



San Diego County
Local Agency Formation Commission
 Regional Service Planning | Subdivision of the State of California

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AGENDA REPORT
 Business | Discussion

March 3, 2025

TO: Chair Whitburn and Commissioners

FROM: Keene Simonds, Executive Officer
 Priscilla Mumpower, Assistant Executive Officer

SUBJECT: **Draft Proposed Policy |**
Financial Accounting and Internal Controls

SUMMARY

The San Diego County Local Agency Formation Commission (LAFCO) will review a draft proposed policy to establish rules and procedures covering financial accounting and related reporting. The draft has been prepared as part of the adopted workplan and incorporates recent observations and recommendations made by LAFCO’s outside auditor as detailed. The preparation of the draft draws on reviewing best practices by similarly sized local agencies and includes addressing reporting roles and responsibilities, account management and related allowances, capitalization thresholds, and fraud prevention. The draft is being presented for Commission review and discussion with staff incorporating feedback in finalizing a version for formal consideration at a future meeting.

BACKGROUND

Current Workplan &
Direction to Develop Formal Accounting Policies + Related Prompts

San Diego LAFCO’s current workplan was adopted at a noticed public hearing in May 2024 and includes 30 specific projects for the fiscal year. One of the workplan projects involves the establishment of formal accounting policies and related procedures and in doing so address

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two recent recommendations made by LAFCO’s current outside auditor – O’Conner and Associates (San Rafael). The prompting observations and recommendations follow.

- **FY2020-2021 Audit Observation + Recommendation:**

“During the course of our audit, we noted that LAFCO does not have a formal accounting, administrative, and fraud procedures manual. This manual would document LAFCO’s internal controls to safeguard assets and accounting records. This manual would also note LAFCO’s policies regarding prevention, detection, and deterrence of fraud and would serve as a training guide for new employees.”

“We recommend LAFCO develop and maintain an up-to-date accounting, administrative, and fraud procedures manual.”

- **FY2021-2022 Audit Observation + Recommendation:**

“During our audit, we noted that LAFCO does not have a formal policy for accounting for leases based on GASB 87 guidance. This policy would document LAFCO’s internal controls and processes in determining whether GASB 87 guidance applies to potential lease arrangements and capitalization thresholds. This policy would also outline the process for estimating and recording leases and right to use assets.

“We recommend LAFCO consider formalizing a capitalization policy for lease liabilities and the right to use assets over \$40,000. We also recommend keeping lease terms month to month or as annual leases whenever possible.”

DISCUSSION

This item is for San Diego LAFCO to review a draft policy establishing rules and procedures for financial accounting and related reporting – including addressing recent recommendations made by the Commission’s outside auditor as summarized above. The draft largely formalizes and expands upon existing LAFCO practices. It also draws on reviewing best practices by similarly sized agencies that maintain financial relationships with their respective county governments. The draft is attached for review with additional discussion on structure and key provisions as follows.

Structure and Key Provisions

The draft is organized consistent with LAFCO policy formatting and proposed to be formally assigned as Fiscal Policy 102 – or F-102. Notable provisions include all of the following.

- Delegate financial management to the Executive Officer. Prescribe other roles and responsibilities in managing financial accounting records to Commission Clerk.
- Specify LAFCO will maintain and use accounts held with the County of San Diego via the Treasurer’s Office as its central depository. Also specify LAFCO shall transact most day-to-day accounting activities with County accounts.

- Reference and reinforce fund balance management consistent with F-101.
- Specify LAFCO may open and maintain accounts with commercial banks as needed. Set the maximum balance of all combined accounts with commercial banks to be no more than 15% of the combined balances held with the County.
- Require any individual payment made by LAFCO at \$15,000 or above to be paid out of accounts held by the County of San Diego via the Auditor-Controller's Office. Any individual payments below this threshold can be made directly by LAFCO staff using accounts held with commercial banks.
- Designate capital asset thresholds at \$7,500 if useful life is three or more years. Qualifying capital assets would be subject to annual depreciation. Any other assets purchased or contributed would be expensed in the year acquired.
- Use straight-line depreciation of all capital assets over their estimated useful life as determined by the Executive Officer.
- Establish a lease and right-of-use capitalization threshold of \$40,000.
- Address fraud prevention – including broad examples – and assign investigation duties to Executive Officer or Commission Counsel. Should the suspicion be deemed creditable, a report shall be made to the Chair.

The draft includes a placeholder for investments and commits the Commission to revisit the topic and set specific policies and procedures at a future time.

ANALYSIS

The proposed draft policy before San Diego LAFCO has been scaled to reflect and amplify the Commission's existing financial relationship (banking and reporting) with the County of San Diego. This includes making explicit LAFCO will continue to use the County Treasurer's Office as its principal depository as well as transact most payments with accounts via processing with the County Auditor-Controller's Office. The draft policy also addresses existing policy unknowns – i.e., staff practices that have not been formally addressed by the Commission – and include setting balance and payment thresholds involving commercial bank accounts. Last, in developing policies and procedures – including setting capitalization thresholds for lease liabilities and right-to-use assets – the Commission is affirmatively addressing earlier recommendations from its outside auditor.

Staff is seeking input from the Commission on the draft policy in step with finalizing the document for formal consideration at a future meeting.

RECOMMENDATION

Review and discuss the draft policy and provide feedback as appropriate.

ALTERNATIVES FOR ACTION

No action; discussion only.

PROCEDURES FOR CONSIDERATION

This item has been placed on San Diego LAFCO’s agenda for discussion as part of the business calendar. The following procedures are recommended in the consideration of this item:

- 1) Receive verbal presentation from staff unless waived.
- 2) Commission discussion.

On behalf of the Executive Officer,



Priscilla Mumpower
Assistant Executive Officer

Attachment:

- 1) Draft Proposed Policy on Financial Accounting and Internal Controls

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 Commission:

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.
- b) Capitalized assets, with the exception of land, are subject to a straight-line depreciation method over their estimated useful lives.
- c) Repairs of capitalized assets shall be expensed as incurred so long as the repairs do not add value and/or extend their useful life.
- d) 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. 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.

10. Investments:

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

11. 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.
- b) Any fraud that is suspected or detected shall be reported to the Executive Officer and, alternatively, to Commission Counsel.
- c) 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.
- d) 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.

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