

City of Wasco Internal Control Policy

1. **Introduction:** The City Council of the City of Wasco and City management have a duty to be good fiscal stewards of government assets. This roll of stewardship includes not only the safeguarding of assets but also the effective and efficient use of those assets and fiscal accountability. Although City management is primarily responsible for the internal controls of the City the City Council is ultimately responsible to insure that management fulfills this duty. There is however an inherent limitation on the effectiveness of any internal control policy due to the cost / benefit relationship that must be considered, meaning that the cost of the internal control should not outweigh the potential benefit of the control.

This City policy on internal control has been developed to formalize certain policies and procedures to help insure the principal of sound fiscal stewardship through effective and comprehensive internal controls. Although this policy has been developed to formalize an the City's effective internal controls this policy does not provide complete protection for the City or implement every type of internal control due to the inherent cost / benefit relationship that must be considered.

The concept of internal control is very broad and comprehensive including five essential elements: The Control Environment, Continuing Assessment of Risk, Control Related Policies and Procedures, Communication of Information, and Monitoring of Controls. This policy addresses each of these specific areas below in detail. Internal controls are not static. As the functions of the City change or the operating environment changes risks must be reassessed and internal controls adjusted as necessary. As such, from time to time, the Finance Department will be updating this policy and presenting changes to the City Council for acceptance.

2. **The Control Environment:** Also known by the terms "Corporate Culture" or the "Tone at the Top" the control environment can be difficult to quantify because it encompasses the views, ethics, management integrity, and overall attitude of an organization. Having a favorable control environment is essential to internal control and this starts at the top of the organization with the City Council and works downward through the management of the City to all employees. Understanding this, the following points of commitment should be recognized and promoted throughout the organization.
 - 2.1. All Elected Officials and City Staff are asked to sign the City's "Standards of Excellence" statement formalizing their commitment to; leadership, ethics, communication and relationship building, respect, accountability, infrastructure, and continuous improvement.
 - 2.2. The City Council and management of the City view good internal control to be essential to accomplishing goals and being good financial stewards.

- 2.3. Internal control policies along with other City policy and procedures are important and are required to be followed. Violations of such policies are discouraged and will be met with appropriate disciplinary action.
- 2.4. All members of City management including the City Manager, Department Directors, Mid-Managers, and Supervisors are required to read and sign the City's policy on internal controls.

3. **Continuing Assessment of Risk:** The goal of risk assessment is to enable management to prevent or minimize harm. In order to accomplish this, risk assessment must be conducted on an ongoing basis. Internal changes such as changes in operating activities, the control environment, or organizational structure in addition to external changes such as changes within the regulatory environment, technological and economic changes all have an effect on risk. For this reason a continuing effort to assess changes in risk and their effect on internal controls must be conducted.

Risk assessment is primarily handled by the Finance Department, although all supervisors and managers need to be aware of the potential for fraud and misuse of City assets. It is the policy of the City to follow up on all reports of potential fraud or misuse. The City is also committed to continuing updates to control related policies and procedures as needs are identified through the continuing assessment of risk.

4. **Control Related Policies and Procedures:** The following are specific policies and procedures that have been established to maintain good internal control. It should be noted that these are minimum standards set by this policy and that the City Manager and Department Directors have authority to implement stricter standards at their sole discretion:

4.1. Purchasing and Accounts Payable

- 4.1.1. Purchase Orders must be authorized by the following positions prior to any order being placed.
 - 4.1.1.1. Items over \$10,000 must be authorized by the City Council.
 - 4.1.1.2. Items between \$5,000 and \$9,999 must be authorized by the City Manager, Finance Director, and Department Director.
 - 4.1.1.3. Items between \$4,000 and \$4,999 must be authorized by the Finance Director and Department Director.
 - 4.1.1.4. Items between \$1,000 and \$4,000 must be authorized by the Department Director.
 - 4.1.1.5. Items up to \$999 must be authorized by the Department Director or Division Manager.

- 4.1.2. Purchase Orders cannot be approved if there is not adequate available budget within the account being charged. Budget Transfer Requests accompanying such Purchase Order Requests must be approved and posted prior to approval of the Purchase Order.
- 4.1.3. No invoice is paid without an authorized purchase order.
- 4.1.4. The issuance or use of "Blanket Purchase Orders" is prohibited.
- 4.1.5. Invoices for City Attorney services, Kern County Sheriff Services, and Kern County Fire Services must be approved and signed by the City Manager and Finance Director prior to being entered into Accounts Payable.
- 4.1.6. Invoices coded to Professional Services must be reviewed and signed by the Department Director prior to being entered into Accounts Payable.
- 4.1.7. All vender payments must be approved by the City Council in the form of a "Bill Pay List" submitted at a regularly scheduled City Council Meeting prior to or at the next available meeting following issuance of the payment.
- 4.1.8. Three signatures are required on all checks issued. These signatures must included one individual from each of the following groups.
 - 4.1.8.1. Mayor or Mayor Pro Tem
 - 4.1.8.2. City Clerk or Deputy City Clerk.
 - 4.1.8.3. City Treasurer or Accounting Supervisor
- 4.1.9. All payments to City Employees or City Council Members other than regular payroll or stipend payments must be approved by the City Treasurer and Finance Director. Payments to City Employees or City Council Members from petty cash are prohibited.
- 4.1.10. Pre-printed and numbered accounts payable check stock is stored in a locked cabinet. The Accounting Supervisor, Accounting Manager, and Finance Director, none of which prepare checks, are authorized to retain custody of the cabinet key.
- 4.1.11. The use of wire transfers is restricted to:
 - 4.1.11.1. Regularly scheduled bond payments and bond calls and must be approved and signed by the Finance Director, and Accounting Manager or Accounting Supervisor.
 - 4.1.11.2. Transfers between City bank accounts and LAIF and must be approved and signed by the Finance Director, and Accounting Manager or Accounting Supervisor.

- 4.1.11.3. Any other use of wire transfers must have prior approval in writing by the City Manager or Mayor, Finance Director, and City Treasurer.

4.2. City Issued Credit Cards

- 4.2.1. The City has credit cards issued only to the following positions; City Council Members, City Manager, and Department Directors.
- 4.2.2. The use of City issued credits cards is restricted to the following;
 - 4.2.2.1. Hotel reservations, rooms, room tax, and hotel parking but not including movies, internet access, or other incidental entertainment.
 - 4.2.2.2. Meals while on training and travel that are within the limits of city policy and are not otherwise provided or through a per diem.
 - 4.2.2.3. Meals associated with City business meetings.
 - 4.2.2.4. Conference registration fees, award presentation reservations, or other such registration fees for approved training and travel
 - 4.2.2.5. Other charges whereas there is a specific benefit in purchasing with a credit card and with the prior written approval of the City Manager or Finance Director within the limits of their expense approval authority.
- 4.2.3. Receipts for all credit card purchases must be submitted to the Finance Department prior to payment being issued on the account.

4.3. Human Resources and Payroll

- 4.3.1. Any change in an employee's status, pay, or allocation account numbers must be accompanied by a Personnel Action Form signed by the employee's supervisor, Department Director, Finance Director, and City Manager.
- 4.3.2. Any Personnel Action Form which would create an over-budgeted expense must be accompanied with an adequate Budget Transfer Request prior to being processed.
- 4.3.3. Approved Personnel Action Forms must be submitted to the Human Resources Division and filed in the employees personnel file with copies sent to the employee and the payroll processing personnel.
- 4.3.4. All payroll payments are supported by a completed timesheet recording dates and hours worked during the pay period. Submitted timesheets are required to be signed by the employee, his or her supervisor, and the Department Director.

- 4.3.5. Pre-printed and numbered payroll check stock is stored in a locked cabinet. The Accounting Supervisor, Accounting Manager, and Finance Director, none of which prepare payroll checks, are authorized to retain custody of the cabinet key.
- 4.3.6. Three signatures are required on all checks issued. These signatures must include one individual from each of the following groups.
 - 4.3.6.1. Mayor or Mayor Pro Tem
 - 4.3.6.2. City Clerk or Deputy City Clerk.
 - 4.3.6.3. City Treasurer or Accounting Supervisor
- 4.3.7. Also affecting payroll is the number of direct deposit payments. The direct deposit payment count must be documented in the check signing process to balance signed checks with the number of total payroll payments.
- 4.3.8. The City's Personnel Policy is the authoritative document regarding all personnel matters except in cases where the current Memorandum of Understanding (MOU) between the employees union and the City and or applicable federal or state law supersedes the personnel policy. The Personnel Policy is periodically updated and reviewed for compliance with changes in the law. All changes to the policy are formally adopted by the City Council.

4.4. Cash Receipts and Accounts Receivable

- 4.4.1. Mail is received and opened daily by an individual not responsible for posting payments, depositing funds, or reconciling accounts receivable. Upon opening the mail any checks received are immediately stamped with a "Deposit Only" stamp to a City bank account. A total is calculated on all checks received by mail and reconciled to a total of the Payment Coupons received. The reconciliation listing the dollar value of checks received, total amount listed on the Payment Coupons, and number of payments received is signed by the individual that prepared it and remitted along with the checks and Payment Coupons to another Finance Department employee for processing.
- 4.4.2. An employee not responsible for opening the mail, depositing funds, or reconciling accounts receivable will log and post payments, and prepare the deposit slip for the bank.
- 4.4.3. Payments received at the Finance Department front counter are logged and posted by an employee not responsible for opening the mail, depositing funds, or reconciling accounts receivable. Receipts are given to customers for all payments received.
- 4.4.4. All funds are deposited into the City's bank account no later than the end of the next business day by an employee not responsible for opening the mail, processing the payments, or reconciling accounts receivable.

- 4.4.5. All un-deposited funds are secured in a safe or locking cash register until the time of deposit.
- 4.4.6. The City has a specific "Procedure for Handling Cash" and a "Cash Over and Short Policy" signed and accepted by all employees handling cash. These policies are specific but can be summarized as follows:
 - 4.4.6.1. All city cash register drawers are counted and verified each morning by the employee checking out the drawer. This employee is responsible for their cash drawer throughout the day and is required to keep it secure.
 - 4.4.6.2. At the end of every day each cash drawer is counted twice; first by the employee responsible for the cash drawer and second by an employee not primarily responsible for the drawer. Both cash counts are logged onto a worksheet and reconciled to payments received and the starting cash balance. This worksheet is used to as support for the bank deposit.
 - 4.4.6.3. All discrepancies of any amount are reviewed and investigated by the Accounting Supervisor and Accounting Manager.
 - 4.4.6.4. Employees may be subject to disciplinary action up to and including termination based upon a result of cash discrepancies.
- 4.4.7. The Finance Director, or his/her designee, compares the actual bank deposit slips received from the bank during the daily depositing process with the City's summary deposit tape.
- 4.4.8. Adjustments to bills or accounts receivable balances must be approved in writing or through the accounting system workflow approval process by the Accounting Manager or Accounting Supervisor.

4.5. Petty Cash

- 4.5.1. The City maintains the following petty cash boxes in amounts not to exceed \$500.
 - 4.5.1.1. City Hall Petty Cash under the custody and control of the City Clerk.
 - 4.5.1.2. City Hall Annex Petty Cash under the custody and control of the Accounting Manager.
- 4.5.2. All petty cash boxes are secured in a safe or locking cabinet when not in use.
- 4.5.3. All petty cash boxes are reconciled monthly by a finance staff employee that has no check preparation duties.

- 4.5.4. The Finance Director or Accounting Manager reviews and initials all petty cash reconciliations, questioning any items that are not adequately annotated or that are unique.

4.6. Bank and Investment Account Reconciliations

- 4.6.1. All City bank accounts and investment accounts are reconciled monthly by a Finance Department staff employee that has no check preparation or deposit preparation duties for that particular bank account. Canceled checks are stored until the audit is complete for the fiscal year.
- 4.6.2. Voided checks must be signed and dated by the Finance Director.
- 4.6.3. The Finance Director or his/her designee reviews and initials all monthly bank reconciliations, questioning any items that are not adequately annotated or that are unique.
- 4.6.4. The Local Agency Investment Pool (LAIF) accounts are reconciled monthly by either the Accounting Supervisor or the Accounting Manager and are reviewed and initialed by the Finance Director.

4.7. General Ledger

- 4.7.1. Each asset and liability account on the City's general ledger is reconciled monthly with back-up workpapers kept in a monthly general ledger file.
- 4.7.2. General journal entries are prepared by Finance Department staff and approved by the Accounting Manager. General journal entries prepared by the Accounting Manager are approved and signed by the Finance Director. General journal entries prepared by the Finance Director are approved and signed by the Accounting Manager or City Manager.
- 4.7.3. The general ledger is closed monthly, usually by the third week of the following month.
- 4.7.4. Before the general ledger is closed each month, the Finance Director reviews the general ledger, budget report, general journal, and journal entry detail.

4.8. Fixed Assets

- 4.8.1. All Capitalized Assets except for land, infrastructure, facilities, and improvements are affixed with a numbered City asset tag issued by the Finance Department.
- 4.8.2. Upon disposal of a tagged asset the asset tag is removed from the asset and turned into the Finance Department. If applicable, upon receipt of the tag or notification of a disposed of non-tagged asset the Finance Department disposes of the asset in the general ledger and removes the asset from the insurance policy.

- 4.8.3. Upon receipt of newly purchased facilities, vehicles, equipment, or the completion of a construction project the Finance Department adds the asset to the insurance policy.
- 4.8.4. City owned vehicles remain secured on City property after regular business hours unless needed to respond to a call-out or other emergency situation.
- 4.8.5. The use of City owned vehicles or equipment for personal use is not allowed without prior written authorization from the City Manager.
- 4.8.6. The Internal Auditor conducts periodic verifications of fixed assets by selecting test items from the fixed asset register and physically inspecting the items.

4.9. Budget

- 4.9.1. The City Council adopts by resolution an Annual Operating Budget prior to July 1st of the new fiscal year.
- 4.9.2. The Annual Operating Budget resolution includes specific authority authorizing the City Manager to approve budget transfers within certain limitations. The Finance Director reviews each proposed budget transfer for compliance with the applicable resolution.
- 4.9.3. The City Manager, with the assistance of the Finance Director, requires all over-budget amounts to be adequately explained and corrected through either a budget transfer or budget amendment approved by the City Council.

4.10. Audits

- 4.10.1. Annually the City Council engages an independent, qualified and licensed Certified Public Accountant to audit the City's year end financial statements in accordance with Governmental Audited Standards issued by the Comptroller General of the United States of America.
- 4.10.2. As part of Governmental Auditing Standards, the auditor must review and test the City's internal controls and issue a separate opinion on the City's internal control.
- 4.10.3. Within six months of the fiscal year end the independent auditor presents the results of the audit and final audited basic financial statements to the City Council for acceptance.

4.11. Records Retention & Backup

- 4.11.1. The City maintains all accounting records on site for a period of two years. Records between three and seven years old are kept in storage. Unless other wise required by law, records older than seven years are destroyed.

- 4.11.2. The City maintains all employee files and payroll records on site for a period of two years. Records older than two years are kept in storage.
 - 4.11.3. Access to files, data, records, and computer access to information on the servers is based on an employee's specific duties and needs. Unauthorized access to data and records is not allowed.
 - 4.11.4. City computer servers and files are backed-up nightly. The daily backup tapes are transported offsite and secured on a daily basis.
 - 4.11.5. The City's Management Information Systems Division has developed a computer disaster recovery plan in the case of an unforeseen emergency.
- 5. Communication and Information:** Accessibility of financial information to all levels of the organization helps to ensure correct and complete recording of financial transactions.
- 5.1. All supervisors, managers, Department Directors, and the City Manager have access to viewing and reporting within the financial accounting system and are encouraged to review their department's income, expenses, and budget report.
 - 5.2. Within 30 days from the end of each fiscal quarter the Finance Director prepares a financial report including a year to date budget report and balance sheets for each fund. This report is distributed to the City Manager, Department Directors, and City Council Members.
 - 5.3. Questions regarding items within the current financial reports are first directed to the Finance Director. If questions or concerns continue to exist after being discussed with the Finance Director they should be directed to the City Manager.
- 6. Monitoring of Controls and Continuous Improvement:**
- 6.1. The Finance Department actively monitors activities and follows up on situations or transactions that come to the Finance Department that are an anomaly. By backtracking with operating departments on small, possibly insignificant issues, operating department employees realize that the City operates with tight internal controls.
 - 6.2. The City's Internal Auditor audits, on a continuing basis, various transactions and processes for compliance to the City's Internal Control Policy and other applicable city policies and procedures based upon vulnerability assessments.
 - 6.3. The City's Internal Auditor makes findings and recommendations for continuous improvement of internal controls to the Finance Director.

- 6.4. Findings and recommendations may also come from the City's independent auditor, Department Directors, or other City staff.
- 6.5. The Finance Director reviews all recommendations regarding internal control and, if agreed upon, incorporates the recommendations into the City's Internal Control Policy subject to City Council approval.