

GATEWAY WATER MANAGEMENT AUTHORITY

ACCOUNTING POLICIES AND PROCEDURES MANUAL

September 10, 2015

I. Introduction

The purpose of this manual is to describe all accounting policies and procedures currently in use at Los Angeles Gateway Region Integrated Regional Water Management Authority (GWMA) and to ensure that the financial statements conform to generally accepted accounting principles; assets are safeguarded; guidelines of grantors and donors are complied with; and finances are managed with accuracy, efficiency, and transparency.

All GWMA's staff, consultants, and Board Members with a role in the management of fiscal and accounting operations are expected to comply with the policies and procedures in this manual.

These policies will be reviewed periodically and revised as needed by the staff and approved by the Executive Committee of the Board of Directors. The Executive Committee is the Board Officers which are the current Chair, Vice-Chair and Secretary/Treasurer elected by the Board of Directors.

II. Division of Responsibilities

The following have fiscal and accounting responsibilities:

Board of Directors

1. Reviews and approves the annual budget
2. Reviews and approves annual and periodic financial statements and information
3. Reviews and approves staff contracts
4. Four members of the board will be appointed by the board to be authorized signers on the bank accounts of which one must be the Treasurer of the board
5. Two authorized signatures will be required on all checks issued by GWMA
6. Reviews and approves all contracts
7. Reviews and approves all monthly expenditures

Executive Committee (Board Officers)

1. Reviews the annual budget
2. Reviews annual and financial statements and information
3. Reviews and advises staff on internal controls and accounting policies and procedures

Chair

1. Reviews and authorizes payment of non-MOU related invoices
2. Approves unbudgeted expenditures using "Unallocated Reserve Funds" up to \$10,000 or otherwise approved on the annual budget by the Executive Committee which are the Chair, Vice-Chair and Secretary/Treasurer

Treasurer

1. Reviews and approves inter-account bank transfers
2. Review monthly warrant list
3. Review petty cash disbursements and replenishment requests
4. Review quarterly and year-end journal entries
5. Review quarterly and year-end financial statements
6. Assures that an annual financial statement audit is performed by an independent certified public Administration/Accounting Assistant

Executive Officer

1. Reviews and approves all financial reports including cash flow projections
2. Sees that an appropriate budget is developed annually
3. Reviews all invoices and related checks
4. Reviews all contracts and makes recommendations to Executive Committee and/or Board of Directors for approval
5. Reviews and approves all grant submissions authorized by the Board of Officers
6. Reviews and approves all invoices for payment processing
7. Oversees petty cash fund
8. Opens all bank statements, reviews for any irregularities, and reviews completed monthly bank reconciliations
9. Oversees the adherence to all internal controls

Accounting Assistant

1. Monitors budgets
2. Manages cash flow
3. Reviews all reimbursements and fund requests
4. Processes all inter-account bank transfers
5. Development of annual budgets
6. Reviews all incoming and outgoing invoices
7. Receives and opens all incoming accounting department mail except bank statements
8. Monitors and manages all expenses to ensure most effective use of assets
9. Monitors grant reporting and appropriate release of temporarily restricted funds
10. Oversees expense allocations
11. Reviews, revises, and maintains internal accounting controls and procedures
12. Develop, maintain, and reviews all financial reports
13. Overall responsibility for data entry into accounting system and integrity of accounting system data

14. Processes invoices and prepares checks for signatures
15. Makes bank deposits
16. Maintains general ledger
17. Prepares monthly and year-end financial reports
18. Reconciles all bank accounts
19. Mails vendor checks
20. Manages accounts receivable

Memorandum of Understanding (MOUs) Designated Representative

1. Develops annual budget
2. Oversees expense allocations
3. Reviews and approves all invoices relating to watershed

Contract CPA or Accounting Professional

1. Review the accounting and financial reports on a quarterly basis to determine if the accounting has been properly recorded.
2. Assist with year-end reporting and adjustments to prepare for the annual audit.
3. Assist auditors as needed.
4. Assist GWMA staff and consultants as needed on budget preparation and accounting treatment.

III. Chart of Accounts and General Ledger

GWMA has designated a Chart of Accounts specific to its operational needs and the needs of its financial statements. The Chart of Accounts is structured so that financial statements can be shown by natural classification (expense type) as well as by functional classification (by Watershed, Grant, or other funding source). The Administration/Accounting Assistant Operations is responsible for maintaining the Chart of Accounts and revising as necessary.

The general ledger is automated and maintained using QuickBooks Enterprise accounting software. All input and balancing is the responsibility of the Administration/Accounting Assistant with final approval by the Executive Officer and Treasurer.

IV. Cash Receipts

Cash receipts generally arise from:

1. Memorandum of Understandings (MOUs) Contracts and Grants

2. Membership Fees
3. Contracts
4. Grants

The principal steps in the cash receipts process are:

The Administration/Accounting Assistant receives, opens, date stamps, and distributes the mail. A copy of each check received shall be made and retained for official records. Checks received shall be deposited as soon as possible into the appropriate GWMA bank account(s).

Checks shall be restrictively (“For Deposit Only”) endorsed with the appropriate bank account information (the bank shall provide a stamp with the requisite information). Checks shall be securely filed in a locked cabinet until deposited.

Cash shall not be accepted as a form of payment by GWMA.

The Administration/Accounting Assistant shall prepare a bank deposit slip(s) with corresponding checks for deposit. The deposits shall be review by the Executive Officer, and shall be have deposited on the same day or following business day of the receipt.

If the deposit is done in person a deposit receipt is obtained and a copy shall be kept by the Administration/Accounting Assistant as supporting documentation. The original bank deposit receipt is filed in the Bank Deposits binder. Deposits made after hours via the bank drop box, will not result in a deposit slip, and should be so noted in the Bank Deposits binder.

V. Inter-Account Bank Transfers

The Administration/Accounting Assistant monitors the balances in the bank accounts to determine when there is a shortage or excess in the checking account and recommends to the Board Treasurer when a transfer should be made to maximize the potential for earning interest. The Administration/Accounting Assistant is directed by the Board Treasurer in writing when to make a transfer and in what amount. A copy of the transfer is presented to the Board at its subsequent meeting for ratification.

VI. Cash Disbursements & Expense Allocations

Cash disbursements are generally made for:

1. Payments to vendors for goods and services
2. Taxes/license fees
3. Staff training and development
4. Memberships and subscriptions

5. Meeting expenses
6. Consultant reimbursements
7. Marketing/promotional materials

Requests for cash disbursements are submitted to Accounting in three ways:

1. Original invoice
2. Purchase request (submitted on approved purchase order form)
3. Consultant/Board member expense report or reimbursement request

All invoices must have the account code written on them and approved by the Executive Officer.

Every employee reimbursement or purchase request must be documented with travel authorization, receipts, nature of business, program allocation, and funding source (if applicable) before approving for reimbursement as follows:

Lodging - an itemized receipt from the hotel detailing all charges, the person(s) for whom the lodging was provided, and the specific business purpose.

Meals and Entertainment - a receipt must be provided showing the cost of food, beverage, and gratuities, including the names of every person for whom food or beverage was provided, and the specific business purpose.

Other Expenditures - a receipt from the vendor detailing all goods or services purchased (including the class of service for transportation) and the specific business purpose.

Accounting and/or Executive Officer shall review all contract invoices to determine if billed costs are authorized under a contract, if applicable, and are within budgeted amounts. MOU related invoices will be forwarded to the designated representative, who will follow the same procedures as listed below, and initial and date the invoice to indicate approval. The invoice will then be sent back to the Administration/Accounting Assistant for input into the financial system.

The following procedures shall be followed in order to validate all professional services billed costs:

1. Verify that billed costs are correct and have proper supporting documentation and/or backup.
2. On Time and Material contracts, verify the billed labor rates to the negotiated hourly labor rates by classification, verify that labor classifications agree with the contract and check mathematical accuracy of billed labor costs.
3. For other direct costs (ODC's), verify the billed costs to supporting documentation (i.e. expense reports, receipts), verify that costs are allowable under the project contract and check mathematical accuracy of ODC's. If ODC's are lump sum, then verify that percentage billed is accurate.
4. Verify that any billed costs have not been previously billed and the costs relate to the proper billing period.

5. Compare the total billed costs to date with the authorized contract amount to insure accumulated billings will not exceed contract authorization. Change Order billings shall only be permitted when the Change Orders are properly approved by the Governing Board.

Once the process above is complete, the Administration/Accounting Assistant shall assign an accounting code to the invoice and then enter the bill into the financial system.

Cash Disbursements:

After invoice review and approval procedures have been followed, the Administration/Accounting Assistant will enter the bills in the financial system. Next, the checks will be printed by the Administration/Accounting Assistant, and each check shall be attached to its supporting documentation. The Executive Officer retains secure custody of the checks. The Administration/Accounting Assistant will request the number of checks needed to complete the check run. The Executive Officer will note the first and last check number given the Administration/Accounting Assistant to ensure all checks are accounted for. If checks are voided or print incorrectly, those checks shall be retained in order to account for all checks in sequence.

The Executive Officer will review the checks and the supporting documentation for the following:

- Supporting documentation that agrees to the check
- Proper account coding of the disbursement
- Proper payee and amounts
- All check numbers are in sequence and accounted for

Once approved, the Executive Officer submits checks, with attached backup documentation, to Board for approval at the monthly meeting. All checks require two signatures of an authorized board member.

Emergency checks may occasionally need to be created before the next Board meeting. These checks must be approved by the Board Treasurer and signed by two Board members. A list of emergency checks must be brought to the next scheduled Board meeting for ratification. Emergency checks are to be used sparingly and avoided when possible.

After Board signatures, the Administration/Accounting Assistant stamps the invoices as paid, mails the checks, and then files them in vendor files.

VII. Bank Account Reconciliations

The Administration/Accounting Assistant shall ensure that the general ledger is reconciled with all other subsidiary ledgers and adequate documentation maintained for all entries.

The Administration/Accounting Assistant shall review the bank monthly activity reports and update the bank reconciliation module for the following transactions:

- Automatic deposits from funding agencies
- Interest income earned on investments
- Income deposits and miscellaneous reimbursements

- Inter-account transfers to and from disbursement accounts
- Automatic charges, such as bank fees

For the end of the monthly bank reconciliation report the Administration/Accounting Assistant shall:

- Ensure that cleared checks shown in the bank statements are no longer appear as outstanding in the books
- Identify any outstanding checks and follow up accordingly

The monthly bank statement is mailed to the Executive Officer (EO), who reviews the statement for unusual activity prior to forwarding to the Accounting. The EO shall initial and date after review. The Administration/Accounting Assistant shall reconcile the monthly bank statement against the general ledger in the Bank Reconciliation module in the financial system. The final bank reconciliation report shall be completed no later than ten working days after the end of the month. Any discrepancies shall be investigated in a timely manner. A hard copy of the complete bank reconciliation shall be kept in the accounting files, and a PDF copy shall be maintained as well.

The bank reconciliation provided by the Administration/Accounting Assistant and presented for review to the Executive Officer shall include:

- The bank statement and corresponding checks written during the month
- All voided checks for the month
- A copy of every deposit slip for the month
- The bank reconciliation, prepared by the Administration/Accounting Assistant, and reviewed and initialed by the Executive Officer.

The EO will approve the bank reconciliation and provide to the Treasurer on a monthly basis for final approval.

VIII. Petty Cash Fund

Petty cash funds are to be used for miscellaneous or unexpected purchases and the same approval procedures apply as mentioned in the cash disbursement section.

1. The petty cash fund will not exceed \$250 and is kept in a locked file cabinet at all times.
2. The Executive Officer oversees the petty cash fund.
3. All disbursements made from petty cash are acknowledged in writing by the receiving party.
4. All money returned to the petty cash fund is counted and verified by the Executive Officer and the Administration/Accounting Officer staff. Receipts for items purchased with petty cash must be included with the return and should include appropriate account allocations as well as Executive Officer's approval.
5. The Executive Officer and the Administration/Accounting Assistant together will periodically count the cash in the petty cash fund.
6. No checks will be cashed by the petty cash fund.

7. All disbursements and replenishment requests will be reviewed by the Board Treasurer and then brought before the Board at its monthly meeting for approval.

IX. End of Quarter and Fiscal Year-End Close

1. GWMA will have an accounting professional, preferably a CPA, review the accounting for the quarter ended within 30 days of the quarter ended. This review will entail the following analytical review:
 - a. Verification of balance sheet amounts, including reconciliations for cash and other major accounts
 - b. A reasonableness check on revenues and expenses
 - c. Agreement of the financial system records to the reports to be presented to the governing board.
2. The quarterly reports will be provided to the Board at the first meeting following 30 days after quarter end (Sept. 30 reports presented at the first meeting in November, December 31 reports at the first meeting in February, March 31 reports at the first meeting in May, and June 30 reports at the first meeting August).
3. All reports shall be prepared using the accrual basis of accounting. Year-end reports will follow generally accepted accounting principles, which may differ from the budgeting basis of accounting throughout the year.
4. The Executive Officer and Board Treasurer will review and sign off on all quarterly - and year-end journal entries. They will be printed and filed for audit trail purposes.
5. Once the final quarterly and fiscal year-end financial statements are run, reviewed, and approved by the Board Treasurer, no more entries or adjustments will be made into that quarterly or year's ledgers.
6. All other appropriate government filings will be completed and filed with the appropriate agency.

X. Financial Reports

The Administration/Accounting Assistant will prepare the quarterly and annual financial reports to be reviewed by the Executive Officer, and the reviewed by the contract CPA and Board Treasurer. The reports will include: balance sheet, statement of income and expenses, budget versus actual report for each program which has an established budget, a budget versus actual report for the organization, accounts receivable aging, accounts payable register and aging, cash flow projection, and any other requested reports.

Periodic and annual financial reports will be submitted to the Executive Committee and Board of Directors for review and approval.

XI. Investment Policy

Section 1. Scope of Policy: This Investment Policy ("Policy") applies to all financial assets of the Authority.

Section 2. Prudence: Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs; not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by investment officials shall be the "prudent investor" standard (California Government Code Section 53600.3) and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Section 3. Objectives: As specified in California Government Code Section 53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives, in priority order, of the investment activities shall be:

a. **Safety:** Safety of principal is the foremost objective of the Policy. Investments of the Authority shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

b. **Liquidity:** The investment portfolio will remain sufficiently liquid to enable the Authority to meet all operating requirements that might be reasonably anticipated.

c. **Return on Investments:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Section 4. Delegation of Authority: Authority to manage the Policy is derived from California Government Code Section 53600, *et. seq.* Management responsibility for the Policy is hereby delegated to the Treasurer. No person may engage in an investment transaction except as provided under the terms of this Policy. The Board of Directors shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of the Treasurer or any other subordinate officials. Under the provisions of California Government Code Section 53600.3, the Treasurer is a trustee and a fiduciary subject to the prudent investor standard.

Section 5. Ethics and Conflicts of Interest: Officers and employees involved in the investment process shall fully comply with the Authority's Conflict of Interest Code in the execution of this policy.

Section 6. Authorized Financial Institutions and Dealers: The Treasurer will maintain a list of financial institutions, selected on the basis of credit worthiness financial strength, experience and minimal capitalization authorized to provide investment services. In addition, a list will also be

maintained of approved security brokers/dealers selected by credit worthiness who are authorized to provide investment and financial advisory services in the State of California. No public deposit shall be made except in a qualified public depository as established by state laws.

For brokers/dealers of government securities and other investments, the Treasurer shall select only brokers/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities Dealers or other applicable self-regulatory organizations.

Before engaging in investment transactions with a broker/dealer, the Treasurer shall have received from said firm a signed certification form. This form shall attest that the individual responsible for the Authority's account with that firm has reviewed the Authority's Policy and that the firm understands the policy and intends to present investment recommendations and transactions to the Authority that are appropriate under the terms and conditions of the Policy.

Section 7. Authorized and Suitable Investments:

a. **Permitted Investments:** Authority funds may be invested as authorized by, and subject to the limitations and special conditions of California Government Code Section 53601 *et. seq.*

b. **Prohibited Investments:** Under the provisions of California Government Code Section 53601.6 and 53631.5, the Authority shall not invest any funds covered by this Policy in inverse floaters, range notes, interest-only strips derived from mortgage pools or any investment that may result in a zero interest accrual if held to maturity.

Section 8. Collateralization: All certificates of deposits must be collateralized by U. S. Treasury obligations. Collateral must be held by a third party trustee and valued on a monthly basis. The percentage of collateralization on repurchase and reverse repurchase agreements will adhere to the amount required under California Government Code Section 53601(i)(2).

Section 9. Safekeeping and Custody: All security transactions entered into by the Authority shall be conducted on a delivery-versus-payment (DVP) basis. All securities purchased or acquired shall be delivered to the Authority by book entry, physical delivery or by third party custodial agreement as required by California Government Code Section 53601.

Section 10. Diversification: The Authority will diversify its investments by security type and institution. It is the policy of the Authority to diversify its investment portfolio. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. Diversification strategies shall be determined and revised periodically. The Authority may determine that safety is a priority over diversification and invest only in the State of California Local Agency Investment Fund, which is considered a very safe investment.

Section 11. Reporting: In accordance with California Government Code Section 53646(b)(1), the Treasurer shall submit to each member of the Board a quarterly investment report. The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values on current market values of each component of the portfolio, including funds managed for the Authority by third party contracted managers, if applicable. The report will also include a certification that (1) all investment actions executed since the last report

have been made in full compliance with the Policy and, (2) the Authority will meet its expenditure obligations for the next six months as required by California Government Code Sections 53646(b)(2) and (3), respectively. The Treasurer shall maintain a complete and timely record of all investment transactions.

Section 12. Investment Policy Adoption: The policy shall be adopted by resolution of the Board of Directors. The Policy shall be reviewed on an annual basis, and modifications must be approved by the Board of Directors.