
**FRESNO LOCAL AGENCY FORMATION COMMISSION (LAFCo)
EXECUTIVE OFFICER'S REPORT**

CONSENT AGENDA ITEM No. 6B

DATE: September 11, 2013

TO: Fresno Local Agency Formation Commission

FROM: David E. Fey, AICP, Executive Officer

SUBJECT: **Consider and Adopt:** Additional procedures in the "LAFCo Financial and Accounting Procedures" Manual as recommended in the latest LAFCo Audit

RECOMMENDATION:

Adopt Amendments to Financial and Accounting Procedures.

BACKGROUND:

Since becoming an independent agency written financial and accounting procedures were adopted on December 7, 2011, to manage the business side of the agency.

As a result of LAFCo's independence, LAFCo is no longer a County department and no longer uses the County's system of paying its bills. As part of LAFCo's transition to an independent agency, the Commission contracted with private payroll company to process payments to its vendors and to process the payroll for the Executive Officer. The County, however, is still responsible for payroll for the two County employees currently contracted to LAFCo.

Even though LAFCo is not required to conduct an annual audit, LAFCo is still accountable for insuring that public funds are spent appropriately and are accounted for. In the past when one Executive Officer left employment with LAFCo and another Executive Officer was hired, a transitional audit was prepared and presented to the Commission as an informational item. The Commission has since established an official policy to have a semi-annual audit and an audit with the change of each Executive Officer. Sampson, Sampson & Patterson, LLP (Auditor) was selected to prepare the most recent audit that covered the 2011-2012 fiscal year. Staff had also asked the Auditor to provide a list of suggestions that would improve our financial procedures.

The Auditor's Report included "Management Points" that suggested areas where LAFCo's accounting procedures should be modified. The Auditor suggested that LAFCo employ an independent bookkeeper to assist staff with its financial records and to further separate financial responsibilities. In mid-April, LAFCo started using an independent bookkeeper for that purpose. LAFCo has also contracted with "The Payroll People" to keep track of the Executive Officer's payroll, sick leave and vacation, which also addresses one of the Auditor's concerns.

On June 5, 2013, the Commission accepted the Auditor's Report and directed staff to schedule the LAFCo Financial Policies and Procedures for hearing to incorporate the Auditor's recommendations into the document.

The attachment includes the changes to the adopted Financial Policies and Procedures that were recommended by the Auditor.

CONCLUSION:

Amending LAFCo's Financial Policies and Procedures per the Auditor's recommendations will assist staff by providing a more clear direction for processing deposits and payments to vendors.

Staff is requesting that the Commission adopt the amendments to the Fresno LAFCo Financial and Accounting Procedures to incorporate the Auditor's recommendations into the document.

DEF:cf



Fresno LAFCo Financial and Accounting Procedures

(Adopted December 7, 2011)

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Introduction

Each year, following noticed public hearings, the Commission adopts proposed and final budgets. In accordance with the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, the proposed budget must be adopted by May 1st and the final budget by June 15th. The budget is based on a July 1st to June 30th fiscal year. In order to get an early start on the budget and allow for careful consideration of the budget options, the Executive Officer will present a preliminary budget to the Commission in March of each year in order to obtain advance direction from the Commission.

A. Purpose

These Financial and Accounting Procedures are intended to serve as a guide to the fiscal procedures of LAFCo. These procedures are intended to provide good internal accounting and administrative controls and establish a uniform and systematic approach to LAFCo's financial and accounting process. This policy provides for alternating financial audits and reviews to be conducted every two years, or when there is a change in Executive Officer, and upon the Commission's direction.

B. LAFCo Funding

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 provides that the operational costs of LAFCo shall be shared one-half by the County and one-half by cities where only the County and cities are represented on the Commission. In the event that special districts choose to be represented on the Commission, LAFCo funding would then be shared one-third by the County, cities, and the special districts or by an alternative method approved pursuant to section 56381(b)(4) of the California Government Code.

The LAFCo budget is also augmented by fees established by the Commission in accordance with section 56383 of the California Government Code for services rendered to process applications for annexations, reorganizations, and detachments, as well as other LAFCo actions.

The County Auditor is responsible for apportioning the Commission's net operating costs to the County and the cities according to a formula established by Government Code Section 56381.

If the County or a city does not remit its required payment within 60 days, the Executive Officer shall request that the County Auditor collect an equivalent amount from the property tax, or any fee or eligible revenue owed to that county, city, or district, pursuant to Government Code Section 56381(4)(c).

C. Organization of Accounting System

1. **General:** Financial records shall be maintained in accordance with generally accepted accounting principles (GAAP) and applicable state regulations.
2. **Basis of Accounting:** Financial transactions shall be accounted for by the use of a cash basis of accounting, whereby revenues are recognized when they become available to finance expenditures of the current fiscal period, and expenditures are generally recognized when the related fund liabilities are incurred.
3. **Records:** LAFCo uses financial software (such as [Microsoft AccessQuick Books](#)) to track deposits and expenses and reconcile ~~s the database to the~~ bank and accounting ~~ingant~~ records to create the monthly financial reports and the annual budget.
4. **Internal Controls:** LAFCo shall organize and assign work duties and responsibilities so that a system of checks and balances are in place. [This will include utilizing an independent bookkeeper to assist with](#) ~~These include, but are not limited to,~~ maintaining [financial records such as](#) accounting and bank statements and monthly reports, [entering vendor information in QuickBooks,](#) ~~updating the database and~~ reconciling [bank statements, it with the statements,](#) and requiring that proper authorizations be ~~obtained~~[required](#) for all budgetary actions taken.

D. Accounts Receivable

All receipts shall be processed in accordance with the following procedures:

1. [The Executive Officer shall immediately be notified of all checks received.](#) ~~Checks received by mail shall immediately be dated and endorsed.~~
2. [If checks cannot immediately be deposited, they will be kept in a secured location until they can be deposited.](#)
4. [_____](#)

- 2.3. A ~~LAFCo~~-receipt shall be issued upon receipt of checks accepted in the office.
- 3.4. All checks shall be photocopied and the photocopy attached to the logged into the receipt record and the Access database.
5. The Commission Clerk shall prepare a deposit slip and deposit all checks into the LAFCo bank account authorized by the Commission. ~~In the interim, checks shall be kept in a locked place for safekeeping. At no time shall checks be left unattended in an unsecured location.~~
- 4.6. The Executive Officer shall first initial the deposit slip acknowledging the deposit.
- 5.7. The deposit shall be entered into QuickBooks and reconciled with the bank statements maintained in file.
8. Once each month, LAFCo staff shall provide the Commission with a monthly financial report showing the Commission's income and expenses for the preceding month.
- 6.9. On a semi-annual basis, the bookkeeper shall provide staff with a list of invoices over six-months old and staff will rebill the agency to collect payment.

E. Expenditures

1. ***Payroll:*** The Executive Officer shall be responsible for approving the time sheets for all staff. However, the Executive Officer may delegate certain responsibilities related thereto to the Commission Clerk (e.g. approval of LAFCo Technician's time sheets). When applicable, such time sheets shall be forwarded to the County's Payroll Department.
2. ***Accounts Payable:*** ~~###~~ Invoices received shall be given to the EO for approval and to assign which account the funds should be drawn from.

Once approved by the Executive Officer, all invoices shall be paid once a month. Checks will be issued from LAFCo's two-signature account to pay the invoices.

Photocopies of checks with invoices attached shall be maintained in file.
3. ***Travel Reimbursement:*** All Commissioners and LAFCo staff shall make

reasonable efforts to minimize Commission-related travel costs. The Commission Clerk shall review and the Executive Officer ~~or the Commission Clerk~~ shall ~~review~~, verify, and approve all expense claims for travel. The Executive Officer shall only approve those requests for travel that have been approved by the Commission as part of the regular budget approval process or by special action.

- a. **Lodging:** Lodging expenses will be reimbursed at actual cost (single room rate), but not to exceed \$150.00 per night. In addition, when a room tax is charged, an amount equivalent to the room, tax will be reimbursed.

Specified maximum reimbursement rates may only be exceeded to allow actual cost when an employee or Commissioner lodges at a "hosting hotel" where meetings, conferences, or training sessions are held so long as such rate is the designated "conference rate."

- b. **Per Diem:** A per diem allowance may be given to employees and Commissioners to cover personal items such as meals and tipping in lieu of requiring receipts for all expenses. The maximum day per diem rate for LAFCo officials and employees is \$60.00, but may be increased to \$75.00 when traveling to high cost cities as defined by the Internal Revenue Service.

If per diem is being claimed, the daily per diem amount will be adjusted by the following meal allowance for each meal provided in the registration charge:

Breakfast	\$10.00
Lunch	\$15.00
Dinner	\$25.00

No reimbursement will be made for alcoholic beverages.

- c. **Transportation:** Prudent judgment shall be exercised in the selections of mode of transportation. Actual costs shall be reimbursed, based upon the supporting documentation. Use of personal vehicles for Commission business shall be reimbursed at the annual mileage reimbursement rate as determined by the Internal Revenue Service (e.g. 56.5 cents per mile in 2011) based on miles calculated from the LAFCo Office.
- d. **Other:** Proof of Other incidental expenses including, but not limited to, business related long distance telephone calls, bridge tolls, parking fees, gratuities, and taxis, shall be provided via a credit card statement or receipts.
- e. Upon return from travel, LAFCo Commissioners and staff shall submit required supporting documentation for travel reimbursement to the LAFCo-Commission Clerk. The LAFCo-Clerk will complete a "Travel Reimbursement Request" form for the Executive Officer's approval and signature. The form will be retained at the LAFCo office and form the basis for payment. The Commission Chair or Vice Chair shall approve travel reimbursement for the Executive Officer.
- f. At the end of each month, LAFCo staff shall reconcile travel expenditures and include this information in the next month's financial report.

F. Contingency Fund

LAFCo may establish a Contingency Reserve Fund to cover emergencies and other unforeseen costs not budgeted but deemed necessary for the continued operation of the Commission. Expenditure of Contingency Funds must receive prior approval of

the Commission. An emergency expense can be authorized from the Contingency Fund with approval of the Executive Officer and at least one Commissioner for an amount totaling less than \$5,000.00 during a monthly period. Funds not expended at the end of the fiscal year shall be carried over to the next fiscal year.

A legal Reserve Account shall be maintained by LAFCo staff for the purpose of funding non-budgeted legal expenses as may occur from time-to-time. Disbursement from this fund must be approved by LAFCo Commission action.

All Contingency Funds shall be held in bank accounts approved by the Commission and the balance of these accounts shall be reported in the mid-year budget review report and annual budget report.

G. Purchasing

Once the Commission has adopted the annual budget, it shall be considered the controlling plan of expenditure. Purchases and acquisitions shall be processed within the limitations established by the amount of budgeted resources allocated.

The Executive Officer is authorized to approve purchases and shall be responsible for purchases of and contract execution for materials, supplies, furnishings, equipment and services required by LAFCo in the performance of daily operations up to \$5,000.00. The Executive Officer may, at his or her discretion, delegate purchasing authority to the Commission Clerk. Types of purchases the Executive Officer is authorized to approve include office supplies, copy machine leases, rental space, telephones, postage, incidental expenses directly related in support of CALAFCO, and computer services. Supporting documents for said expenses will consist of actual invoices received for services. The Commission will approve contracts for professional services such as LAFCo Counsel or consultants.

H. Authorizations

1. LAFCo staff with the Commission's authorization may contract with a third party for disbursement of funds relating to staff and LAFCo expenses. Such expenses will be included in each month's financial report.
2. The Commission authorizes the use of local banks for the purpose of depositing funds received by LAFCo and disbursal of funds as described above.

3. All checks issued by LAFCo for normal business expenses shall have two signatures which shall consist of the Executive Officer and one Commissioner or two Commissioners if the Executive Officer is not available to sign.
4. A Single signature account with a balance of not more than \$500.00 shall be maintained by the Executive Officer for small LAFCo related expenses.

I. Annual Work Plan

Before July 1st, the LAFCo Executive Officer shall prepare for the Commission's review and approval an annual work plan. The work plan is prepared in conjunction with the law and annual budget. The work plan identifies the purposes and programs of State Law and local policy, including requirements for service reviews, sphere of influence updates, and other mandated functions. The work plan will correspond to the adopted fiscal year budget.

J. [Budget](#) Preparation and Administration

The LAFCo Executive Officer shall serve as the budget administrator, to prepare, present, transmit, review, execute, and maintain the LAFCo budget consistent with State Law. The Executive Officer shall provide the Commission with periodic budget updates comparing expenditures to the adopted budget.

K. Capital Asset Management

1. ***Capitalization Policy:*** Capital assets include furniture, fixtures, and equipment with a useful life of three or more years and a value of \$5,000 or more. Capital assets owned by LAFCo are accounted for at their historical cost, or estimated historical cost, if actual cost is not available and are subject to depreciation over their estimated useful lives.
2. ***Inventory of Capital Assets:*** LAFCo will maintain an inventory of capital assets, including equipment and furniture. The inventory will be maintained by staff. New assets will be added to the inventory as acquired and subtracted from the inventory as disposed.

3. ***Depreciation of Useful Life:*** Capital assets are depreciated using the straight line method over the estimated useful life. Estimated useful lives of fixed assets shall be determined by the Executive Officer. Furniture and fixtures will typically be assigned a useful life of up to 10 years, most office equipment (including computers) will be assigned a useful life of 3-5 years; and leased assets will be designated “life of lease”.
4. ***Repair of Fixed Assets:*** Repair of equipment should not exceed the cost of a new piece of equipment.
5. ***Disposition of Fixed Assets:*** In the event a capital asset is sold, scrapped, donated, or stolen; adjustments will be made to the capital asset inventory. Disposal of capital assets with a remaining value of \$1,000 or more shall take place upon Commission approval by the following process:
 - a. The Executive Officer shall advise the county and its cities of the availability of the item and each may place a sealed bid on the form provided by LAFCo with the minimum price being the depreciated value of the item on the LAFCo records.
 - b. For items with a remaining value of between \$500 and \$1,000 the Executive officer is authorized to use the process above without Commission authorization.
 - c. If no bids or offers are received from the county or its cities within 10 days of the mailing of a notice that such item(s) are available, the Executive Officer shall attempt to sell such items at auction (such as Ebay) and deposit the funds in the LAFCo general checking account.
 - d. Donation of a surplus item from LAFCo’s may be made after Commission action at a regularly scheduled Commission meeting.
 - e. Smaller items without residual value, that are obsolete or non-functioning may be disposed of with the authorization of the Executive Officer and a list of such items shall be maintained for one year after the disposal at the LAFCo office.

L. Reports to the Commission

At each ~~monthly~~ commission meetings the Executive Officer shall submit a report of ~~Fresno~~ LAFCo's financial standing to the Commission, based on the most current information including information from the last available bank balance. Such information will show the expenses, the balance in the general operating account and balances in reserve and legal reserve accounts in addition to Account Receivable (AR) and Accounts Payable.

All credit card transactions during the reporting month shall be detailed on a separate sheet and attached to the LAFCo Financial Statement and presented to the Commission for acceptance.

(Added 10/10/12)

M. Bank Reconciliation

Reconciliation of bank statements will be performed on a monthly basis. The LAFCo staff person responsible for reconciliations will not be the same person who enters expenditure requests in to the system for the purpose of obtaining checks to pay bill and obligations.

The Executive Officer will review all reconciliation and financial reports and shall present such to the Fresno LAFCo Commission.

All checks outstanding for over 180 days shall be investigated and reissued, where possible, or voided.

All financial reports including balances of bank account(s) expenses and balances held in reserve accounts will be retained by LAFCo as a permanent Record.

N. LAFCo Bank Accounts

The Executive Office shall upon specific authorization of Fresno LAFCo Commission and by resolution open on behalf of Fresno LAFCo a general checking account and a smaller single signature account in addition to bank accounts to hold general reserve fund and legal reserve funds. The General checking account shall require at least two signatures on each check. Signatures will be either LAFCo Commissioners or one Commissioner and the Executive Officer. The single signature account is intended for

minor day to day expenses such a county filings smaller office expense etc. and funds will be dispersed by check with Executive Office's signature. The smaller one signature account for the Executive Officer will not have more than \$500 in an account balance at any one time.

O. Cash and Credit Cards

Fresno LAFCo will discourage the use of cash as a payment for applications, fees, and charges and when cash is used for a payment for fees or charges a receipt will be issued to the person making the payment and a copy will be retained by Fresno LAFCo and reflected as income in the monthly report. Any cash received by Fresno LAFCo shall be deposited in the General Business account at the close of the business day in which it was received or not later than 24 hours after it is received.

The Commission authorizeds LAFCo staff to obtain a credit card for the purposes of registration at conferences, purchasing needed office items from the internet, and other related purchases that cannot be reasonably accommodated by the issuance of checks, purchase orders, or other means of payments. Said credit card shall be limited to one card and shall be secured in a safe place by the Executive Officer when not in use for the aforesaid expenditures. The LAFCo credit card shall not be used for any type of personal purchase.

(Added 10/10/12)

P. Third Party Check Issuance

To insure additional transparency in LAFCo financial matters Fresno LAFCo will contract with a qualified third party firm to prepare checks from the main Fresno LAFCo bank account and perform needed deductions and payments associated with any employee salary checks, as well as keep track of employee vacation and sick leave.