



Lou Ann Teixeira
Executive Officer

MEMBERS

- Candace Andersen
County Member
- Donald A. Blubaugh
Public Member
- Gabriel Quinto
City Member
- Patricia Bristow
Special District Member
- Federal Glover
County Member
- Michael R. McGill
Special District Member
- Scott Perkins
City Member

ALTERNATE MEMBERS

- Diane Burgis
County Member
- Scott Pastor
Special District Member
- Charles R. Lewis, IV
Public Member
- Edi Birsan
City Member

November 8, 2023 (Agenda)

**November 8, 2023
Agenda Item 9**

Contra Costa Local Agency Formation Commission
40 Muir Road, 1st Floor
Martinez, CA 94553

Policies and Procedures Update

Dear Members of the Commission:

This is a report from the LAFCO Policies & Procedures Committee recommending an update to section *1.5 Budget and Financial Procedures*.

LAFCO’s “*1.5 Budget and Financial Procedures*” contains provisions relating to developing and adopting the LAFCO budget, annual work plan, budget adjustments, accounting and financial procedures.

Regarding the annual audit [subsection G.(1)(h) – attached], the current policy states “*An outside financial audit shall be conducted following the close of each fiscal year and presented to the Commission when complete.*”

It is recommended that we add a section regarding selection of an audit firm and details regarding rotation of audit firms. The proposed revisions and updates are shown in Attachment 1.

RECOMMENDATION: Approve proposed amendments to *1.5 Budget and Financial Procedures* subsection G.(1)(h) as attached.

Respectfully submitted,
Don Blubaugh and Charles R. Lewis, IV

Attachment 1 – Proposed Updates to Section *1.5 Budget and Financial Procedures*

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1.5. BUDGET AND FINANCIAL PROCEDURES

LAFCO encourages an open, collaborative process in the development of its budget, and efforts to equitably apportion the costs of its budget.

A. Authority to Develop and Adopt the Budget

Each year, following noticed public hearings, the Commission adopts proposed and final budgets. In accordance with the CKH Act, the proposed budget must be adopted by May 1 and the final budget by June 15. The budget is based on a July 1 to June 30 fiscal year.

The County Auditor is responsible for apportioning the Commission's net operating costs to the County, the cities and the independent special districts according to a formula established pursuant to Government Code Section 56381.

If the County, a city or an independent special district does not remit its required payment within 60 days, the Executive Officer shall request that the County Auditor collect an equivalent amount from the property tax, or any fee or eligible revenue owed to that county, city or district, pursuant to §56381(4)(c).

B. Annual Work Plan

Before July 1, the LAFCO Executive Officer shall prepare for the Commission's review and approval an annual work plan. The work plan is prepared in conjunction with the annual budget. The work plan identifies the purposes and programs of State law and local policy, including requirements for service reviews, sphere of influence updates and other mandated functions. The work plan will correspond to the adopted fiscal year budget.

C. Preparation and Administration

The LAFCO Executive Officer shall serve as the budget administrator, to prepare, present, transmit, review, execute and maintain the LAFCO budget consistent with State law. The Executive Officer shall provide the Commission with periodic budget updates comparing expenditures to the adopted budget.

D. Contingency Reserve

The annual budget shall include a contingency reserve (i.e., 10% of budget) as determined by the Commission. Funds budgeted in the contingency reserve shall not be used or transferred to any other expense account without prior approval of the Commission.

E. Budget Adjustments

The Commission may make adjustments to its budget at any time during the fiscal year, as it deems appropriate.

F. LAFCO as a Separate Fund

For administrative purposes, the LAFCO budget is a separate fund within the County's financial accounting system. Unspent appropriations are retained in the fund as available financing for the following year.

G. Accounting and Financial Policies and Procedures

The following accounting and financial procedures document the financial operations and internal controls of LAFCO.

1) Expenditures and Disbursements

- (a) Contra Costa County currently administers LAFCO's cash and investments.
- (b) The Commission Clerk and Executive Officer shall follow adopted policies and procedures for invoices, claims, disbursements, receipts and deposits of revenues. The Commission Clerk shall initiate transactions such as purchase orders and payment of invoices and claims.
- (c) The Executive Officer shall review all claims and invoices received by LAFCO and may authorize payment, as appropriate, within the framework and limitations of the budget as adopted by the Commission.
- (d) The Commission Clerk and Executive Officer shall maintain and reconcile records of all financial transactions.
- (e) The primary objectives for accounts payable and cash disbursements are to ensure disbursements are properly authorized, invoices are processed in a timely manner, and invoice charges do not exceed the purchase order or contract amount.
- (f) Credit card purchases shall be made in accordance with the Contra Costa County Procurement Card program policies and procedures.
- (g) Periodic financial updates and budget reports shall be presented to the Commission.
- (h) An outside financial audit shall be conducted following the close of each fiscal year and presented to the Commission when complete. LAFCO shall utilize an independent auditor to prepare annual financial statements. The audit report, including the firm's opinion, shall be presented to the Commission. LAFCO shall not employ a public accounting firm to provide audit services if the lead audit partner or coordinating audit partner having primary responsibility for the audit, or

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the audit partner responsible for reviewing the audit, has performed audit services for LAFCO for six consecutive fiscal years.

2) Payroll and Benefits Administration

Contra Costa County currently administers payroll and benefits for LAFCO.

3) Capital Asset Management

(a) Capitalization Policy

Capital assets include furniture, fixtures and equipment with a useful life of three or more years and a value of \$5,000 or more. Capital assets owned by LAFCO are accounted for at their historical cost, or estimated historical cost, if actual cost is not available. Such assets, except land, are subject to depreciation over their estimated useful lives.

(b) Inventory of Capital Assets

LAFCO will maintain an inventory of capital assets, including equipment and furniture. The inventory will be maintained by staff. New assets will be added to the inventory as acquired and subtracted from the inventory as disposed. At the end of the fiscal year, the Executive Officer shall conduct a physical inventory of capital assets and make appropriate adjustments to the inventory. An annual inventory report shall be provided to the Commission. The inventory report shall include date of acquisition, cost, description (including color, model, and serial number), location of asset, depreciation method, and estimated useful life.

(c) Depreciation and Useful Life

Capital assets are depreciated using the straight line method over the estimated useful life. Estimated useful lives of fixed assets shall be determined by the Executive Officer in consultation with the County Auditor and in accordance with standard accounting policies and procedures. Furniture and fixtures will typically be assigned a useful life of up to 10 years, most office equipment (including computers) will be assigned a useful life of 3-5 years; and leased assets will be designated "life of lease."

(d) Repair of Fixed Assets

Expenditures to repair capitalized assets shall be expensed as incurred if the repairs do not materially add to the value of the property or materially prolong the estimated useful life of the property. Expenditures to repair capitalized assets shall be capitalized if the repairs increase the value of the property, prolong its estimated useful life, or adapt it to a new or different use. Such capitalized repair costs shall be depreciated over the remaining useful life of the property. If the repairs significantly extend the estimated useful life of the property, the original cost of the property shall also be depreciated over its new, extended useful life.

(e) Disposition of Fixed Assets

In the event a capital asset is sold, scrapped, donated or stolen, adjustments will be made to the capital asset inventory.

Revenues

Each year, LAFCO receives revenue from the following sources:

- (a) Charges for Services – These represent LAFCO application and processing fees.
- (b) Intergovernmental – These revenues are received at the beginning of the fiscal year. The amount is equal to the approved operating budget and is split in equal thirds between the funding agencies (i.e., County, cities and independent special districts).
- (c) Interest Earnings – This is a new source of revenue for LAFCO and represents interest on investments currently held by the County on behalf of LAFCO. Investments will be made in accordance with the LAFCO Investment Policy (Exhibit 1).
- (d) Available Year-End Fund Balance – These represent net current assets less liabilities. Portions of the fund balance may be reserved or designated for future expenditures.

4) Contract Approval and Execution

The Commission delegates to the Executive Officer the authority to approve and execute contracts, agreements and amendments for \$5,000 or less, provided sufficient funds are contained in the appropriate line item in the LAFCO budget.

Any contract, agreement or amendment greater than \$5,000, or any contract agreement or amendment for which there are not sufficient funds contained in the appropriate line item of the LAFCO budget, shall be presented to the Commission for approval and execution.

5) Fraud Policy

It is the policy of the Contra Costa LAFCO to follow ethical, responsible, and reasonable procedures related to purchasing, claims, money management and other financial matters.

Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of personal gain or for the purpose of inducing another to act upon it to his or her injury. Each LAFCO employee and Commissioner should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Any fraud that is suspected or detected shall be reported to the Chair of the Commission and, ~~alternatively,~~ to the Executive Officer.

The terms fraud, defalcation, misappropriation and other fiscal irregularities refer, but are not limited, to

- (a) Any dishonest or fraudulent act
- (b) Forgery or alteration of any document or account belonging to LAFCO
- (c) Forgery or alteration of a check, bank draft, or any other financial document
- (d) Misappropriation of funds, securities, supplies, equipment, or other assets of LAFCO
- (e) Impropriety in the handling or reporting of money or financial transactions
- (f) Disclosing confidential or proprietary information to outside parties
- (g) Accepting or seeking anything of material value from contractors, vendors, or persons providing goods or services to LAFCO
- (h) Destruction, removal or inappropriate use of records, furniture, fixtures and equipment
- (i) Any similar or related irregularity
- (j) Personal use of the LAFCO credit card

Responsibility for investigating suspected fraudulent acts as defined in the policy is dependent upon the suspected fraudulent act, and may be conducted by the Executive Officer, County Auditor, LAFCO Legal Counsel, and/or other internal or external party as necessary to conduct an investigation.

If an investigation substantiates that fraudulent activity has occurred, the investigating authority will issue a report to the appropriate party (i.e., Executive Officer, LAFCO Counsel, Commission Chair, etc.). Further action will be taken in conjunction with the appropriate parties.

Investigation results are confidential and will not be disclosed or discussed with anyone other than those who have a legitimate need to know. This is important in order to avoid damaging the reputations of persons who may be suspected, but subsequently found innocent of wrongful conduct and to protect LAFCO from potential civil liability.

H. Fees

- 1) LAFCO shall establish a fee schedule for the costs of proceedings pursuant to state law.
- 2) LAFCO generally will review its fee schedule at least every two years.
- 3) Payment of all fees pursuant to the most recent fee schedule is required for any application to be deemed complete and before issuing a certificate of filing.
- 4) The Commission may waive fees as provided in state law.
- 5) LAFCO application processing fees are non-refundable.
- 6) The costs for legal defense of a LAFCO action are considered part of the processing fees. A fully executed indemnification agreement, as approved by LAFCO legal counsel, shall be required for any application approved by the Commission and before a certificate of completion is issued.

I. Financial Status Reports

The budget adopted by LAFCO is an estimate of expenditures and revenues. The staff keeps the Commission informed of aspects of the financial program that deserve review and adjustment through periodic financial status reports.

J. Per Diem Stipends for Commission Members

Members and alternative members are eligible to receive a stipend of \$150 for attendance at the following meetings

- 1) Regular and special meetings of the Commission.
- 2) Meetings of standing and ad hoc committees of the Commission when they meet on a day separate from a ~~the~~ day ~~on~~ which the Commission meets.
- 3) Official representation of the Commission when attending other governmental and quasi-governmental meetings such as the CALAFCO Annual Conferences, CALAFCO Executive Board, or other legislative task forces. Stipends shall be paid for each day's attendance at such meetings.

Payment of stipends is limited to no more than five (5) per member in any month.

K. Reimbursement of Commissioner Expenses

- 1) Commission members and alternates may claim reimbursement for reasonable and necessary expenses incurred in attending LAFCO sponsored or related events and in performing the duties of their office.
- 2) The Executive Officer is responsible for reviewing and approving each request for Commission reimbursement.

L. Reimbursement of Staff and Legal Counsel Expenses

- 1) The Executive Officer, other LAFCO staff, and Legal Counsel shall be reimbursed for all reasonable and necessary expenses in connection with the conduct of LAFCO business including but not limited to office expenses, training, travel, lodging, meals, gratuities and other related costs.
- 2) The Executive Officer is responsible for reviewing and approving requests for staff and Legal Counsel reimbursement.
- 3) The Chair, Vice Chair, or other Commissioners authorized to sign claim forms with the County Auditor-Controller are responsible for reviewing and approving requests for Executive Officer reimbursement.

M. Reimbursement Policies

- 1) Expense reimbursement requests should be submitted monthly, although flexibility is permitted if the claimable amount is not deemed to be significant.
- 2) Claims for reimbursement of costs related to LAFCO meetings, conferences and seminars should be submitted not later than 60 days following completion of the event for which reimbursement is being claimed. Reimbursement for meals in conjunction with attendance at conferences and workshops shall not exceed \$50 per day. Alcoholic beverages are not reimbursed.
- 3) Cancellation of attendance at CALAFCO conferences and workshops shall be made in accordance with CALAFCO cancellation policies.
- 4) Expense claims for costs incurred in one fiscal year should be, whenever practical, submitted for reimbursement during the same fiscal year.
- 5) Reimbursement for Private Automobiles
 - (a) Use of private automobiles to conduct LAFCO business shall be reimbursed at the current IRS allowable rate.
 - (b) This rate shall be considered full and complete payment for actual expenses for use of private automobiles, including insurance, maintenance and all other automobile-related costs.
 - (c) LAFCO does not provide insurance for private automobiles used for LAFCO business. The owner is responsible for personal liability and property damage insurance when vehicles are used on LAFCO business.
- 6) Receipts or vouchers that verify the claimed expenses are required for reimbursement of all items of expense except private automobile mileage and taxis or streetcars, buses, bridge and road tolls and parking fees.
- 7) Reimbursement of expenses is not allowed for personal items such as, but not limited to, entertainment, clothing, laundering, etc.

- 8) The general rule for selecting a mode of transportation for reimbursement is that method which represents the lowest reasonable expense to LAFCO and the individual Commissioner or staff member.

N. Recognition by the Commission

Nominal amounts may be expended for the purchase of plaques or certificates of appreciation for those to whom such expressions are deemed to be appropriate by the Commission.