 million in higher-yield investments, leaving \$1.8 million available for checking and savings accounts. The city should reevaluate its checking and savings accounts, consolidate wherever possible and seek the highest interest rates available.

Currently	Recommended
\$1.8 million in zero-interest checking	1.8 million in interest-bearing checking/savings
\$2 million in interest checking	Higher yield investments – discussed later
\$.5 million in savings	Higher yield investments – discussed later

FISCAL IMPACT

Based on current interest rates, Socorro could maintain interest-bearing checking and savings accounts that pay 0.75 percent interest. The city could probably negotiate better rates. The fiscal impact listed below assumes a constant account balance and a 0.75 percent return.

Recommendation	2006-07	2007-08	2008-09	2009-10	2010-11
Consolidate bank accounts while ensuring adequate security and maximizing interest.	\$13,500	\$13,500	\$13,500	\$13,500	\$13,500

FINDING

The city of Socorro does not use direct deposit for employee payroll distribution.

The city issues physical paychecks to employees on payday. Payroll is processed twice a month or 24 times throughout the year. With approximately 70 employees, this amounts to 1,680 paychecks annually.

This process is cumbersome and time consuming. In addition to physically issuing checks and having them signed, the city staff must also distribute and safeguard the checks. The city keeps blank paychecks in a locked cabinet. Whenever an employee loses a check, the administrative staff must cancel the lost check, place a stop-payment order and re-issue it.

Many organizations have abandoned the traditional process of printing and distributing payroll checks entirely and pay through direct deposit instead. Direct deposit saves employees a trip to the bank and allows them to receive pay on days when they do not work; moreover, electronically transferred funds generally are available immediately. The chances of paychecks being lost or stolen are dramatically reduced.

Direct deposit requires the city's bank to electronically transfer payroll funds directly into each employee account.

Direct deposit benefits the organization as well. Bank account reconciliation is simpler because funds are debited from the city's account on a precise date, such as the first of the month. In addition, the city can reduce processing costs. The federal government spends an average of 51 cents more to cut a check than it does to execute a direct deposit, according to the U.S. Treasury.

The State of Texas recognizes the benefit of direct deposit. Section 403.016 of the Government Code authorizes the Comptroller to establish and operate an electronic funds transfer system that includes electronic funds transfer to pay an employee's net state salary and travel expense reimbursements. This authority applies only to non-classified employees. No similar authorization exists for city governments.

The city's depository can offer direct deposit for city employees at a negotiable charge of \$20 plus 25 cents per employee per payroll cycle. There would be no charge to employees, whether or not the employee maintains a bank account with the depository bank. Employees who do not have an account with the depository can get debit cards. The cards will allow employees to receive their pay at automated teller machines or bank tellers.

Best Practice: Comal County, Texas Initiated Employee Payroll Direct Deposit.

The Comal County Auditor's Office reported that 90 percent of its 400 full-time employees participate in the county's direct deposit program. In addition, the county requires all new county employees to use direct deposit. This saves the county hundreds of dollars in printing and distribution costs each year. For specific information regarding Comal County's direct deposit campaign, contact the Comal County Auditor's Office at (830) 620-5555.

Resources: American Payroll Association (APA) and the Direct Deposit and Direct Payment Coalition

The APA supports payroll professionals by providing members with online reference materials, helpful links to other related resources, payroll training and essential references. The APA Web site is at <www.americanpayroll.org>. A related resource is the Direct Deposit and Direct Payment Coalition at <www.directdeposit.org/>.

RECOMMENDATION:

Implement a direct deposit plan for all city employees.

The city should work with its bank to establish direct deposit, including provisions for debit cards for employees who do not maintain bank accounts.

Before taking steps to encourage direct deposit participation, the finance director should seek the support of the city council. The finance director could then meet with representatives from appropriate city departments to decide on a promotional and educational strategy and to assign responsibility for its tasks.

One of the best ways to encourage direct deposit is to institute an educational program. For example, the city could place leaflets outlining the benefits of direct deposit in employees' payroll envelopes. Posters publicizing the program could be displayed in City Hall, police and fire department facilities and in various other locations.

Setting up direct deposit through the city's current bank is a relatively simple process. According to a representative of First National Bank of Fabens, the city would send an automated clearinghouse (ACH) file to the bank's cash management program. This ACH file includes the name of the employee, routing and account numbers and the net payroll amount. The city must transmit the file to the bank at least 24 hours prior to payday, with 48 hours being preferable. If the ACH file were sent by 3 p.m. on Wednesday, funds would be available Friday morning. The bank's usual fee for this service is \$20 per file upload plus 25 cents per employee. The city could probably negotiate a lower fee during the depository contract process.

Offering direct deposit will allow the city to move toward an electronic payroll system. Electronic payroll will save the city time, check printing costs and postage costs.

FISCAL IMPACT

The estimated cost for paper is 9 cents per check, but the primary expense is employee time. The U.S. Treasury estimates the total cost at 51 cents per check. The city is spending about \$36 each payroll cycle (70 checks x 51 cents) or \$857 annually (1,680 checks X 51 cents) printing and delivering payroll checks. If the city were to distribute payroll by direct deposit for its 70 employees, the cost per payroll cycle would be \$37.50 (70 employees x 25 cents plus \$20) or \$900 annually. The net annual cost of \$43 (\$900 - \$857) would increase security, and convenience to employees. If any of these paychecks were to be mailed or the bank fee is negotiated down, the cost would be further offset. First National Bank of Fabens has indicated that this fee may be negotiable.

Recommendation	2006-07	2007-08	2008-09	2009-10	2010-11
Implement a direct deposit plan for all city employees.	(\$43)	(\$43)	(\$43)	(\$43)	(\$43)

FINDING

The planning department has poor cash management practices.

The Planning and Zoning Department receives cash, checks and money orders for a variety of reasons: building permits, utility permits, event permits, yard sale permits, vendor licenses and business registrations. Two technicians receive payments, which are kept in two cash register drawers. These registers have keys, but are seldom locked. The keys are usually dangling from the locks and are left unlocked during lunch and other employee breaks.

Pre-numbered receipts are issued along with the purchased permit or license. The clerks then enter the receipts into a daily receipts spreadsheet along with the receipt number, which is used for the daily reconciliation. The daily receipts spreadsheet lists name, date, receipt number, permit number, and revenue account. Each technician reconciles her own drawer. The accounting department confirms that the clerks have issued all receipt numbers and that they are listed on the daily receipt form.

The supervisor prepares the deposit at the end of each day. If it is completed during the operating hours of the municipal court, it is locked in the court safe. Otherwise, the deposit bag is kept in a locked filing cabinet. The keys to both the filing cabinet and the bag are kept together in a desk.

The lack of security procedures, both during the day and at night, places the city at risk for theft. Strict procedures should always be implemented during the receipt of revenue. This is especially true since the city has chosen to accept cash.

RECOMMENDATION:

Implement strict procedures for handling cash.

The city should limit access to cash boxes to a single authorized person. This person should keep the key to that box with her and the box should be locked when it is not in use.

It is important to separate access, recording, reconciliation and deposits whenever possible. Each technician should reconcile the other clerk's cash box at the end of the day to separate the access and recording duties from reconciliation. The accounting department's confirmation of receipt numbers is useful for detecting destroyed receipts.

All funds should be secured in a locked safe each night, without exception. If the city were to accept credit cards, some of this risk would be mitigated by removing some or all of the cash from the system.

The cash handling policy should be in writing.

FISCAL IMPACT:

This recommendation can be implemented with existing resources.

Investment policies and procedures

Texas Government Code, Chapter 2256 – Public Funds Investment Act (PFIA) – governs the investment of government funds in Texas. Under this law, specific parameters are set for Texas local governments, including cities, requiring them to adopt an investment policy and to designate an investment officer who must attend an approved training course.

The local investment policy must be written and must primarily emphasize safety and liquidity and address investment diversification, yield, maturity and the quality and capability of investment management. Administrative controls must be in place to ensure that city employees follow all policies, rules and laws.

Socorro's investment committee includes two council members, the senior accountant and the city manager. In September 2005, Socorro adopted Ordinance No. 250, which established a formal investment policy. The Strategy and Investment Policy addresses policy, purpose, scope,

objectives, responsibility and control. The policy lists the city’s qualified brokers, dealers and financial institutions as First National Bank of Fabens, Local Government Investment Cooperative (LOGIC), and TexPool.

The city of Socorro has one investment account with LOGIC, a AAA-rated investment pool program tailored for Texas local governments. Its goals include safety, liquidity, diversification and appropriate yields on investments, as required by the Texas Public Funds Investment Act. First Southwest Asset Management Inc. and JPMorganChase administer LOGIC.

Exhibit 7-4 shows the city’s investments as of November 30, 2005.

**Exhibit 7-4
City of Socorro
Investment Detail as of
November 30, 2005**

Description	Amount
City of Socorro – LOGIC	\$76,032
Total Investments	\$76,032

Source: City of Socorro’s November 30, 2005 monthly LOGIC statement.

FINDING

Socorro’s investment committee members do not have the required PFIA training.

The city has chosen to appoint an entire committee instead of a single investment officer. State law requires an investing entity such as a city to designate only one investment officer. All four members are designated “investment officers” The senior accountant is required to receive PFIA training as the treasurer/chief financial officer and the three remaining members are required to receive training as investment officers.

The PFIA (Section 2256.005(f), Texas Government Code) requires that “each investing entity shall designate, by rule, ordinance, or resolution, as appropriate, one or more officers or employees of the state agency, local government, or investment pool as investment officer to be responsible for the investment of its funds consistent with the investment policy adopted by the entity.” In this case, the investing entity is the city of Socorro. Only one officer is required, however Socorro has appointed four.

The PFIA (Section 2256.008, Texas Government Code) requires that the “treasurer, the chief financial officer if the treasurer is not the chief financial officer, and the investment officer” of local governments attend at least one training session, 10 hours in length, within 12 months after taking office and must take 10 hours of instruction every two years. Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Public Funds Investment Act.

A review of training records shows that none have received the required training. The council members are not yet in violation, having only been appointed to the investment committee in September 2005. The city manager and senior accountant received their appointments later.

Ideally, this committee should be actively participating in this function, ensuring that the maximum amount of funds are invested rather than remaining in non-interest bearing accounts.

This requires continuous monitoring in order to ensure that funds become available as debt becomes due and cash is needed. The committee members would be better prepared to carry out their duties if they were properly trained.

RECOMMENDATION:

Ensure that all investment committee members acquire mandatory PFIA training.

Training is available from a variety of sources. The Texas Municipal League offers PFIA training for \$145 to \$195 per person. The TML sponsors the training several times a year in different Texas cities, including San Angelo, on July 13 and 14.

The University of North Texas offers frequent two-day training sessions for \$230 per person. Some of the 2006 locations include Arlington, on April 27 and 28; Bellaire on May 18 and 19; El Paso on May 22 and 23; and Arlington again on June 5 and 6. The complete schedule is available at <www.unt.edu/cpm/schedule.htm>.

The William P. Hobby Center for Public Service at Texas State University offers an Internet course for annual certification and recertification. The course is \$250 and allows students to select 10 of 25 instruction hours and topics they would like to study. Books are delivered to the home or office and a computer account and access code to Texas State University are assigned. More information is available at <www.txstate.edu/cpm/tpfia.html>.

A better choice would be to limit the number of members on the investment committee to two city employees. The city council members are up for reelection every two year, and the frequent turnover can make PFIA compliance difficult. The senior accountant and city manager would be more stable members and more likely stay current with training requirements. These employees are more aware of the city’s daily financial position of the city. Also, this committee would be more in line with the city manager form of government.

Reducing the number of investment committee members would require amending the city’s investment policy, ordinance no. 250.

FISCAL IMPACT

Based on geography, the most convenient training would be that offered by University of North Texas. Training in El Paso would eliminate the need for air travel, hotel and other expenses. Assuming the three remaining committee members would attend the University of North Texas training session in El Paso, the fiscal impact would be \$690 (3 x \$230) in 2006. Thereafter, all four members would require continuing education every two years. The senior accountant will need to receive her continuing education on alternate years.

Recommendation	2006-07	2007-08	2008-09	2009-10	2010-11
Ensure that all investment committee members acquire mandatory PFIA training.	(\$690)	(\$230)	(\$690)	(\$230)	(\$690)

Finding

Socorro is not making effective use of investment pools.

As of November 2005, Socorro had approximately \$76,000 invested with LOGIC. The September 2005 financial statements showed \$4,443,605 cash on hand in accounts that did not earn interest. Of this amount, \$2,037,055 was unrestricted and \$2,406,550 as restricted. Restricted funds are earmarked for a specific use.

Both LOGIC and TexPool are highly liquid and accessible on short notice. They also meet the other GFOA recommendations for diversification and professional management. Likewise, both these investment pools match the city’s investment policy.

The city could also choose to invest in high-quality, short- to medium-term mutual funds that offer same-day liquidity.

From 2002 to 2005, LOGIC and TexPool have had the following average monthly returns based on daily compounding (**Exhibit 7-4**).

Exhibit 7-4
City of Socorro
2002-2005: LOGIC and TexPool Average Monthly Returns

	LOGIC	TexPool
2005	3.1919%	3.1890%
2004	1.338%	1.3348%
2003	1.1260%	1.1657%
2002	1.8322%	1.8086%

Source: LOGIC and TexPool Web sites.

In addition, LOGIC had a 4.2862 percent return for January 2006 and a 4.4846 percent return for February 2006. Both pools provide daily liquidity and penalty free withdrawals with competitive rates.

Recommendation:
Invest additional cash in interest-earning investments

The senior accountant estimated that the city could invest \$2.5 million to \$3 million. In a recent city council meeting, the city clerk stated that Socorro should maintain three to four months of general operating cash on hand and should invest the rest. Based on fiscal 2005 expenses of \$4,342,687, the city should maintain \$1,447,562 (4/12ths) in its cash accounts under this policy. That would allow an investment of \$2,996,043 (\$4,443,605 cash on hand - \$1,447,562 four month’s expenses).

The investment committee should determine the amount of investments that would allow the city to earn the maximum amount of interest without compromising the city’s daily cash requirements and debt service schedule. Both LOGIC and TexPool can disburse funds within 24 to 48 hours.

The cash balances of December 2005 were in the following bank accounts:

Currently	Recommended
\$1.8 million in zero-interest checking	1.8 million in interest-bearing checking/savings – discussed earlier
\$2 million in interest checking	Higher-yield investments
\$.5 million in savings	Higher-yield investments

Fiscal Impact:

Based upon a conservative \$2.5 million additional investment in LOGIC, the city’s current investment pool, and upon an average monthly return of that investment pool of 3.3624 percent since 2005, the city could earn \$73,310 in additional annual revenue. This is based on both the \$2 million, currently earning 0.35 percent and the \$0.5 million currently earning 0.75 percent, which would earn 3.3624 percent instead [$\$2,000,000 (3.3624 - 0.35) + 500,000 (3.3624 - 0.75)$].

LOGIC’s monthly returns began at 2.2918% in January 2005 and climbed each month to 4.4846% in February 2006. If this trend continues, interest revenue could be higher.

Recommendation	2006-07	2007-08	2008-09	2009-10	2010-11
Invest additional cash into interest-bearing investments.	\$73,310	\$73,310	\$73,310	\$73,310	\$73,310

Insurance coverage

City administrators often feel overwhelmed with the number of insurance options available. The decision-making process when purchasing insurance includes:

- analyzing alternatives for insurance coverage such as self-insurance and other current industry trends;
- analyzing current insurance plans including deductible amounts, co-insurance levels and types of coverage provided;
- assessing hazards and implementing programs to minimize exposure to potential losses; and
- continuously monitoring compliance with various laws and regulations.

The city regularly seeks bids for its insurance to ensure that it is obtaining the most coverage it can afford at advantageous prices. The city uses an insurance consultant to help select insurance coverages.

Socorro uses the TML Intergovernmental Risk Pool for most of its insurance needs. The coverage obtained from TML includes:

- liability, including general, automobile and law enforcement liability and errors and omissions;
- property for boiler, machinery and electronic data processing equipment; and
- workers’ compensation.

Workers' compensation insurance premiums are based on payroll amounts. All employees are grouped according to a risk factor assigned to the type of job duties they perform. For fiscal 2004-05, the city had the job classifications and rates shown in **Exhibit 7-6**.

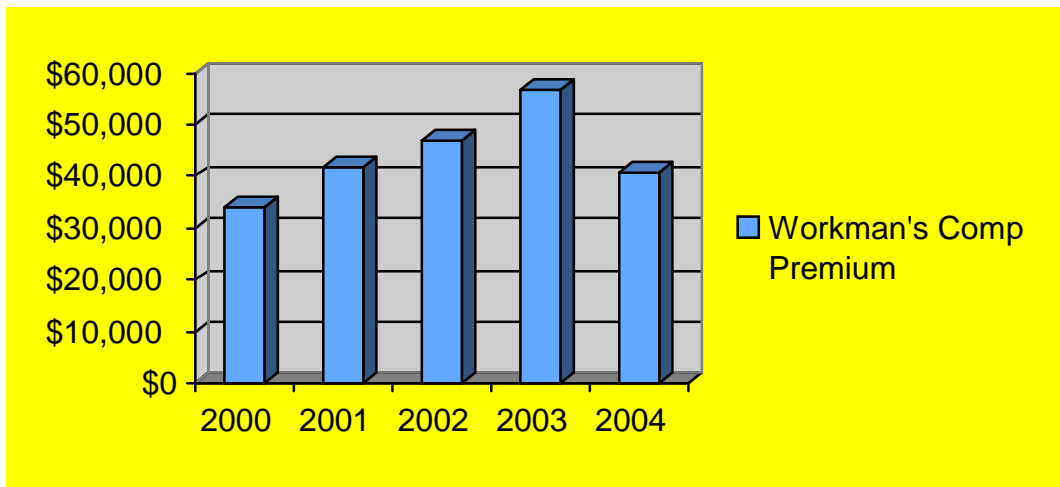
Exhibit 7-6
City of Socorro
Payroll Classification and Workers' Compensation Rates
2004-05

Payroll Classification	Rate
Building inspectors	1.29
Street and road repair	13.48
Police officers – paid	5.28
Clerical	0.44
Building operations	6.06
Elected/appointed officials	140.00
Firefighters – volunteer	3.51
Police reserves	5.28

Source: Texas Municipal League Intergovernmental Risk Pool Payroll Classification Schedule for the city of Socorro, December 01, 2005.

Exhibit 7-7 shows a five-year history of the city's workers' compensation premiums.

Exhibit 7-7
City of Socorro
Workers' Compensation Premiums
2000-01 Through 2004-05



Source: Texas Municipal League Intergovernmental Risk Pool premiums for the city of Socorro.

FINDING

Socorro does not have a safety training program for city employees.

An analysis of workers' compensation rates and premiums paid showed that the city had a rate reduction in fiscal 2004-05.

According to the Texas Municipal League, this was because the claims against the city were only \$26,000 for 2004-05 compared with \$94,000 the previous year, resulting in a 0.78 experience modifier on their premiums. This means that their workers' compensation premiums are 22 percent lower, based on their history, than for a new client. The 2003 experience modifier was 0.97 and the 2002 experience modifier was 0.98.

This reduction in claims is not reflective of increased safety training or any other mitigating efforts on the part of the city. The city does not have a safety training program. Every city should evaluate the types of injuries and then take corrective or preventive measures to decrease the number of injuries and to better educate and protect employees.

Preventing on-the-job injuries is the best way to protect workers and to reduce workers' compensation insurance premiums. Injury prevention steps can be taken by implementing weight limits which employees are allowed to lift, requiring the use of back braces (which cost approximately \$40 each), training employees in proper lifting and carrying techniques and encouraging proper exercise and stretching.

The TML Intergovernmental Risk Pool has a wealth of resources for helping cities reduce risk, including 800 publications, 400 videos and 46 training programs around the state. These resources are available at no charge to cities that belong to the Texas Municipal League. Videos include "Auditing Electrical Hazards," "Back Injury Prevention," "Office Ergonomics," and "Carpal Tunnel Syndrome." The education and training programs are available around the state and some are available online. A complete list of all these resources and monthly training schedules is at <www.tmlirp.org/tmlirp/lossprevention.htm>.

RECOMMENDATION:

Implement a safety training program for city workers.

Socorro has benefited from a recent decline in worker's compensation claims. In order to keep claims low, the city should begin a safety training program and should implement injury prevention procedures. City officials should determine the exact needs.

FISCAL IMPACT

Implementing this recommendation should help ensure a consistent reduction of employee injuries, thereby reducing the city's workers' compensation costs over time. A minimal investment in training materials and back braces should be more than offset by the savings.

The fiscal impact depends on management decisions and future workers' compensation trends.

Capital asset management

Capital asset expenditure planning and control are critical to the long-term financial health of any city. Generally, expenditures for capital assets require significant financial resources; decisions are difficult to reverse and the investment affects financial performance over a long period of time. Policies and procedures ensure that capital assets are properly recorded and protected.

The city of Socorro's assets totaled \$10,244,676 on September 30, 2005. Capital assets net of depreciation amounted to \$4.8 million of those total assets.

Finding

The city maintains records of fixed assets and inventories them regularly.

In 2004, the city began inventorying its fixed assets. As highlighted in **Exhibit 7-8**, the city places permanent tags on capital assets and accounts for them in the following manner based on value.

**Exhibit 7-8
City of Socorro
Capital Assets Policy**

Value	Example	Permanent Tag	Accounting Method
\$5000 or more	Buildings, land, vehicles, machinery, software, infrastructure	Blue tag labeled "Property of the City of Socorro"	Capitalized Depreciated with Straight-line Inventoried annually
\$500 - \$4999	Filing cabinets, desks, computers	Red tag labeled "Property of the City of Socorro"	Expensed Inventoried annually
\$499 and under	Office supplies, misc,	None	Expensed

Source: City of Socorro Senior Accountant.

Good internal controls require routine inventory inspection so that the city can track missing or stolen items. In the event of a suspected theft, routine inspections allow for timely notification of authorities. Socorro’s assets worth more than \$500 are inventoried annually by department heads.

The city uses straight-line depreciation for its capital assets and the estimated useful lives are as follows:

Buildings and improvements	30 to 40 years
Machinery and equipment	5 years
Vehicles	5 years
Office furniture and equipment	5 to 7 years
Software	3 years
Infrastructure	22 to 68 years
Leasehold improvements	39 years

COMMENDATION:

The city maintains a sound fixed asset policy.

Debt and debt service

The largest single sum of money that most governments will receive at one time will be the proceeds from a bond issuance. Most bonds are authorized by voters and sold for large projects to spread the cost over time. The entire authorized amount does not have to be issued immediately. A government may issue the bonds in phases. Debt is generally in the form of notes payable, bonds or certificates of obligation.

At the end of fiscal 2005, the outstanding long-term indebtedness of Socorro was more than \$3.9 million. Of this amount, \$679,161 was in notes payable, \$36,000 was in operating leases and more than \$3.2 million was certificates of obligation principal.

Notes payable were issued to construct a fire station at a cost of \$101,306; to acquire police cars and machinery at a cost of \$208,853; and for street improvements at a cost of \$738,500.

The city has issued three certificates of obligation. In 1999, the city issued bonds for the repayment of 1993 debt service at a lower overall debt service requirement for \$1.65 million. In 2001, the city issued a \$500,000 bond for street repairs and did so again in 2004 for \$2 million. **Exhibit 7-9** shows the long-term debt repayment schedule.

Exhibit 7-9
The City of Socorro
Long-Term Debt Repayment Schedule
2006 to 2023

Fiscal Year Ending	Notes Payable		Operating Leases	Certificates of Obligation		Annual Total
	Principal	Interest		Principal	Interest	
9/30/2006	139,008	27,558	6,000	184,200	146,438	503,204
9/30/2007	118,505	21,130	6,000	189,100	126,929	461,664
9/30/2008	103,148	16,266	6,000	193,100	129,481	447,995
9/30/2009	none	12,103	6,000	197,200	120,593	335,896
9/30/2010	318,500	37,211	12,000	1,133,200	445,343	1,946,254
9/30/2011			unknown	1,133,200	445,343	1,578,543
9/30/2012			unknown	1,133,200	445,343	1,578,543
9/30/2013			unknown	1,133,200	445,343	1,578,543
9/30/2014			unknown	1,133,200	445,343	1,578,543
9/30/2015			unknown	699,300	210,291	909,591
9/30/2016			unknown	699,300	210,291	909,591
9/30/2017			unknown	699,300	210,291	909,591
9/30/2018			unknown	699,300	210,291	909,591
9/30/2019			unknown	699,300	210,291	909,591
9/30/2020			unknown	687,000	73,766	760,766
9/30/2021			unknown	687,000	73,766	760,766
9/30/2022			unknown	687,000	73,766	760,766
9/30/2023			unknown	687,000	73,766	760,766
9/30/2024			unknown	687,000	73,766	760,766

Source: City of Socorro, Financial Statements with Independent Auditors' Report, September 30, 2004.

Finding:
Socorro does not have a debt management policy.

Socorro has incurred debt as needed for street repairs and debt service based on the judgment of the city council without documented guidelines or limitations. While it does not appear that the assumed debt is unreasonable, the Government Finance Officers Association recommends that local governments institute written guidelines and restrictions for debt management.

It is important to ensure that annual debt service amounts are within a city's available resources. According to GFOA, a debt management policy improves the quality of decisions, provides justification for the structure of debt issuance, identifies policy goals and demonstrates a

commitment to long-term financial planning, including a multi-year capital plan. The policy should cover:

- debt limits;
- debt structuring practices;
- debt issuance practices;
- debt management practices; and
- use of derivatives.

Appropriate debt limits can improve bond ratings. Financial limits are often expressed as ratios and can be limited to debt per capita, debt to personal income, debt to taxable property value and debt service payments as a percentage of general fund revenues or expenditures.

A debt structuring policy should include specific policies for maximum term, average maturity and debt service pattern. A debt issuance policy should provide guidance during the issuance process, which includes criteria for determining the method of sale, for advance refunding and for selecting professional service providers. Debt management practices should provide guidance for ongoing administration including bond proceed investment. More information on recommended debt management policies is available at the GFOA Website at <www.gfoa.org>.

RECOMMENDATION:

Establish a debt management policy.

The city commission should develop a debt management policy that includes a debt limitation policy. Developing a policy that addresses debt limits and offers guidance on structuring would help guide future debt issuances and help ensure the city is practicing sound fiscal management.

A sound debt management policy and adherence to it, signals rating agencies that the government is well managed and more likely to meet its obligations.

FISCAL IMPACT

This recommendation can be implemented with existing resources.