

SECTION 2:

ACCOUNTING AND FINANCE POLICIES AND PROCEDURES



Accounting and Financial Policies of the Orange County Local Agency Formation Commission

PART 1 – INTRODUCTION

2.1 INTRODUCTION

The following accounting manual is intended to provide an overview of the accounting policies and procedures applicable to OC LAFCO.

This manual documents the financial operations of the organization. Its primary purpose is to formalize accounting policies and selected procedures for the accounting staff and to document internal controls.

All OC LAFCO staff is bound by the policies herein, and any deviation from established policy is prohibited.

PART 2 – GENERAL POLICIES

2.2 ORGANIZATIONAL STRUCTURE

A. The Role of the Commission

OC LAFCO is governed by its Commission, which is responsible for the oversight of the organization by:

1. Planning for the future
2. Establishing broad policies
3. Identifying and proactively dealing with emerging issues
4. Interpreting the organization's mission to the public

B. The Commission is responsible for hiring and periodically evaluating the organization's Executive Officer, who shall be responsible for the day-to-day oversight and management of OC LAFCO. Specific guidelines regarding the composition and election of the Commission are described in the organization's bylaws.

C. The Role of the Executive Officer and Staff

The Commission hires the Executive Officer, who reports directly to the Commission. The

Executive Officer is responsible for hiring and evaluating all employees of OC LAFCO. All employees report directly to the Executive Officer.

2.3 ACCOUNTING OVERVIEW

A. Organization

1. The accounting functions of OC LAFCO are performed by three employees and an accounting firm who manage and process financial information for OC LAFCO. The positions comprising the accounting functions of OC LAFCO are as follows:
 - a. Commission Clerk/Office Manager
 - b. Executive Officer
 - c. Assistant Executive Officer
 - d. Accounting firm staff and accountant
2. Other officers and employees of OC LAFCO who have financial responsibilities are as follows:
 - Executive Officer's Designee
 - Commission

B. Responsibilities

1. General Ledger
2. Budgeting
3. Cash and Investment Management
4. Asset Management
5. Purchasing
6. Cash Receipts
7. Accounts Payable
8. Payroll and Benefits
9. External Reporting of Financial Information
10. Annual Audit

2.4 BUSINESS CONDUCT

Practice of Ethical Behavior

- A. Unethical actions, or the appearance of unethical actions, are unacceptable under any conditions. The policies and reputation of OC LAFCO depend to a very large extent on the following considerations.
- B. Each employee must apply her/his own sense of personal ethics, which should extend beyond compliance with applicable laws and regulations in business situations, to govern behavior where no existing regulations provide a guideline. It is each employee's responsibility to apply common sense in business decisions here specific rules do not provide all the answers.
- C. In determining compliance with this standard in specific situations, employees should ask themselves the following questions:
 - 1. Is my action legal?
 - 2. Is my action ethical?
 - 3. Does my action comply with OC LAFCO policy?
 - 4. Could my action appear to be inappropriate?
 - 5. Does my action meet my personal code of ethics and behavior?

Each employee should be able to answer "yes" to all of these questions before acting.

- D. Each OC LAFCO employee is responsible for the ethical business behavior of her/his subordinates. All employees and commissioners must carefully weigh all courses of action suggested in ethical as well as economic terms and base their final decisions on the guidelines provided by this policy as well as their sense of right and wrong.
- E. All OC LAFCO staff will complete ethics training as required by the State of California.

2.5 FRAUD POLICY

A. Scope

This policy applies to any fraud or suspected fraud involving employees, officers or directors, as well as members, vendors, consultants, contractors, funding sources and/or any other parties with a business relationship with OC LAFCO. Any investigative activity required will be conducted without regard to the suspected wrongdoer's length of service, position/title, or relationship with OC LAFCO.

B. Policy

The Executive Officer, OC LAFCO staff and Commission are responsible for the detection and prevention of fraud, misappropriations, and other irregularities.

Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the OC LAFCO team will be familiar with the types of improprieties that might occur within his or her area of responsibility and be alert for any indication of irregularity.

Any fraud that is detected or suspected must be reported immediately to the Executive Officer or, alternatively, to the Chair of the OC LAFCO Commission.

C. Actions Constituting Fraud

The terms fraud, defalcation, misappropriation, and other fiscal irregularities refer to, but are not limited to:

1. Any dishonest or fraudulent act
2. Forgery or alteration of any document or account belonging to OC LAFCO
3. Forgery or alteration of a check, bank, draft, or any other financial document
4. Misappropriation of funds, securities, supplies, equipment, or other assets of OC LAFCO
5. Impropriety in the handling or reporting of money or financial transaction
6. Disclosing confidential and proprietary information to outside parties
7. Accepting or seeking anything of material value from contractors, vendors, or persons providing goods or services to OC LAFCO
8. Destruction, removal or inappropriate use of records, furniture, fixtures, and equipment
9. Any similar or related irregularity

D. Other Irregularities

Irregularities concerning an employee's moral, ethical, or behavioral conduct should be resolved by the Executive Officer. If there is a question as to whether an action constitutes fraud, contact the Executive Officer or the Chair of the Commission for guidance.

E. Investigation Responsibilities

The Executive Officer has the primary responsibility for the investigation of all suspected fraudulent acts as defined in the policy. The Executive Officer may utilize whatever internal and/or external resources necessary in conducting an investigation. If an investigation substantiates that fraudulent activities have occurred, the Executive Officer will issue a report to appropriate designated personnel and, if appropriate, to the Commission. Decisions to prosecute or refer the examination results to the appropriate law enforcement and/or regulatory agencies for independent investigation will be made in conjunction with legal counsel and senior management, as will final dispositions of the case.

F. Confidentiality

The Commission and the Executive Officer will treat all information received confidentially. Any employee who suspects dishonest or fraudulent activity will notify the Executive Officer or the Commission Chair immediately and should not attempt to personally conduct investigations or interviews/interrogations related to any suspected fraudulent act.

Investigation results will not be disclosed or discussed with anyone other than those who have a legitimate need to know. This is important in order to avoid damaging the reputations of person suspected but subsequently found innocent of wrongful conduct and to protect OC LAFCO from potential civil liability.

G. Authority for Investigation of Suspected

Fraud Members of the Commission will have:

1. Free and unrestricted access to all OC LAFCO records and premises, whether owned or rented.
2. The authority to examine and copy any portion of the contents of files, desks, cabinets, and other storage facilities on the premises without prior knowledge or consent of any individual who may use or have custody of any such items or facilities when it is within the scope of their investigations.

2.6 GENERAL LEDGER AND CHART OF ACCOUNTS

The general ledger is defined as a group of accounts that supports the information shown in the major financial statements. The general ledger is used to accumulate all financial transactions of OC LAFCO and is supported by subsidiary ledgers that provide details for certain accounts in the general ledger. The general ledger is the foundation of the accumulation of data and reports.

A. Funding Accounting

OC LAFCO utilizes fund accounting. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. OC LAFCO has the following funds:

1. General Fund – The government’s primary operating fund. It accounts for all financial resources of the government, except those required to be accounted for in another fund.
2. Special Revenue Funds – Used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes.

B. Chart of Accounts Overview

The chart of accounts is the framework for the general ledger system, and therefore the basis for OC LAFCO’s accounting system. The chart of accounts consists of account titles and account numbers assigned to the titles. General ledger accounts are used to accumulate transactions and the impact of these transactions on each asset, liability, fund balance, revenue, and expenditure account. OC LAFCO’s chart of accounts is comprised of six types of accounts:

1. Assets
2. Liabilities
3. Fund Balance
4. Revenues
5. Expenses
6. Other Sources and Uses

OC LAFCO utilizes “Classes” in QuickBooks to track Special Revenue Fund activities.

C. Account Definitions

1. General Ledger

Account Range	Category	Definition
QuickBooks	Assets	<p>Assets are probable future economic benefits obtained or controlled by the organization as a result of past transactions.</p> <p>Capital assets are not required on the fund financial statements, only on the government-wide financial statements.</p>
QuickBooks	Liabilities	<p>Liabilities are probable future sacrifices of economic benefits arising from present obligations of the organization to transfer assets or provide services to other entities in the future as a result of past transactions or events.</p> <p>Liabilities of OC LAFCO are classified as current or long-term.</p> <p>Current liabilities are probable sacrifices of economic benefits that will likely occur within one year of the date of the financial statements or which have a due date of one year or less. Common examples of current liabilities include accounts payable, accrued liabilities, short-term notes payable, and deferred revenue.</p> <p>Long-Term Liabilities are probable sacrifices of economic benefits that will likely occur more than one year from the date of the financial statements.</p>
QuickBooks	Fund Balance	Fund Balance is the difference between total assets and total liabilities.
QuickBooks	Revenues	Revenues are inflows or other enhancements of assets, or settlements of liabilities, from delivering or producing goods, rendering services, or other activities that constitute an organization's ongoing major or central operations.
QuickBooks	Expenses	Expenses are outflows or other using up of assets or incurrences of liabilities from delivering or producing goods, rendering services, or carrying out other activities that constitute OC LAFCO's ongoing major or central operations.

All general ledger entries that do not originate from an accounting cycle such as cash receipts or cash disbursements shall be accompanied by supporting documentation, which shall include a reasonable explanation of each such entry. Examples of such entries include:

1. Recording of non-cash transactions
2. Corrections of posting errors
3. Accruals of income and expenses

PART 3 – Policies Associated with Revenues and Cash Receipts

2.7 REVENUE RECOGNITION POLICIES

OC LAFCO receives revenue from several types of transactions. Revenue from each of these types of transactions is recognized in the financial statements of OC LAFCO in the following manner:

- A. OC LAFCO Apportionment – Received at the beginning of the fiscal year. Amount is equal to the approved operating budget and is split three ways among the County, the Cities, and the Special Districts. Revenues are recorded in the general fund.
- B. Application and Processing Fees – Provided by incoming project application. Filing fees and time and material deposits are collected to offset costs associated with applications and vary with each project. Filing fees are not budgeted as revenue due to the uncertainty of when applications are filed. These fees are accounted for by the project manager and recorded in a separate special fund.
- C. Interest Income – Interest on investments held by the County, the Local Agency Investment Fund (LAIF), Orange County Investment Pool (OC Fund), Public Agency Retirement Services (PARS), or other investments permitted by Commission policy. Interest income held by the County, LAIF, and OC Fund is recorded in the general fund. Interest income held by the PARS is recorded in the PARS benefits trust account.
- D. Other Income – Miscellaneous revenues, including copies of agenda packets, minutes, and meeting tapes. Other income is recorded in the general fund.

2.8 BILLING/INVOICING POLICIES

- A. Overview
The following is a list of items billed and/or accrued and received by OC LAFCO and the frequency with which each is billed:

1. Annual Billings
 - a. OC LAFCO Apportionment – Billings are performed and collected by the County

of Orange.

2. Miscellaneous Billings

- a. Filing Fees
- b. Agenda and Minutes copying fees
- c. Reimbursements (phone charges, workshops)

B. Receipt and Handling of Incoming Money

It is the responsibility of the Office Manager to open the mail on a daily basis. All checks must be “restrictively endorsed” upon receipt. The Office Manager stamps all checks with the agency’s endorsement stamp (“For Deposit Only, Account #____.”).

1. Check Log

The Office Manager makes copies of all incoming checks and will place the properly endorsed checks in a lock box. The Office Manager will further log the checks into a spreadsheet, which includes fields for the following information:

- a. Payee
- b. Check number
- c. Amount of check
- d. Date issued
- e. Date of receipt
- f. Date of deposit
- g. Purpose of funds
- h. Related OC LAFCO project number (if applicable)

The lock box will be properly secured, and its access will be limited to a minimum number of OC LAFCO staff.

2. Deposits

The Executive Officer, the Assistant Executive Officer, or the Executive Officer’s designee will prepare a deposit slip when checks are received by the agency and will deposit funds into the agency’s bank account. The Office Manager will place copies of the deposit slips and corresponding bank receipts in the designated folder. The

Office Manager will update the check log to reflect the deposits.

3. Reconciliation of Accounts

The accounting firm staff will perform a reconciliation of the agency's bank accounts once monthly upon receipt of the agency's bank statements. The accounting firm staff will compare the deposit slips to the check log and the agency's bank statements to ensure that all funds are properly deposited and credited to the agency's accounts. The accountant will review the accounting firm staff's work.

C. Wire Transfers

The agency will maintain a deposit in an amount equal to estimated costs of quarterly payroll in County Account 770. The remaining balance will be wired to the agency's bank account. The accounting firm staff will prepare a cash flow analysis and permitted uses for excess cash shall be as follows: (a) contributions to the agency's Public Agency Retirement Services (PARS) Section 115 benefits trust; and (b) investment in the Local Agency Investment Fund (LAIF), Orange County Investment Pool (OC Fund) and/or other investment options approved by the Commission. Wire transfers for such permitted uses shall be processed in accordance with the wire transfer procedures of the County of Orange, OC Fund, LAIF and PARS.

The Executive Officer and the Executive Officer's designee will complete the County of Orange Wire Transfer Request Form. The completed Wire Transfer Form will be signed by BOTH the Executive Officer and the Executive Officer designee. The Office Manager will make a copy of the Wire Transfer Form for the agency's records and will submit the signed Wire Transfer Request Form to the County Auditor – Controller for processing.

The accounting firm staff will compare the Wire Transfer Request Form to the agency's bank statements each month to ensure that all funds are properly transferred and credited to the agency's accounts. Periodically, a withdrawal of funds from LAIF and the OC Fund will be required to maintain ongoing payroll and operating expenses.

LAIF deposits and withdrawals are completed electronically. All electronic deposits and withdrawals will be authorized by the Executive Officer and/or the Executive Officer's designee. A log of all deposits and withdrawals for LAIF will be maintained and documentation of each deposit and withdrawal will be provided to the accounting firm staff.

OC Fund deposits and withdrawals require at least one (1) full business day to complete a deposit and at least three (3) full business days to complete a withdrawal. Deposits require the completion of a deposit form signed by both the Executive Officer and the Executive Officer designee. Withdrawals of funds from the agency's bank accounts to the OC Fund require the completion of appropriate transfer documents signed by both the Executive Officer and the Executive Officer designee. A log of all deposits and withdrawals for the OC Fund will be maintained and documentation of each deposit and withdrawal will be provided to the accounting firm staff.

Contributions to and payment reimbursements/distributions from the Section 115 benefits trust shall be processed in accordance with the PARS Administrative Agreement. The Executive Officer or the Executive Officer's designee shall complete the required forms to affect any contributions or distributions of the benefits trust account. A record of all transactions of the benefits trust will be maintained and documentation of each contribution and distribution will be provided to the accounting firm staff.

D. Cash Disbursements

1. Vendor Invoices

The Office Manager will receive, and open mail and date stamp all invoices, and place invoices in the accounting firm staff's folder for processing. The Office Manager will forward all invoices to the Executive Officer or Executive Officer designee for review and approval. The Office Manager will coordinate approval of the invoices and identify a project number for each invoice. The accounting firm staff will record the invoice in QuickBooks and generate the check. All invoices will be approved by the Executive Officer prior to payment. The Office Manager will place a copy of the check and invoice in the respective vendor files. The Office Manager will mail checks to vendors.

2. Check-Writing Provisions

The Executive Officer or the Executive Officer designee may sign checks written for less than \$500. Checks written for \$500 or more require the signatures of BOTH the Executive Officer and the Executive Officer designee. The Office Manager will maintain copies of all checks written on the agency's checking account.

3. Reconciliation

As stated previously, the accounting firm staff will perform a reconciliation of the agency's bank accounts once monthly upon receipt of the agency's bank statements. This includes a reconciliation of the agency's checking account. The accounting firm staff will compare checks written on the agency's checking account against the agency's bank statements to ensure that all funds are properly debited from the agency's account.

4. Stale Checks

In reconciling the agency's checking account, the accounting firm staff will be responsible for identifying checks issued by OC LAFCO which have not been cashed within six months of issuance. The accounting firm staff will notify the Executive Officer of any "stale" checks during the checking account reconciliation process. If any stale checks are identified, the Executive Officer or the Executive Officer's designee will request the bank to issue a "stop payment" and direct the accounting firm staff to prepare a replacement check when necessary.

5. Check Stock

Check stock will be maintained in a locked drawer in the Executive Officer's office. Access to the check stock will be restricted to the Executive Officer or the Assistant Executive Officer.

6. Agency Credit Card

All credit card purchases of \$250 or more must be approved, prior to the transaction, by BOTH the Executive Officer and the Executive Officer designee. OC LAFCO maintains three (3) credit cards. The Office Manager, Assistant Executive Officer and the Executive Officer each hold one card. All credit card bills must be reviewed by the Executive Officer prior to payment being issued. All purchases made with the OC LAFCO credit cards must be directly related to OC LAFCO's mission.

E. Reporting

Reports – Monthly reports, prepared by the accounting firm staff, for OC LAFCO staff and/or Commission will include:

1. Balance Sheet
2. Cash Flow Statement
3. Detailed Profit and Loss Statement
4. Summary Profit and Loss with Budget and Percentages
5. Separate reports of designated projects as needed

PART 4 – Policies Associated with Expenditures and Disbursements

2.9 PURCHASING POLICIES AND PROCEDURES

A. Overview

THE POLICIES DESCRIBED IN THIS SECTION APPLY TO ALL PURCHASES OF GOODS AND SERVICES MADE BY OC LAFCO.

It is the policy of OC LAFCO to follow a practice of ethical, responsible and reasonable procedures related to purchasing, agreements and contracts, and related forms of commitment. The policies in this section describe the principles and procedures that all staff shall adhere to in the completion of their designated responsibilities.

B. Authorizations and Purchasing Limits

All purchases should adhere to the following guidelines:

Dollar Limit	# of Quotes	Required Communication	Approved by
<i>Goods</i>			
Under \$500	0	Oral	Executive Officer
\$501 - \$10,000	2	Written	Executive Officer
\$10,000 and over	3	Written	Commission
<i>Services</i>			
Under \$500	0	Oral	Executive Officer
\$501 - \$10,000	2	Written	Executive Officer
\$10,001 and over	3	Written	Commission

C. Evaluation Process for a Request for Proposal (RFP)

When an RFP process is used to solicit vendors/consultants to provide a service or produce a specialized report for OC LAFCO, the Executive Officer shall develop a rating sheet to assist in the review of all submittals. The rating sheet shall include categories specific to the service or report being requested which comprehensively evaluates the individuals and/or firms competing for the OC LAFCO contractual agreement. The Executive Officer shall assign at least two (2) reviewers to participate in the review of the prospective vendor/consultant. Reviewers may include OC LAFCO staff and/or outside experts at the discretion of the Executive Officer.

Upon the Commission's final selection of a vendor/consultant in an open and competitive selection process, the final rating sheet will be made available to the Commission and all competitors upon requests.

RFPs should provide for all of the following:

1. A clear and accurate description of the technical requirements for the material, product or service to be procured. In competitive procurements, such a description shall not contain features which unduly restrict competition.
2. Requirements which the bidder/offer must fulfill and all other factors to be used in evaluating bids or proposals.
3. A description, whenever practicable, of technical requirements in terms of functions to be performed or performance required, including the range of acceptable characteristics or minimum acceptable standards.
4. A description of the proper format, if any, in which proposals must be submitted, including the name of the OC LAFCO person to whom proposals should be sent.

5. The date by which proposals are due.
6. Required delivery or performance dates/schedules.
7. Clear indications of the quantity(ies) requested and unit(s) of measure.

OC LAFCO may consider vendors/consultants to provide a service or produce a specialized report for OC LAFCO from a list established through an RFP process conducted by other LAFCOs or the County of Orange within the last three calendar years to provide a similar service.

D. Special Purchasing Conditions

1. Emergencies: Where equipment, materials, parts, and/or services are needed immediately, quotations will not be necessary if the health, welfare, safety, etc., of staff and protection of Organization property is involved.
2. Single Distributor/Source: Where there is only one (1) distributor for merchandise needed and no other product meets the stated needs or specifications, quotations will not be necessary.

E. Vendor Files and Required Documentation

The Officer Manager shall create a vendor file for each new vendor from whom OC LAFCO purchases goods or services. Copies of purchase orders, contracts, and all vendor invoices will be maintained in the vendor file.

F. Sole Source Service Agreements

In the event specialized OC LAFCO consultant services estimated to cost up to \$10,000 annually are needed to assist staff in completing a time-sensitive project or study, the Executive Officer may elect to waive the RFP process, subject to the following findings:

1. The consultant(s) selected offer a combination of skills, education and work experience that uniquely qualifies that individual or firm to provide the OC LAFCO services.
2. Even with due attention given to the project by staff, normal RFP processes would impair OC LAFCO's ability to meet statutory or Commission deadlines.

An annual report on agency agreements, including sole source service agreements, will be provided to the Commission.

2.10 ACCOUNTS PAYABLE MANAGEMENT

A. Overview

OC LAFCO strives to maintain efficient business practices and sound cost control. A well-managed accounts payable function can assist in accomplishing this goal from the purchasing decision through payment and check reconciliation.

The vendor invoice should be supported by an approved purchase order where necessary and should be reviewed and approved by the Executive Officer or the Executive Officer's designee prior to being processed for payment. Invoices and related general ledger account distribution codes are reviewed prior to processing disbursements.

The primary objective for accounts payable and cash disbursements is to ensure that:

1. Disbursements are properly authorized.
2. Invoices are processed in a timely manner.
3. Invoice charges do not exceed the purchase order or OC LAFCO contract amount.

B. Processing of Invoices

The following procedures shall be applied to each invoice by the accounting firm staff:

1. Check the mathematical accuracy of the vendor invoice.
2. Compare the nature, quantity and prices of all items ordered per the vendor invoice to the purchase order, packing slip and receiving report.
3. Check the general ledger account identified by the Office Manager and approved by the Assistant Executive Officer, using the Organization's current chart of accounts.
4. Obtain the approval of the Executive Officer (or their designee) associated with the goods or services purchased.

C. Payment Discounts

To the extent practical, it is the policy of OC LAFCO to take advantage of all prompt payment discounts offered by vendors. When availability of such discounts is noted, and all required documentation in support of payment is available, payments will be scheduled to take full advantage of the discounts.

D. Employee Expense Reimbursements

Whenever OC LAFCO employees desire to be reimbursed for out-of-pocket expenses for item(s) or service(s) appropriately relating to agency business, they shall submit their requests on a reimbursement form approved by the Executive Officer or the Executive Officer designee. Included on the reimbursement form will be an explanation of the agency-related purpose for the expenditure(s), and receipts evidencing each expense

shall be attached. Receipts are required to be submitted in conjunction with the expense report form. Failure to submit necessary receipts will result in denial of the reimbursement claim. Expense reports shall be submitted within 90 days after incurring the expense.

It is against the law to falsify expense reports. Penalties for misuse of public resources or violating this policy may include, but are not limited to, the following:

1. The loss of reimbursement privileges
2. Restitution to the local agency
3. Civil penalties for misuse of public resources pursuant to Government Code Section 8314
4. Prosecution for misuse of public resources, pursuant to Section 424 of the Penal Code, penalties for which include 2, 3, or 4 years in prison

The Executive Officer will review and approve reimbursement requests. Reimbursement requests by the Executive Officer will be reviewed by the Executive Officer designee.

E. Commissioner Expense Reimbursements

OC LAFCO shall adhere to Government Code Section 56334 when dealing with issues of commissioner remuneration and reimbursement.

Attendance at a meeting of the Commission or LAFCO-related conference or event engenders a commissioner to be eligible to receive compensation.

Commissioners are eligible to receive reimbursements for travel, meals, lodging, and other reasonable and necessary expenses for attending the above on behalf of OC LAFCO. Reimbursement rates shall coincide with rates set by Internal Revenue Service (IRS) Publication 463 or its successor publication(s).

Lodging costs shall not exceed the maximum group rate published by the conference or activity sponsor. If the published group rate is unavailable, commissioners shall be reimbursed for comparable lodging at government or IRS rates. Commissioners shall use government or group rates offered by the provider of transportation when available.

Any and all expenses that do not fall within the adopted travel reimbursement policy or the IRS reimbursable rates are required to be approved by the Commission in a public meeting prior to the expense(s) being incurred. Expenses that do not adhere to the adopted travel reimbursement policy or the IRS reimbursable rates, and that do not receive prior approval from the Commission in a public meeting prior to the expense being incurred, shall not be eligible for reimbursement.

OC LAFCO shall provide expense reimbursement report forms to Commissioners who

attend the above functions on behalf of the Commission, which shall document that expenses adhere to this policy. Receipts are required to be submitted in conjunction with the expense report form. Failure to submit necessary receipts will result in denial of the reimbursement claim. Expense reports shall be submitted within a reasonable time, and at no time more than 90 days after incurring the expense.

It is against the law to falsify expense reports. Penalties for misuse of public resources or violating this policy may include, but are not limited to, the following:

1. The loss of reimbursement privileges
2. Restitution to the local agency
3. Civil penalties for misuse of public resources pursuant to Government Code Section 8314
4. Prosecution for misuse of public resources, pursuant to Section 424 of the Penal Code, penalties for which include 2, 3, or 4 years in prison

2.11 CREDIT CARD PURCHASES

A. Overview

The Office Manager, the Assistant Executive Officer, and the Executive Officer are the custodians of the credit cards. When purchases are made, the receipts are retained in accordance with the Commission's retention policy.

B. Reconciliation of Statements

The receipts shall be maintained in the OC LAFCO Purchasing Card binder. When the monthly statements are received, the purchases should be compared to the receipts maintained by the Office Manager. The credit card Statement of Account will be signed by the Executive Officer and the Executive Officer designee verifying that all purchases are valid.

2.12 PAYROLL AND RELATED POLICIES

A. Payroll Administration

OC LAFCO operates on a bi-weekly payroll. For all OC LAFCO employees, a personnel file is established and maintained with current documentation, as described throughout this section.

The following forms, documents and information shall be obtained and included in the personnel files of all new employees:

1. Letter of Interest and resume
2. Applicant references (work & personal)

3. Interview questions and notes
4. Form W-4 Employee Federal Withholding Certificate
5. State Withholding Certificate
6. Form I-9 Employment Eligibility Verification
7. Copy of driver's license
8. Copy of Social Security card issued by the Social Security Administration
9. Starting date and scheduled hours
10. Job title and starting salary
11. Authorization for direct deposit of paycheck, along with a voided check or deposit slip

All personnel documents will be maintained within a confidential and protected filing system.

B. Changes in Payroll Data

It is policy of OC LAFCO that all of the following changes in payroll data are to be authorized in writing:

1. New hires
2. Terminations
3. Changes in salaries and pay rates
4. Voluntary payroll deductions
5. Changes in income tax withholding status
6. Court-ordered payroll deductions

New hires, terminations, and changes in salaries or pay rates shall be authorized in writing by the Executive Officer and forwarded to the County. Salary changes for the Executive Officer are approved by the Commission and authorized in writing by the OC LAFCO Chair.

Voluntary payroll deductions and changes in income tax withholdings status shall be authorized in writing by the individual employee.

Documentation of all changes in payroll data shall be maintained in each employee's personnel file.

C. Preparation of Timesheets

Each OC LAFCO employee must sign or initial a Bi-Weekly Timesheet detailing the hours worked, following the close of each pay period. The Executive Officer shall review and sign all staff timesheets. The Office Manager shall be responsible for reviewing the Executive Officer's timesheet. In addition, each employee shall complete an electronic timesheet through the County of Orange Virtual Timesheet Interface (VTI). As the County of Orange is the payroll agent for OC LAFCO, the VTI timesheets are required. The Office Manager shall also complete a cover sheet identifying the organization, number of employees, and pay period. This form should be signed by the Executive Officer or the Office Manager/Commission Clerk and remitted to the County for processing.

D. Review of Payroll

Upon receipt of the bi-weekly payroll reports, the Executive Officer should review the payroll reports for accuracy. This review shall include verification of the following: employee status (active/non-active/terminated), bi-weekly pay (current hourly and total) and vacation accrual and time-off. The Executive Officer shall sign the payroll report indicating that it has been reviewed.

E. Distribution of Payroll

It is recommended that payroll payments be transferred electronically by County Payroll into OC LAFCO employees' bank accounts. However, employees may elect to receive bi-weekly payroll checks.

F. Independent Contractors and Commissioners

1. Independent Contractors

OC LAFCO utilizes private individuals and firms ("Independent Contractors") to provide a variety of specialized and professional services. The provision of and payment procedures for these services are established and outlined in a written professional services agreement approved by the Executive Officer or the Commission. The following payroll and related policies that apply to an Independent Contractor include:

- a. Payments to OC LAFCO Independent Contractors are made subject to the terms and conditions of the respective professional services agreement. Payments to all independent contractors are prepared by the OC LAFCO accounting staff. No payments to any independent contractor shall be processed through the County of Orange payroll system.
- b. OC LAFCO Independent Contractors shall maintain a separate business location and maintain requested license and insurance requirements.

- c. OC LAFCO Independent Contractors shall use their own equipment and resources (i.e., computer, laptop, cell phone) to provide the services outlined in the respective professional services agreement.
- d. OC LAFCO Independent Contractors must provide a completed IRS “Request for Taxpayer Identification Number and Certification (W-9)” upon execution of the professional services agreements.
- e. OC LAFCO Independent Contractors will be sent a Form 1099 if total compensation paid to that individual/firm for any calendar year, on the cash basis, is \$600 or more. The amount reported on a Form 1099 is equal to the compensation paid to that person during a calendar year (on the cash basis). Excluded from “compensation” are reimbursements of business expenses that have been accounted for by the contractor by supplying receipts and business explanations.

2. Commissioners

OC LAFCO Commissioners are not considered OC LAFCO employees. Stipend payments to Commissioners are processed by an independent payroll company and not through the County of Orange payroll system. Under Internal Revenue Code Section 3401(c), OC LAFCO’s treatment of Commissioners as “statutory employees” applies for income tax withholding purposes only, and not for any other purpose.

PART 5 – Policies Pertaining to Specific Asset and Liability Accounts

2.13 CASH AND CASH MANAGEMENT

A. Cash Accounts

The primary operating account provides for routine business check disbursements. All cash and credit card deposits are made to this account. Bank reconciliations are performed by the OC LAFCO accounting firm staff. The following minimum balances shall be maintained in the agency’s accounts at all times to ensure there are sufficient funds to cover ongoing operating and payroll expenses:

Savings:	\$205,000
Payroll:	3 Months of Current Payroll Expenses
Checking:	3 Months of Operational Expenses

B. Reserve Policy

OC LAFCO currently has three reserve funds restricted to the agency’s savings account. These funds are as follows: (1) Contingency; (2) Litigation; and (3) Un funded Liability. These accounts are considered “restricted” accounts and are only used for the specific

purposes described below:

1. Contingency Reserves – restricted funds to cover any unforeseen future agency loss and/or urgency which includes but is not limited to property or equipment damage, loss or theft. The minimum balance in the Contingency Reserve Account shall be \$100,000.
2. Litigation Reserves – restricted funds for cost related to agency legal challenges. The minimum balance in the Litigation Reserve Account shall be \$75,000.
3. Unfunded Liability Reserve – restricted funds to offset anticipated agency liabilities including employee vacation and administrative leave payouts. The minimum balance in the Unfunded Liability Reserve Account shall be \$30,000.

2.14 INVESTMENTS

A. Authority

In accordance with California Government Code Section 56300 et seq., the authority to invest public funds not required for the immediate needs of the agency is expressly delegated to the Orange County Local Agency Formation Commission (OC LAFCO). The Commission may also delegate this responsibility to the OC LAFCO Executive Committee and the Executive Officer.

The purpose of this section of the policy is to establish investment guidelines for OC LAFCO officials to ensure the stewardship of agency funds. Pursuant to state law, the Commission, Executive Committee, Executive Officer, and Executive Officer Designee, when investing OC LAFCO funds, shall act with care, skill, prudence, and diligence under the circumstance than prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency. All investments shall be in conformance with federal, state and other legal requirements.

Investments made pursuant to this policy are limited to those instruments specified by OC LAFCO. The Commission shall review the investment program quarterly.

B. Investment Objectives

The specific objectives for all funds invested as defined by this policy are listed in priority order as follows:

1. Safety of Principal
The preservation of principal is of primary importance. Each transaction shall seek to ensure that capital losses are avoided.
2. Legality

Each transaction and the entire investment program must comply with the

California Government Code and OC LAFCO's investment policy as defined herein.

3. Liquidity

The invested funds should remain sufficiently flexible to enable OC LAFCO to meet all operating requirements which may be reasonably anticipated.

The managing of OC LAFCO investments shall be subject to the prudent investor standard, a standard of conduct requiring that any investment be made with care, skill, prudence, and diligence in order to safeguard agency funds and maintain the liquidity needs of the agency.

C. Return on Investment

Investments shall be undertaken to produce an acceptable rate of return after first considering safety of principal and liquidity and the prudent investor standard.

Authority to manage OC LAFCO's investment program is delegated to the OC LAFCO Commission. Management Responsibility is hereby delegated to the Executive Committee and the Executive Officer under the direction of the full OC LAFCO Commission.

D. Authorized Investments

Agency funds are not required for the immediate needs of OC LAFCO but may be invested as follows:

- Investment Funds
Agency funds not required for immediate needs of OC LAFCO may be remitted to the State Local Agency Investment Fund (LAIF) or the Orange County Investment Pool (OC Fund) for the purpose of investment (Government Code Section 16429.1).
- Section 115 Public Agencies Post-Employment Benefits Trust
Agency funds from excess cash net income and not required for immediate needs of OC LAFCO may be deposited to the benefits trust account managed through an agreement with the Public Agency Retirement Services (PARS). The account is established for agency contributions and lowering of the agency's overall net pension expenses. The annual transfer to the benefits trust account must not exceed fifty percent (50%) of the excess cash net income at fiscal year-end, unless approved by the Commission.
- Other Investments

Other investments are permitted by Government Code Section 53600 may be made subject to prior approval of the Commission and may include the following:

- o U.S. Government and Agencies Obligations.
- o Negotiable Certificates of Deposit issued by a nationally or state-chartered bank, a state or federal savings and loan association, or a savings bank with ratings equivalent by Fitch to F1 or better.

As deemed appropriate, the Commission may, at any time, further restrict the securities approved for investment.

E. Reporting

The Executive Officer shall submit a quarterly report to the Commission showing investment activity, including yield and earnings and the status of cash by depository.

As part of the Commission's annual audit, the independent auditor shall also evaluate investment performance and conduct an operations audit. The purpose of these examinations shall be to obtain suggestions for improved future performance and to verify that investments has been done in accordance with the policy and all applicable laws.

2.15 FIXED ASSET MANAGEMENT

A. Capitalization Policy

Physical assets acquired with unit costs in excess of \$2,000 are capitalized as fixed assets on the financial statements. Items with unit costs below this threshold shall be expensed in the year purchased.

Capitalized fixed assets are accounted for at their historical cost and all such assets, except land, are subject to depreciation over their estimated useful lives, for government-wide financial statements in accordance with GASB Statement No. 34.

B. Contributed Assets

Assets with fair market values in excess of \$2,000 (per unit) that are contributed to OC LAFCO shall be capitalized as fixed assets on the financial statements. Contributed items with market values below this threshold shall be expensed in the year contributed.

Capitalized contributed assets are accounted for at their market value at the time of donation and all such assets, except land, are subject to depreciation for government-wide financial statements.

C. Establishment and Maintenance of a Fixed Asset Listing

All capitalized fixed assets shall be recorded in a property log. This log shall include

the following information with respect to each asset:

1. Date of acquisition.
2. Cost
3. Description (including color, model, and serial number)
4. Location of asset
5. Depreciation method
6. Estimated useful life

A physical inventory of all assets capitalized under the preceding policies will be taken on an annual basis by OC LAFCO. This physical inventory shall be reconciled to the property log and adjustments made as necessary. All adjustments resulting from this reconciliation will be approved by the Executive Officer.

D. Depreciation and Useful Lives

All capitalized assets are maintained in the special fixed assets account group. Fixed assets are depreciated over their estimated useful lives using the straight- line method only when presenting government-wide financial statements. Fund financial statements do not include fixed assets or depreciation.

In the year of acquisition, depreciation is recorded based on the number of months the asset is in service, counting the month of acquisition as a full month (Example: an asset purchased on the 15th day of the fifth month shall have eight full months of depreciation (eight-twelfths of one year) recorded for that year).

Estimated useful lives of capitalized assets shall be determined by the Executive Officer. The following is a list of the estimated useful lives of each category of fixed asset for depreciation purposes:

Furniture and fixtures	Up to 10 yrs.
General office equipment	5 yrs.
Computer hardware and peripherals	3-5 yrs.
Computer software	2-3 yrs.
Leased assets	Life of Lease

For accounting and interim financial reporting purposes, depreciation expense will be calculated on an annual basis in conjunction with the annual audit.

E. Repairs of Fixed Assets

Expenditures to repair capitalized assets shall be expensed as incurred if the repairs

do not materially add to the value of the property or materially prolong the estimated useful life of the property.

Expenditures to repair capitalized assets shall be capitalized if the repairs increase the value of property, prolong its estimated useful life, or adapt it to a new or different use. Such capitalized repair costs shall be depreciated over the remaining estimated useful life of the property. If the repairs significantly extend the estimated useful life of the property, the original cost of the property shall also be depreciated over its new, extended useful life.

F. Dispositions of Fixed Assets

In the event a non-expendable asset is sold, scrapped, donated or stolen, adjustments need to be made to the fixed asset listing and property log.

2.16 ACCRUED LIABILITIES

A. Identification of Liabilities

The accounting department shall establish a list of commonly incurred expenses that may have to be accrued at the end of an accounting period. Some of the expenses that shall be accrued by OC LAFCO at the end of an accounting period are:

1. Salaries and wages
2. Payroll taxes
3. Vacation pay
4. Facility expenses payable to the County

In addition, OC LAFCO shall record a liability for deferred revenue (revenue received but not yet earned) in accordance with the revenue recognition policies described elsewhere in this manual.

PART 6 – Policies Associated with Financial Reporting

2.17 REPORTS RECEIVED FROM THE COUNTY OF ORANGE

Some reports are provided to OC LAFCO from the County of Orange on a monthly basis. Such reports should be used to reconcile revenues/disbursements for the month, if appropriate.

2.18 FINANCIAL STATEMENTS

Preparing financial statements and communicating key financial information is a necessary and critical accounting function. Financial statements are management tools

used in making decisions, in monitoring the achievement of financial objectives, and as a standard method for providing information to interested parties external to the organization. Financial statements may reflect year-to-year historical comparisons or current year budget to actual comparisons.

The basic financial statements of OC LAFCO that are maintained on an organization-wide basis should include:

A. Monthly Financial Statements

1. YTD Combined Expense Summary by Agency – reports budget, encumbrances, expenditures, and remaining budget amounts by account.
2. YTD Combined Revenue Summary by Agency – reports budgeted and actual revenues by account.

B. Quarterly Financial Statements

1. Balance Sheet – reflects assets, liabilities and fund balance of the organization.
2. Cash Flow Statement – provides aggregate data regarding all agency cash inflows from both ongoing operations and external investment sources and all case outflows that fund agency operations and investments during a given quarter.
3. Statement of Revenue, Expenditures, and Changes in Fund Balance – presents the budget and actual revenues and expenditures of the organization.

C. Annual Financial Statements

1. Annual Audited Financial Statements – to be provided by the Independent Auditor.

2.19 ANNUAL AUDIT

A. Role of the Independent Auditor

It is the policy of OC LAFCO to arrange for an annual audit of its financial statements to be conducted by an independent accounting firm. The independent accounting firm selected by OC LAFCO will be required to communicate directly with the Commission upon the completion of their audit. In addition, members of the Commission may initiate communication directly with the independent accounting firm.

Audited financial statements, including the auditor’s opinion thereon, will be submitted to the Commission by the independent accounting firm and the financial statements will be presented for consideration by the Commission at a regular

meeting.

B. How Often to Review the Selection of the Auditor

In accordance with agency policy and state law, OC LAFCO shall review the selection of its independent auditor in the following circumstances:

1. Anytime there is dissatisfaction with the service of the current firm.
2. When a fresh perspective and new ideas are desired.
3. A change in Auditor every six years should be considered to ensure competitive pricing and a high quality of service.
4. OC LAFCO is restricted from employing a public accounting firm to provide audit services if the lead partner or coordinating audit partner having primary responsibility for the audit, has performed audit services for OC LAFCO for six consecutive fiscal years.

C. Selecting an Auditor

The selection of an accounting firm to conduct the annual audit is a task that should be taken very seriously. The following factors shall be considered by OC LAFCO in selecting an accounting firm:

- The firm's reputation in the government community.
- The depth of the firm's understanding of and experience with governmental agencies.
- The demonstrated ability to provide the services requested in a timely manner.
- The ability of firm personnel to communicate with Organization personnel in a professional and congenial manner.

If OC LAFCO decides to prepare and issue a written Request for Proposal (RFP) to be sent to prospective audit firms, the following information shall be included:

- Period of services required
- Type of contract to be awarded (fixed fee, cost basis, etc.)
- Complete description of the services requested (audit, management letter, etc.)
- Identification of meetings requiring their attendance, such as staff or Commission meetings
- Organization chart of OC LAFCO

- Chart of account information
- Financial information about the organization
- Copy of prior year reports (financial statements, management letters, etc.)
- Other information considered appropriate
- Description of proposal and format requirements
- Due date of proposals
- Overview of selection process (i.e., whether finalists will be interviewed, when a decision shall be made, etc.)
- Identification of criteria for selection

Minimum Proposal Requirements form prospective CPA firms shall be:

- Firm background
- Biographical information (resumes) of key firm member who will serve OC LAFCO
- Client references
- Information about the firm's capabilities
- Firm's approach to performing an audit
- Copy of the firm's most recent quality/peer review report, including any accompanying letter of findings
- Other resources available with the firm
- Expected timing and completion of the audit
- Expected delivery of reports
- Cost estimate including estimated number of hours per staff member
- Rate per hour for each auditor
- Other information as appropriate

OC LAFCO shall be actively involved in planning for and assisting with the independent accounting firm in order to ensure a smooth and timely audit of its financial statements. In that regard, the accounting department shall provide assistance to the independent auditors in the following areas:

1. Planning – The Executive Officer is responsible for delegating the assignments and responsibilities to accounting staff in preparation for the audit. Assignments shall be based on the list of requested schedules and information provided by the independent accounting firm.
2. Commission Involvement – Organization staff will do as much work as possible in order to assist the auditors and, therefore, reduce the cost of the audit. The Commission’s Executive Committee may assist OC LAFCO in fulfilling its audit oversight responsibilities with regard to (1) the integrity of OC LAFCO’s financial statements, (2) OC LAFCO’s compliance with legal and regulatory requirements, and (3) the independent auditor’s qualifications and independence. In providing this assistance to the full Commission, the Executive Committee may assume audit responsibilities as provided herein and recommend action on all audit matters to the full Commission.

Audit responsibilities of the Executive Committee may include, but is not limited to, the following:

- Review of the auditor’s proposed audit scope and approach.
- Review of annual financial audit reports, schedules, and management letter.
- Any serious difficulties or disputes with management encountered during the audit.
- Matters required to be discussed by Statements on Auditing Standards issued by the Auditing Standards Board of the American Institute of Certified Public Accountants or other state or federal agencies.
- Review of the performance of the auditors, including any issues arising during their most recent quality-control or peer review, and their independence as it relates to OC LAFCO.
- Review of the Executive Committee’s audit responsibilities annually to reassess their adequacy and recommend any proposed changes.
- Review the Executive Committee’s effectiveness in carrying out its responsibilities.
- Other matters deemed appropriate by the OC LAFCO Chair.

3. Interim Procedures – To facilitate the timely completion of the annual audit, the independent auditors may perform selected audit procedures prior to the organization’s year-end. By performing significant portions of audit work as of an interim date, the work required subsequent to year-end is reduced. Organization staff will assist as much as possible in order to provide requested schedules and documents and to otherwise assist the auditors during any interim audit fieldwork that is performed.

Throughout the audit process, it shall be the policy of OC LAFCO to make every effort to provide schedules, documents and information requested by the auditors in a timely manner.

E. Concluding the Audit

Upon receipt of a draft of the audited financial statements of OC LAFCO from its independent auditor, the Executive Officer, the OC LAFCO accounting firm staff shall perform a detailed review of the draft, consisting of the following procedures:

1. Carefully read the entire report for typographical errors.
2. Trace and agree each number in the financial statements and accompanying footnotes to the accounting records and/or internal financial statements of OC LAFCO.
3. Review each footnote for accuracy and completeness.

Any questions or errors noted as part of this review shall be communicated to the independent auditor in a timely manner and resolved to the satisfaction of the Executive Officer.

It shall also be the responsibility of the Executive Officer to review and respond in writing to all management letter or other internal control and compliance report findings and recommendations made by the independent auditor.

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