



February 22, 2017

TO: LOCSD Board of Directors

FROM: Renee Osborne, General Manager

SUBJECT: Agenda Item 11F – 3/2/2017 Board Meeting
Adopt Resolution Amending the District's Expenditure Control Guidelines

President
Jon-Erik G. Storm

Vice President
Vicki L. Milledge

Directors
Charles L. Cesena
Marshall E. Ochylski
Louis G. Tornatzky

General Manager
Renee Osborne

District Accountant
Robert Stilts, CPA

Unit Chief
Scott M. Jalbert

Battalion Chief
Josh Taylor

DESCRIPTION

This item requests your Board adopt a resolution amending the District's Expenditure Control Guidelines, attached as Exhibit A to Resolution 2017-09.

SUMMARY OF STAFF RECOMMENDATION

This item will be approved along with the Consent Calendar unless it is pulled by a Director for separate consideration. If so, Staff recommends that the Board adopt the following motion:

Motion: I move that the Board adopt Resolution 2017-09 amending the Expenditure Control Guidelines.

DISCUSSION

Debit cards were issued by the District when credit cards were cancelled by various corporations in the unfolding of the bankruptcy case. Updates to Section III(6) of the Expenditure Control Guidelines were made to specifically address the use of District Debit Cards.

Minor clerical edits were made as well as amending the petty cash reimbursements limit from \$200 to the current limit of \$50.

Attachment

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RESOLUTION NO. 2017-09

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE LOS OSOS COMMUNITY SERVICES DISTRICT
APPROVING AMENDMENTS TO THE DISTRICT'S EXPENDITURE CONTROL GUIDELINES**

WHEREAS, the District adopts financial policies to ensure solid internal controls against fraud and theft, as well as to provide a structure for efficient conduct of business; and

WHEREAS, the District's purchasing policies and practices are used on a daily basis and must be carefully crafted and meticulously implemented to be effective; and

WHEREAS, the District desires to amend its current expenditure control guidelines to reflect the current state of operations, technology and staffing.

NOW, THEREFORE, BE IT RESOLVED that the Los Osos Community Services District Board of Directors does hereby adopt and approve the amended Expenditure Control Guidelines as contained herein as Exhibit A.

BE IT FURTHER RESOLVED, that the updated guidelines shall become effective immediately upon their approval.

On the motion of Director _____, seconded by Director _____, and on the following roll call vote, to wit:

Ayes: _____
Nays: _____
Absent: _____
Conflicts: _____

The foregoing resolution is hereby passed, approved, and adopted by the Board of Directors of the Los Osos Community Services District this 2nd day of March 2017.

Jon-Erik L. Storm
President, Board of Directors
Los Osos Community Services District

ATTEST:

APPROVED AS TO FORM:

Renee Osborne
General Manager and Secretary to the Board

Roy A. Hanley
District Legal Counsel

Los Osos Community Services District
Expenditure Control Guidelines

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Attachments:

- A. LOCSD Travel Approval Form
- B. LOSCO Travel Expense Form
- C. Purchase Order
- D. Blanket Purchase Order
- E. Letter to Vendors
- F. Voucher Form

I. INTRODUCTION

This expenditure control system is an integral part of the internal control structure of Los Osos Community Services District (LOCSD or District). As such, it is intended to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with Board Policy including the Budget, Purchase Policies, Board By-laws and Board adopted procedures for withdrawal of District funds under management's authorization and recorded promptly in the general ledger.

It is the intent of the District to control expenditures before it is obligated to pay for goods or services. This system is designed to accomplish this goal in the most time efficient manner while providing consistency and flexibility in a clearly documented record of the entire process.

The system is intended to be used in conjunction with the existing internal control structure. Any significant change in other aspects of the control environment will require a review of the effectiveness of this system.

II. EXPENDITURE CLASSIFICATIONS

The control mechanism and methods of documentation are determined by the type of expenditure. LOCSD recognizes the following types of expenditures:

1. **Recurring** - Included are utilities, debt service payments, payroll, payroll taxes and benefits, insurance, postage, postage meter rental, office supplies, etc.
2. **Contract** - Included are formal contracts for goods and services and purchase orders for goods and services (informal contracts).
3. **Travel** - Included are advances and reimbursements for travel, mileage reimbursement for authorized use of personal automobiles, meals and travel expenses.
4. **Petty Cash** - Included are reimbursements of expenditures from the petty cash fund and increases in petty cash funds.
5. **Customer Refunds** - Included are refunds of deposits and overpayments by District customers.
6. **Debit Cards** - Included are all authorized purchases made with a District issued debit card.
7. **Other** - Included are all expenditures which cannot be classified in one of the above categories.

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III. CONTROL SYSTEM

Expenditures will be controlled in the classifications indicated in Section II in accordance with the following procedures:

1. Recurring— These expenditures will be controlled by the budget. The Board will adopt an annual budget that will include line items for electricity, natural gas, telephone, telemetry, pager service, payroll, payroll tax, employee benefit, debt payment, insurance, ongoing rental obligations, and budgeted items including insurance, postage, postage meters, office supplies, computer consultant, meeting room rental, computer system operations, video services, copying, copy services, computer maintenance services, janitorial cleaning, director compensation, public notices, temporary help expenses, radio expenses, computer e-mail services, fuel, and trash. Such expenditures will not normally require a purchase order.

Management will monitor the relationship of year-to-date expenditures in these line items within the adopted budget. If it becomes apparent that the budget is insufficient to cover the next anticipated expenditure in one of these line items, a budget transfer will be prepared by the appropriate Department Head and a copy provided to the General Manager for increases which are 10% or less cumulatively of the original budgeted amount. If a budgeted line item is projected to require cumulative increases beyond 10% in any year, but less than a total of \$25,000, the General Manager will approve such increases. If a budgeted line item is projected to require cumulative increases beyond 10% in any year, and in excess of \$25,000, the Board must approve such increases.

2. Contract - Contracts fall into four categories.

- a. **Construction Work:** Construction work expected to cost \$1,000 or more will require a formal contract, using the District's standard form of agreement for small construction projects, and must be submitted to the State Department of Industrial Relations (DIR) on the standard electronic form PWC-100. All construction projects costing in excess of \$1000 also require that the contractor pay the general rate of prevailing wage for each craft of work performed. Construction work expected to cost between \$1,000 and \$25,000 will require informal bidding procedures. The Board will approve contracts for construction work expected to cost \$25,000 or more, which will require formal Public Works Bidding Procedures. All construction work for projects expected to cost less than \$1,000 will be classified as Purchase Order Expenditures.
- b. **Professional Services:** Professional Services (engineering, architectural, land surveying and construction management) costing over \$25,000 will require Board approval during budget process. Professional Services expected to cost \$1,000 or more **will** require a formal standard District consulting contract. Professional Services expected to cost between \$15,000 and \$25,000 will require issuance of a Request for Proposals to ensure that the correct scope of work and professional expertise is received. The Board will approve contracts for Professional Services expected to cost \$25,000 or more. Professional Services expected to cost less than \$1,000 will be classified as Other Expenditures.

- c. **Purchase Orders.** The purchase of non-reoccurring supplies, materials and capital assets will require a Purchase Order (see Attachment C). Vendors from whom the District is likely to purchase three or more small items in any month will be issued Blanket Purchase Orders (see Attachment D).

Purchases within budget and expected to be between \$5,000 and \$25,000 must be approved in advance by the General Manager. Purchases expected to be between \$100 and \$5,000 will be approved by the Department Head or General Manager.

- d. **Other Services:** Other Services expected to cost between \$1,000 and \$5,000 will be acquired through informal bidding procedures. The Board will approve contracts for Other Services expected to cost \$25,000 or more. Other Services expected to cost less than \$1,000 will be classified as Other Expenditures.

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3. **Travel** – Business and travel expenses will be paid and reimbursed as provided in the District's Travel and Reimbursement Policy.

4. **Petty Cash** – Reimbursement expenditures of less than \$100-50 require only an accounting of petty cash expenditures. The Department Head or General Manager will approve such reimbursements. Increases in the amount of petty cash or change fund will be approved by the Board.

5. **Customer Refunds** – These expenditures are processed as part of the utility billing system. Normally, a closing bill will be printed which shows a balance due to the customer. The Department Head or General Manager will approve such refunds. The Department Head or General Manager will approve refunds of other deposits and fees. Customer refunds do not normally require a Purchase Order.

6. **Credit Debit Card** – any purchase of any material or service by credit card will follow the process set forth in the LOCSD Employee Policy and Procedure Manual. A District issued debit card can be used in limited cases, specifically, where payment to an outside party is not possible due to the emergency need of the department or District, where use results in material savings to the District, where a card is needed to secure a reservation, and where an employee is traveling on behalf of the District. In cases where it is used for purchase, the normal pre-authorization protocol stated in this policy should be followed.

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These cards are not Purchase Cards and should not replace normal purchasing procedures or payment procedures that are in place in this policy.

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6. The employee who is the authorized holder of the card is responsible for reconciling the monthly statements and submitting expenses for payment as expeditiously as possible. The reconciliation process may be delegated to staff.

7. **Other** – All other expenditures will be approved in advance where possible, and upon receipt of goods or services. Approval will be by the Board, General Manager or Department Head in accordance with the limits of approval set forth herein.

IV. PURCHASE ORDER SYSTEM DOCUMENTATION AND IMPLEMENTATION

The General Manager or a department head may initiate a purchase by preparing and submitting a Purchase Order Form (see Attachment "C").

Purchase Orders up to \$5,000 will be compiled and signed by the General Manager or Department Head in accordance with the limitations set forth in Section III-2c of this Policy. Copies of all purchase orders shall be distributed to the appropriate Department Head and to those responsible for Accounts payable activities. When goods are received, the requesting employee will mark his/her copy of the P.O. "Received", date and sign it. This copy will then be given to the appropriate department head to match with the invoice when received. In the case of a partial shipment, a photocopy of the P.O. may be made. The requesting employee will indicate which items were received and forward it to the appropriate department head.

Upon receipt and invoice, the department head will compare the amounts and descriptions to the "Receiving copy" of the P.O. If, in total, the invoice is no more than 10% greater than the P.O., the invoice may be entered for payment. If the invoice total is more than 10% greater than the P.O., then the new amounts will be entered in the General Manager's copy of the P.O. and the appropriate person will countersign and date the corrected P.O.

For vendors from whom numerous small purchases are made, the District will employ Blanket Purchase Orders (B.P.O.) (Attachment D). Each B.P.O. will indicate with an expiration date, the total of all purchases allowed on that B.P.O. during any monthly period, a list of employees authorized to make purchases included on the face of the BPO and the maximum dollar amount maximum for any one purchase. No more than one B.P.O. may be active at any time for a particular vendor. The appropriate department head will maintain a separate list of Blanket Purchase Orders.

All current vendors will be sent a letter outlining the District's policy and procedure related to the use of and authorizations under blanket purchase orders. . New vendors receive a copy of the letter with the first purchase order issued to them. Staff shall secure a completed and executed W-9 from all new vendors.

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V. VOUCHER SYSTEM

A voucher form will be completed for each invoice or statement to be paid (see Attachment F). The classification of expenditure will be clearly indicated on the voucher. The voucher will indicate all invoices or statements to be paid with one warrant.

All supporting documents including invoices, Purchase Order, proof of receipt, packing slip, etc. will be attached to the Voucher. The Voucher will be approved in accordance with the chart in the Appendix and the signatories will verify that the documents are internally consistent, that invoices being paid are original, that receipt of goods or services has been acknowledged by an LOCSD employee and that amounts agree between documents.

The warrant number and the date will be entered on the Voucher when the warrant is sent to the vendor. All paid Vouchers are filed by vendor and separated by the fiscal year in which the payment was made and retained for seven years.

VI. DISBURSEMENTS

All checks, warrants and drafts shall be drawn by Accounts payable staff and signed by the President and Secretary of the Board of Directors, or one of them and one member of the Board. Warrants will be issued only after the Voucher has been approved according to the process set forth in Section V.

Warrants will be issued as needed to meet deadlines and take advantage of discounts. Except under unusual circumstances approved by the General Manager, warrants will be processed and distributed every other week.

VII. SUMMARY

Good control over expenditures depends upon advance authorization and adequate documentation. The use of Purchase Orders and Vouchers provides a basis for such control and documentation.

The success of this system depends upon the understanding and cooperation of all staff. Questions are welcomed and will be promptly answered by the General Manager. Unusual situations should be documented by memorandum or letter. Suggestions for improvement will be carefully considered by management.

*Adopted June 15, 2000
Revised and Adopted April 7, 2016
Amended and Adopted March 2, 2017*

APPENDIX

LOS OSOS COMMUNITY SERVICES DISTRICT

VOUCHER APPROVAL CHART

Expenditure Type	Less than 5,000	Over \$5,000 and Less than \$25,000	Over \$25,000
Recurring or Service Contract (within budget)	General Manager or Dept. Head ¹	General Manager or Dept. Head	General Manager
Recurring (over budget, under 110% of budget)	General Manager or Dept. Head	General Manager	Board
Recurring (over 110% of budget) ²	General Manager	Board	Board
Contract (construction)	General Manager or Dept. Head	General Manager	Board
Contract (professional and other)	General Manager or Dept. Head	General Manager	Board
Travel (staff)	General Manager or Dept. Head	General Manager	Not Allowed
Travel ³ (within budget, Board of Directors)	General Manager or Dept. Head	Board	Board
Conference ⁴ (within budget, Board of Directors)	General Manager	General Manager	Not Allowed
Petty Cash Reimbursement ⁵ (<20050)	General Manager or Dept. Head	Not Allowed	Not Allowed

¹ Department Heads: Fire Chief, Utilities Manager, and Administrative Services Manager

² Requires report to Board at meeting following budget exceedance, including compensating expense adjustments if necessary

³ A written report to the Board is required summarizing the event and costs

⁴ Board Member attendance at conferences must either be approved as a budget line item or as a separate Board action in advance of attendance. A written report to the Board is required summarizing the event and costs

⁵ No petty cash reimbursements allowed over \$200-50.00