



April 7, 2016

TO: LOCSO Board of Directors
FROM: Peter J. Kampa, Interim General Manager
SUBJECT: **Agenda Item 12B – 4/07/2016 Board Meeting**
Adoption of Resolution Amending District Expenditure Policy

President
Marshall E. Ochylski

Vice President
Jon-Erik G. Storm

Directors
Charles L. Cesena
Louis G. Tornatzky
R. Michael Wright

Interim General Manager
Peter J. Kampa

Temporary District Accountant
Dale G. Flynn

Unit Fire Chief
Scott M. Jalbert

Battalion Chief
Tom McEwen

STAFF RECOMMENDATION

Staff recommends that the Board approve the following action:

Motion: I move that the Board adopt Resolution 2016-13 approving amendments to the District's Expenditure Control Guidelines.

DISCUSSION

The District's current expenditure control guidelines are 16 years old and need to be updated. Attached is a redline version of the current policy, with deleted language stricken, and added language underlined.

The primary purpose of the changes are to increase the spending limits of the General Manager for items and services contained within the current approved budget, and to allow department heads to also authorize most purchases made within the budget. For the efficiency of Board meetings and staff time, Board authorizations are required for single item purchases of unbudgeted items costing in excess of the amount of the surplus revenue contained in the budget.

Board approval is also required for purchases and contracts in excess of \$25,000 which, in the case of construction, requires a complex competitive bid process. The amendments also clarify the new prevailing wage and DIR requirements, as well as directing the use of a standard District contract.

FINANCIAL IMPACT

There is no financial impact associated with this policy amendment.

Attachments

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RESOLUTION NO. 2016-13

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE LOS OSOS COMMUNITY SERVICES DISTRICT
APPROVING AMENDMENTS TO THE DISTRICT'S EXPENDITURE CONTROL GUIDELINES
TO ALLOW FOR EXPENDITURES WITHIN ALL APPROVED BUDGET CLASSIFICATIONS TO BE
AUTHORIZED BY THE GENERAL MANAGER; ESTABLISHING REVISED CAPITAL EXPENDITURE
GUIDELINES, AND REVISING REQUIRED PURCHASING DOCUMENTATION**

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 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 sixteen year old 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.

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 7th day of April 2016.

Marshall E. Ochylski
President, Board of Directors
Los Osos Community Services District

ATTEST:

APPROVED AS TO FORM:

Peter J. Kampa
Interim General Manager and Secretary to the Board

Michael W. Seitz
District Legal Counsel

Adopted June 15, 2000
(Exhibit A to Resolution 2000-25)

Los Osos Community Services District
Expenditure Control Guidelines

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Appendix - Voucher Approval Chart

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. **Credit Cards** - Included are all authorized purchases made with a District issued credit card.
7. **Other** - Included are all expenditures which cannot be classified in one of the above categories.

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 management—the appropriate Department Head and approved-by 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 Board-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 ~~\$4525~~,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.

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b. Professional Services: Professional Services (engineering, architectural, land surveying and construction management) costing over ~~\$125~~,000 will require Board approval during budget process. Professional Services expected to cost \$1,000 or more will require a ~~formal—formal standard District consulting~~ contract. Professional Services expected to cost between \$15,000 and \$25,000 will require ~~informal-bidding-procedures~~ issuance of a Request for Proposals to ensure that the correct scope of work and

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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

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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 or more must be approved in advance by the Board/General Manager. Purchases expected to be between \$1,000/100 and \$5,000 will be approved by the Department Head or General Manager. ~~Purchase of materials and services expected to be more than \$100 but less than \$1,000 will be approved by the Department head.~~

- 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.

~~All expenditures described in this Section 111-3 will require the completion of a "LOCSD Travel Approval Form" and/or "LOCSD Travel Expense Report" (see Attachments A and B). These expenditures will be limited by the budget as described for Recurring Expenditures (section 111-1). Travel expenditures do not normally require a Purchase Order.~~

4. Petty Cash – Reimbursement expenditures of less than \$100 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 ~~Administrative Services~~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 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.

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 ~~in Section III-2e. Expenditures of \$100 or less will not require a purchase order~~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") ~~to the Administrative Services Manager.~~

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. ~~The original P.O. (white) will be sent to the vendor. A copy (blue) will be given to the General Manager. The Administrative Services Manager will retain a copy (green). A copy (yellow) is given to the requesting employee.~~ 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 ~~Administrative Services Manager~~ 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 ~~Administrative Services Manager~~ appropriate department head.

Upon receipt and invoice, the ~~Administrative Services Manager~~ 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 (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 ~~Administrative Services Manager~~ 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 (~~see Attachment A 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.

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 the Finance Officer~~ **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.

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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 each week on or by Friday** ~~every other week.~~

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~~The Administrative Manager will reconcile the checking account within three working days of receipt of monthly bank statements and verify that all warrants were written in accordance with these guidelines.~~

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.

LOS OSOS COMMUNITY SERVICES DISTRICT

VOUCHER APPROVAL CHART

Expenditure Type	Less than 15 ,000	Over 15 ,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	General Manager
Recurring (over budget, under 110% of budget)	General Manager or Dept. Head General Manager	General Manager	Board
Recurring (over 110% of budget) ²	Board General Manager	Board	Board
Contract (construction)	General Manager or Dept. Head	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	Board Not Allowed
Travel ³ (General Manager & Board of Directors)	General Manager or Dept. Head Board President	Board Board President	Board
Conference ⁴ (within budget, Board of directors)	Board General Manager	General Manager	Board Not Allowed
Petty Cash Reimbursement ⁵ (<\$200)	General Manager or Dept. Head	NA Not Allowed	Not Allowed NA
Petty Cash (increase)	General Manager or Dept. Head	Board Not Allowed	Not Allowed NA

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

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	<u>Manager</u>		
<u>Purchase Order (within budget)</u>	General Manager or Dept. Head	<u>General Manager or Dept. Head</u> General	General Manager
<u>Purchase (unbudgeted, non-emergency item)</u>	<u>General Manager</u> ⁶	<u>Board</u>	<u>Board</u>
<u>Purchase (unbudgeted, emergency)</u>	<u>General Manager</u>	<u>General Manager</u> ⁷	<u>Board</u> ⁸
Other	General Manager or Dept. Head	General Manager	General Manager
Credit Card	Per EPPM	Per EPPM	Per EPPM

* ~~Department Heads: Fire Chief, Utilities Manager, and Administrative Manager~~

⁶ General Manager purchases of unbudgeted non-emergency items costing up to \$25,000 allowed when excess budgeted funds available within fund expense subaccounts or surplus revenue, so long as fund revenue and expense are expected to balance; and must be reported to Board

⁷ Report to Board at next meeting

⁸ Emergency Board meeting may be required