

# **South Bay Cities Council of Governments**

**Financial Policies and Procedures**

**October 2015**

ACCOUNTING POLICIES AND PROCEDURES: .....	2
I. Accounts Payable.....	2
II. Payroll Processing.....	5
III. Billing.....	6
IV. Cash Management.....	7
V. Financial Reporting.....	8
VI. Budgeting.....	9

The Financial Policies and Procedures Manual is a publication of the South Bay Cities Council of Governments (“SBCCOG”). The South Bay Cities Council of Governments (SBCCOG) is a Joint Powers Authority of the following sixteen member cities and unincorporated county area in the South Bay area of Los Angeles County:

Carson, El Segundo, Gardena, Hawthorne, Hermosa Beach, Inglewood, Lawndale, Lomita, Manhattan Beach, Palos Verdes Estates, Rancho Palos Verdes, Redondo Beach, Rolling Hills, Rolling Hills Estates, Torrance, the Harbor City/San Pedro communities of the City of Los Angeles and the unincorporated areas in the South Bay of County Districts 2 and 4.

The purpose of this document is to record the policies and procedures in practice for accounting, cash management, budgeting and reporting of financial information.

This manual has been developed to conform with GAAP (Generally Accepted Accounting Principles) as applied to governmental agencies.

## **ACCOUNTING POLICIES AND PROCEDURES:**

### ***I. Accounts Payable***

#### *Purpose:*

To document the established process of internal controls and checks and balances in the expenditure process and to ensure all payments are reviewed, approved and recorded in an accurate and timely manner.

#### *Process 1 – Standard Cycle Expenditures:*

Following are the steps involved in processing invoices for payment:

1. Invoices or expense reports by the goods or service provider are submitted to the Administrative Officer for review.
  - Wherever appropriate, invoices are reviewed and approved by the applicable project manager prior to being processed for payment by the Administrative Officer.
2. The Administrative Officer questions any total billing or detailed charge that they feel requires further explanation or supporting documentation.
3. The Administrative Officer ensures that all supporting documentation is available. If the documentation is not complete, the Executive Director, Project Manager or the goods or services provider (depending on the

- situation and the provider) will be contacted for additional support or clarification.
4. Approved invoices are summarized as an agenda item and submitted for review and approval by the SBCCOG Steering Committee, which meets monthly on the second Monday.
    - Note: any contractual agreements are reviewed and approved by the Steering Committee and/or the Board of Directors prior to being awarded and expenses incurred.
  5. A package is prepared for the Steering Committee's review which includes the following items: Agenda item Invoice Summary cover page; all of the invoices and expense receipts in support of payments to vendors; checks to be signed after approval of agenda item; bank register listing bank balance at time of check issuance.
  6. Once the invoice/expense agenda item is approved, the SBCCOG chairperson signs the agenda item as approved for payment processing.
  7. Any exceptional items that were included on the agenda that were not approved are noted on the face of the agenda document with instructions to not pay at all or to not pay until a certain event or action occurs.
  8. The authorized check signers sign the checks for approved invoice payments.
  9. The invoice/expense agenda item package is returned to the Administrative Officer for release of signed checks. The Administrative Officer distributes checks and files all documentation. The check stub is attached to the invoices and maintained as a complete package with the approved agenda item for that fiscal month.
  10. For each check the following is recorded in the check register: the date of check issuance, check number, payee, reference information such as invoice paid and dollar amount.
  11. The Administrative Officer maintains the check register for all checks printed and voided.
    - This information is also recorded in a general ledger file that supports the financial statements.
  12. The Administrative Officer maintains responsibility for control and security of the blank check stock and the check register. If a check is missing, the Administrative Officer will research the missing check and bring the issue to the attention of the Executive Director and the Treasurer immediately.
  13. The SBCCOG maintains a series of check signers at all times. The signature of each of the approved check signers is equally valid as either a first or a second signature. This list is updated annually to include:
    - Treasurer
    - Chairperson
    - The list also includes at least one of the following:
      1. First Vice Chair
      2. Second Vice Chair
      3. The immediate past Chairperson.
  14. Checks are signed according to the following guidelines:

- a. Check amounts of \$5,000.00 or less are signed by one approved check signer.
  - b. Check amounts greater than \$5,000.00 require a second signature.
15. No checks will be approved for payment without the funds available to cover the payment.

*Process 2 Urgent Checks Out of Cycle:*

Following are the steps involved in processing URGENT invoices for payment outside of the monthly Steering Committee approval cycle:

1. The Executive Director has been given the authority to approve payments up to \$5,000.00 outside of the monthly Steering Committee cycle if the need is urgent to continue operations.
2. If such a need arises, the Administrative Officer provides a written justification to the Executive Director requesting that an out of cycle urgent payment be processed.
3. If there is a need for an out of cycle check in excess of \$5,000.00, the Executive Director obtains and records the approval of the SBCCOG Chairperson via e-mail communication prior to sending to the Administrative Officer approval for check issuance.
4. The Administrative Officer issues the check, records the check in the check register and maintains a copy of the original request and approval along with all normal supporting documentation.
5. The check is routed for signature and mailed or hand delivered according to instructions from the Executive Director.
6. The Administrative Officer includes this out of cycle check on the next Steering Committee agenda for approval after the fact with a notation communicating that the check has already been issued.

*Process 3 Annual 1099 Reporting:*

Following are the steps involved in producing the IRS required annual 1099 reporting.

1. The Administrative Officer shall issue 1099's to all parties according to IRS requirements.
2. Since 1099's are a cash basis report for payments made to each reportable payee during a calendar year and the SBCCOG has a June 30<sup>th</sup> ending fiscal calendar, issued check information from two SBCCOG fiscal years must be combined and then filtered by check issued date.
3. As a practice vendor payments should only be made to individuals upon receipt of tax id number or social security number. Administrative Officer shall mail, email or fax form W-4 as necessary to solicit the required information.

## ***II. Payroll Processing***

### *Purpose:*

To document the established process of internal controls and checks and balances in the payroll process and to ensure all payment and benefit distributions are reviewed, approved and recorded in an accurate and timely manner.

### *Process:*

All employees are paid in accordance with their written agreements. All employee benefits are disbursed in accordance with the policies designated in the SBCCOG's Employee Policy Manual.

For each pay period employees are required to complete an individual time activity report, which includes the following information: Name, date, time worked, corresponding project account number for time worked, description of activities performed. At the end of the pay period the employee submits their time activity report to both the Deputy Executive Director and the Administrative Officer for review.

At the end of each month employee reimbursement requests for travel mileage and other expenses are submitted to the Deputy Executive Director and the Administrative Officer. Approved expense reimbursements are included with the next payroll distribution.

The Administrative Officer is responsible for submitting the appropriate pay rate and reimbursement amount for each employee to the SBCCOG's payroll processing firm. All employee rates of pay must be within Board approved pay tiers for the employee's classification. SBCCOG will meet all California and Federal Labor Law requirements. The Administrative Officer is responsible for supplying the appropriate information to the Deputy Executive Director and Executive Director for payroll processing in his/her absence.

The Administrative Officer is responsible for ensuring that employee benefits are distributed and/or accrued, as appropriate, to comply with the current SBCCOG's Employee Handbook. Employees will receive written notification with their payroll distribution as to their accrued benefit levels.

The Administrative Officer records all payroll and benefit transactions including accrued liabilities to the SBCCOG's General Ledger.

### **III. Billing**

#### *Purpose:*

To ensure guidelines are established to promote accurate and timely billing for all revenues earned by SBCCOG.

#### *Process:*

All billing is done in accordance with the contract terms related to each program. Upon the execution of a contract, an original signed contract is forwarded to Administrative Officer. The Administrative Officer scans the contract documents and electronically delivers a copy to the Executive Director, Deputy Executive Director, project manager and contracting party representative. The Administrative Officer reviews the contract and notes any financial related obligations, requirements, guidelines, etc. that will aid in accurate and timely billing for all programs.

Due to the potential variations in program contracts, it is beyond the scope of this manual to specifically address the procedure involved in billing each customer. However, in general, accounting follows the following steps during the billing process:

1. Information is sent to the Administrative Officer for all billable payments made by SBCCOG during the billing period including employee time activity reports, which include billable labor.
2. Administrative Officer also retrieves the program related invoices as filed during the accounts payable process.
3. All data is compiled and formatted in conformance with the billing requirements as outlined in the program contract.
4. An invoice is created for the total amount due including, but not limited to: invoice date, invoice number, payment terms, remittance address, description of amount being billed and signature approval line.
5. The complete invoice is forwarded electronically to the Executive Director with supporting documentation for review and approval.
6. The Administrative Officer submits the approved invoice and supporting documentation as appropriate for the contract.
7. The invoice is recorded as a receivable amount in the SBCCOG financial records.

In addition to invoicing, customers may require additional reporting requirements throughout the course of the program (e.g. IOUs and the CPUC). The project manager is responsible for preparation of all supplementary reports with assistance from the Administrative Officer, as required by the customer contracts.

## ***IV. Cash Management***

### *Purpose:*

The primary purpose of the cash management policy is to ensure safeguarding of all cash accounts. In addition, funds must be liquid and available for the use in daily operations while minimizing expense and maximizing income.

### *Process:*

All funds should be deposited with an FDIC insured institution. Note: SBCCOG's investment accounts are handled according to SBCCOG's Investment Policy (Resolution #00-03).

The Administrative Officer should perform the following functions on a regular basis:

#### Bank Account Reconciliation:

Upon receipt of each monthly bank statement, a scanned copy of the bank statement is forwarded to the Executive Director for opening and review. The Executive Director reviews the bank statement for any unusual or unexpected activity. After review, the Executive Director forwards the statement to the Administrative Officer for reconciling. Administrative Officer reconciles the bank statement balance to the general ledger balance by clearing any checks/payments made and any deposits received. The Administrative Officer forwards a copy of the bank reconciliation documents to the Treasurer for verification and review. Copies of the Treasurer's review for all reconciliations are maintained for auditor's annual review.

#### Cash analysis:

The Administrative Officer keeps a record of all cash related transactions on a daily basis to ensure adequate funds are on hand for daily operations. The analysis should include cash disbursements related to accounts payable as well as cash receipts.

If it is determined there will be a need for additional cash resources to be obtained beyond that provided by current operations, Administrative Officer must present this need to the Treasurer and Executive Director immediately for resolution.

#### Petty Cash:

SBCCOG does not currently have a petty cash account. In the event a determination is made that a petty cash account is required, a policy and procedure will be developed.



## ***V. Financial Reporting***

### *Purpose:*

The financial statements, reports and supporting schedules of SBCCOG are to be prepared in conformity with generally accepted accounting principles (“GAAP”) as applied to governmental agencies. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Conforming to the guidelines set forth by the principles of GAAP and GASB will ensure all financial reports utilized by SBCCOG Steering Committee and the Board of Directors are consistent and accurate.

### *Process:*

#### Financial Period Close:

In order to ensure accurate financial reporting, the following activities will be completed at the end of each financial period:

1. Reconciliation of all asset and liability accounts.
2. Revenue accrual for all revenues earned during the reporting period but not billed.
3. Expense accrual for all expenses incurred during the reporting period but not yet paid.
4. Review and adjustment of all prepaid expenses, that is, expenses paid in the current period for the benefit of a future period.
5. Comparison of all revenue and expense accounts to budget and prior periods for significant variances that may be an indication of an error or misclassification.

#### Annual Reporting:

SBCCOG will prepare an annual financial statement and reporting package in conformity with GASB standards. The statements should include:

1. A statement of net assets.
2. A statement of revenues, expenses and changes in net assets.
3. A statement of cash flows.

An independent CPA firm will perform an audit of the annual financial statements and related financial records in accordance with generally accepted audit standards. The audit field work is to begin no later than ninety (90) days after the end of the fiscal period and the audit is to be completed no later than one-hundred-eighty (180)

days after the end of the fiscal period in order to ensure complete, accurate and timely reporting of all financial data. The independent CPA firm will present the audited financial statements to the Board of Directors for approval.

#### Interim Reporting:

Financial statements and other key financial data will be prepared on a quarterly basis. The financial reports will be provided to the Steering Committee and the Board of Directors as an aid in evaluating the operations of SBCCOG.

The quarterly reporting package should include:

1. A comparative statement of revenues and expenses versus budget including variance analysis for all significant variances.
2. Any other material items, as determined by the Executive Director.

## ***VI. Budgeting***

#### *Purpose:*

The purpose of a budget is to provide a plan of financial operations for a given period utilizing estimates of revenues and expenditures based on expected operations. A well-developed budget provides the necessary information for management to assess potential future financial and organizational needs as well as a benchmark for evaluating actual performance against expectations.

#### *Process:*

SBCCOG will prepare an annual budget that accurately reflects goals and operating expectations for the upcoming year and the resources necessary to meet those goals and expectations. Per the bylaws, the Board of Directors shall adopt a Budget annually prior to July 1 of each calendar year. The Executive Director will be responsible for coordinating the budget process, involving the Treasurer, Administrative Officer, consultants and the Board, where appropriate.

The Budget will:

1. Be prepared in conformity with financial statements produced by SBCCOG.
2. Include the following items:
  1. Revenue and expenses
  2. Capital expenditure requirements
  3. Changes in fund balance
  4. Cash requirements
  5. A summary of all major assumptions used
  6. Any other material items, as determined by the Executive Director.

3. Be presented in comparison to the previous years actual results including an analysis of any significant variances.