Subject

FINANCIAL ACCOUNTING AND INTERNAL CONTROLS

Purpose

Serve as rules and procedures to ensure accurate and consistent financial accounting records as well as related roles and responsibilities.

Background

The Commission is responsible under State law to establish its own provisions for necessary quarters, equipment, supplies, and personnel as an extension of the California Legislature. The Commission may also choose to contract with any public agency or private party in carrying out its statutory and administrative duties (Government Code Section 56380).

Policy

It is the policy of the San Diego Local Agency Formation Commission to:

1. Goals and Objectives:
    a) Apply these rules and procedures with the following objectives in mind:
        - Balance efficiencies and risks to ensure long-term financial stability.
        - Foster accountability by clearly defining roles and responsibilities.
2. Administration:
    a) The Commission shall be solely responsible for the financial management and accounting of its funds with day-to-day responsibilities delegated to the Executive Officer.
    b) Notwithstanding the above delegation, the Commission may contract with other public agencies and private parties to assist with managing financial accounting tasks identified in this policy – including but not limited to – bookkeeping.

3. Fund Type:

   a) The Commission exclusively utilizes governmental funds at this time and accordingly is only responsible for the preparation and issuance of government-wide financial statements.

   b) Fund balance classifications are separately addressed in Policy F-101.

4. Reconciliations and Reporting:

   a) The Commission Clerk or other designee shall reconcile account statements provided by the County of San Diego and any commercial banking institution on a monthly basis using a professional accounting software system.

   b) The Executive Officer shall report all payments made and received to the Commission at the next available meeting for formal ratification.

   c) The Executive Officer shall provide quarterly financial updates to the Commission identifying actual year-to-date expenses and revenues relative to adopted budgeted amounts.

   d) Unless otherwise directed by the Commission, the Executive Officer shall arrange for an annual or biennial audit of its financial statements by an independent accounting firm. The resulting audit report – including the firm's opinion – shall be presented to the Commission for formal receipt.

5. Payroll and Benefits Administration:

   a) The Commission determines pay and related benefits for all employees.

   b) All employees shall submit biweekly timesheets for approval by the Executive Officer and subsequent payroll processing.

   c) At the present time, the Commission contracts the County of San Diego and its surrogate – San Diego County Employee Retirement Association – to administer biweekly payroll and benefits.

6. Payments Received and Made:

a) The Commission shall use the County of San Diego and its Treasurer's Office to serve as a central depository for all payments received – including all local agency apportionments. The Commission shall relatedly use accounts held with the County to transact most day-to-day payments as well as manage reserves consistent with Policy F-101.

b) The Commission may also establish and use one or more local banking institutions for the primary purpose of transacting expedited payments. The combined account balances with all commercial banks shall not exceed 15% of the total balance held with the County of San Diego.

c) Biweekly payroll payment shall be distributed by electronic transfer or check using accounts maintained with the County of San Diego. All employees are responsible for providing proof of identification and any other forms as requested by the County necessary to receive paychecks.

d) All Commission vendors and contractors must provide the Commission Clerk a completed "Request for Taxpayer Identification Number and Certification (W-9)" unless their total payment over a calendar year is below $600. The Commission Clerk will provide Form 1099s to all qualifying vendors and contractors as early as possible each calendar year.

e) All vendor and contractor payments at or above $15,000 shall be paid by the Commission using accounts held with the County of San Diego – whether by check or electronic transfer.

f) Any vendor and contractor payments less than $15,000 may be paid either using accounts held with the County of San Diego or with commercial banking institutions – whether by check, electronic transfer, or credit card.

g) Any check stock associated with the Commission's commercial banking institutions shall be kept in a secure location by the Commission Clerk, within the San Diego LAFCO office, accessible only to authorized personnel. The Executive Officer and Assistant Executive Officer are authorized signatories.

h) With the prior approval of the Commission, the Executive Officer may open credit lines (e.g., credit cards). No credit payment shall exceed $15,000. The Executive Officer and Assistant Executive Officer shall be authorized users of any approved lines of credit.

7. Documentation:

   a) All payments made by the Commission – whether through the County of San Diego, commercial banking institution, or credit line – shall include original documentation. Should original documentation be unavailable, the Executive Officer shall use their discretion in approving.

8. Asset and Liability Management:

   a) Physical assets acquired through purchase or contribution with unit costs or fair market values at or above $7,500 – respectively – and with useful life expectations of three or more years shall be capitalized assets on the financial statements. All other assets shall be expensed in the year purchased.

   a) Capitalized assets, with the exception of land, are subject to a straight-line depreciation method over their estimated useful lives.

   b) Repairs of capitalized assets shall be expensed as incurred so long as the repairs do not add value and/or extend their useful life.

   c) The Commission Clerk or designee shall ensure an inventory log listing all capitalized assets is maintained and updated annually. The inventory log shall include date of acquisition, cost, repairs (if applicable), and estimated useful life.

9. Surplus Property:

   a) Staff shall periodically assess inventory and identify items considered surplus. Items may include, but are not limited to:

      - Office furniture (e.g., desks, chairs, filing cabinets), equipment and appliances (e.g., monitors, refrigerators, printers).

   b) Surplus items may be donated or sold to local public agencies, nonprofit organizations that are tax-exempt under Section 501(c)(3), and educational institutions.

      - Donation or sale at less than fair market value of LAFCO-owned surplus property items may be approved by the Executive Officer when the estimated fair market value, as determined by the Executive Officer, does not exceed $10,000.

- Donation or sale at less than fair market value of LAFCO-owned surplus property items requires LAFCO Commission approval when the estimated fair market value, as determined by the Executive Officer, exceeds $10,000.

c) LAFCO-owned surplus property that is restricted from sale by law, determined to be unsalable, or deemed unsuitable for public sale may be scrapped or donated to charitable organizations in lieu of disposal.

d) A record of all surplus property donations will be maintained and documented to include item descriptions, recipient details, estimated value (if available), and date of transfer.

10. Lease and Right to Use Capitalization:

a) The Commission should avoid entering leases and right to use asset agreements with a duration of more than one year unless such lease or agreement provides preferred pricing or another significant business advantage.

b) Leases liabilities and right to use assets that are not classified as short-term and whose aggregate payments made or received exceed $40,000 will be capitalized in compliance with GASB 87.

11. Investments:

a) The Commission shall establish policies and procedures on investments at a later date.

12. Fraud Prevention:

a) The Commission defines fraud as the intentional, false representation or concealment of a material fact(s) for the purpose of personal gain or for the purpose of inducing another to act upon it to his or her injury. This includes any of the following circumstances involving employees, contractors, vendors, and/or members:

- Forgery or alteration of any Commission document(s).
- Forgery or alteration of any reimbursement claim.
- Forgery or alternation of any employee timecard.

- Misappropriation of Commission funds, supplies, or other assets.
- Impropriety reporting of Commission funds or financial transactions.
- Unauthorized disclosure of confidential or proprietary Commission information.
- Acceptance or solicitation of material value from Commission contractors, vendors, or persons providing goods or services.
- Destruction, removal or inappropriate use of Commission records or property – including but not limited to, furniture, fixtures or equipment.
- Personal use of any Commission lines of credit.

a) Any fraud that is suspected or detected shall be reported to the Executive Officer and, alternatively, to Commission Counsel.

b) If the suspicion is deemed credible, responsibility for investigating suspected fraudulent acts shall be conducted by the Executive Officer or Commission Counsel and reported immediately to the Commission Chair.

c) The Chair shall use reasonable discretion in assessing intent when evaluating potential fraudulent actions and determining whether corrective action shall also include reporting to the full Commission.

Adopted: May 5, 2025