

McKINLEYVILLE



COMMUNITY SERVICES DISTRICT



MCKINLEYVILLE COMMUNITY SERVICES DISTRICT EXPENDITURE CONTROL GUIDELINES

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I. Introduction

This expenditure control system is an integral part of the internal control structure of McKinleyville Community Services District (MCSD). As such, it is intended to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and those transactions are executed in accordance with management's authorization and recorded properly 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 while providing 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 method of documentation are determined by the type of expenditure. MCSD 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 informal contracts for services.
3. **Travel:** Included is advances and reimbursements for travel, mileage reimbursements for use of personal automobiles and local meals and entertainment expenses.
4. **Petty Cash:** Included are reimbursements of expenditures from the petty cash fund and increases in petty cash or change funds.
5. **Customer Refunds:** Included are refunds of deposits and overpayments to our customers.
6. **Purchase Order:** Included is all purchases of goods which require a purchase order.
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 by the following procedures:

1. **Recurring:** These expenditures will be controlled by the budget. The Board will adopt a budget that will include line items such as electricity and natural gas, telephone, telemetry, payroll, payroll taxes and employee benefits, debt payments, insurances, and other budgeted line items. Such expenditures will not normally require a Purchase Order.

Management will monitor the relationship of year-to-date expenditures in these line items with the adopted budget. If it becomes apparent that there is not sufficient budget to cover the next anticipated expenditure in one of these line items, a budget transfer will be prepared by the Department Head and approved by the General Manager for the 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, the Board will approve such increases.

2. **Contract:** Contracts fall into three categories.
 - a. Construction work for projects expected to cost less than \$1,000 will be classified as Purchase Order Expenditures. Construction work expected to cost \$20,000 or more will require informal bidding procedures as defined in the UPCCAA (see MCSD Rule 66.01 et seq.). Construction work expected to cost \$75,000 or more will require formal bidding procedures as defined in the UPCCAA.
 - b. Professional Services (architectural, engineering, environmental, land surveying and construction project management) expected to cost less than \$1,000 will be classified as Purchase Order Expenditures. A Purchase Work Order Contract approved by a Department Director or the General Manager will be required for budgeted projects expected to cost \$1,000, but less than \$20,000. The Board will approve the formal contract required for individual projects expected to cost \$20,000 or more.
 - c. Other Services expected to cost less than \$1,000 will be classified as Purchase Order Expenditures. Other Services expected to cost \$1,000 or more will require a Purchase Work Order Contract. The Board will approve the formal contracts for Other Services expected to cost \$20,000 or more.
3. **Travel:** All employees will have a travel request form approved by Department Directors within four days before travel (see attachment 2). The General Manager's out of town travel, including travel to association conferences, needs to be approved in advance by the Board President or delegate where such travel exceeds the budget limits originally approved by the Board.

Use of private vehicles by staff for local travel (i.e. within Humboldt County) will be approved in advance by a Department Director (Finance Director, Operations Director or Parks and Recreation Director), and reviewed by the General Manager. Such use by a Department Head will be approved in advance by the General Manager. If emergency use of private vehicles is required, the circumstances will be documented in a memorandum and approved as above as soon as possible after the emergency has passed. All reimbursement for personal automobile use will be made at the currently applicable Federal business mileage rate approved by the Internal Revenue Service. Payment for local private automobile use will be made as reimbursement only – there will be no advances for this type of expense.

Local meals for, or entertainment, by staff will be approved by Department Directors or the General Manager. Local meals for, or entertainment by, the Department Directors will be approved by the General Manager. The Board may

include in the budget a line item for meals and entertainment to be used by the General Manager and Board without prior approval. Any such expenditures beyond the budgeted line item for or by the Board President will be approved in advance by another Board Member.

Travel, meal or entertainment advances may be made no less than three days before the intended activity. Reimbursements for all meals will be done at the Federal per diem rate approved by the Internal Revenue Service.

(<http://www.gsa.gov/portal/category/100120>) Reimbursement requests for any meal charges over the allotted per diem amount must have a written explanation approved by Department Director or General Manager, and receipts for these must be turned in three days after the travel or event.

All receipts for travel expenses (airfare or similar) and lodging must be turned in five (5) days after the travel or event along with a travel expense form (see attachment 3). An accounting must be made for these expenditures and any excess advance returned within three days of the completion of event or activity.

All expenditures described in this section III will require the completion of a "MCSD Travel Approval Form" and /or "MCSD Travel Expense Report" (see attachment 2 and 3). These expenditures will be limited by the budget as described for Recurring Expenditures (section III-I). Travel expenditures do not normally require a Purchase Order.

4. **Petty Cash:** Reimbursement expenditures require only an accounting of petty cash expenditures. Such reimbursements will be approved by the Human Resources Manager or Finance Director. Petty cash will be kept at a balance of \$400; increases in the amount of petty cash or change fund will be approved by the Board. Petty cash will be reconciled and replenished as needed when funds fall below \$100 total. Individual reimbursement requests are to not exceed a total of \$30; amounts in excess of \$30 should be processed through Accounts Payable.
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. Such refunds will be approved by the Finance Director during the regular Accounts Payable process. Refunds of Recreation Department are approved by the Parks and Recreation Department Director before the regular Accounts Payable process. Occasionally other types of funds owed will be refunded. These will be approved by the Department Director of the department with which the refunds are associated and will have supporting documents. Customer refunds do not normally require a Purchase Order.
6. **Purchase Order:** The purchase of all non-recurring supplies, materials and capital assets will require a Purchase Order (see attachment 4). Vendors from whom the District purchases from frequently maybe offered a blanket purchase order for consideration (see Attachment 5).

Purchases of supplies, materials, or capital assets of \$15,000 or more that are not already included in the approved budget must be approved in advance by the Board. Budgeted purchases expected to be between \$1,000 and \$15,000 will be approved

by the General Manager. Purchases of supplies and equipment expected to be more than \$100 but less than \$1,000 require approval from a Department Director.

All Purchase Orders will be pre-numbered. See section IV for additional information regarding purchase orders.

7. **Other:** All other expenditures will be approved in advance when possible and upon receipts of goods or services otherwise. Approval will be by the Board, General Manager or Department Director in accordance with the limits on approval of purchase orders (see section III-6). Expenditures of \$100 or less will require a voucher only.

IV. Purchase Order System Documentation and Implementation

1. **Regular Purchase Orders:** Blank pre-numbered Purchase Orders are kept in the Vault. A group or series of blank pre-numbered Purchase Orders (P.O.) (see Attachment 4) will be issued by the Finance Director to Department Directors at the beginning of the fiscal year or upon request.
Purchase orders will be completed and signed by the General Manager or Department Director in accordance with the limitations in section III-6. The original P.O. (white) is the vendor's copy. The yellow copy will be held by Accounts Payable. The pink copy will be retained by the requesting employee. 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 Accounts Payable 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 Accounts Payable.
Upon receipt and invoice, Accounts Payable 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 on the Accounts Payable copy of the P.O. and the appropriate person will counter-sign and date the corrected P.O.
Department Directors are responsible for P.O.'s issued to their department and for ensuring that total departmental Purchase Order expenditures do not exceed the Board-approved budget line item. To assist with this, the Finance Director will provide a monthly Status Report to the Department Directors and the General Manager.
2. **Blanket Purchase Orders and Charge Accounts:** For vendors from whom numerous regular purchases are made, the District will employ annual Blanket Purchase Orders (attachment 5) or open charge accounts. A list of active blanket purchase orders (BPO's) and charge accounts will be maintained by Accounts Payable and reviewed by the Department Directors on an annual basis for best pricing and any needed changes in vendors. The final list will be reviewed by the Finance Director and signed by the General Manager.

Each BPO and charge account authorization will indicate an annual expiration date, a total monthly dollar limit allowed on that BPO or charge account, a list of employees authorized to make purchases, and the maximum dollar amount for any one purchase. No more than one BPO or charge account may be active at any time for a particular vendor. Department Directors will have copies of active BPO's and charge account authorizations for their departments. All orders or invoices received against a BPO or charge account will be checked and signed by the Department Director before being processed by Accounts Payable.

MCS D Company Credit Cards: For routine irregular purchases too small to warrant regular or blanket purchase orders, but too large for petty cash, and also for facilitating business travel expenditures, Department Directors may be provided with an MCS D credit card. Receipts from credit card purchases must be retained, signed or initialed by the Department Director, and matched to the statement at the end of the month before the statement is paid by Accounts Payable. Statements will be reviewed monthly by the Finance Director and General Manager as part of the payment process (see Section VI – Disbursements).

V. Voucher System

A Voucher form will be completed by Accounts Payable for each invoice or statement to be paid (see Attachment 1). The classification of expenditure will be clearly indicated on the voucher. The Voucher will indicate all invoices or statements to be paid with one check.

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 disbursement section and the signers will verify that the documents are internally consistent, that invoices being paid are original, that receipt of goods or services has been acknowledged by the appropriate MCS D employee and that amounts agree between documents.

The check stub will be attached to the voucher when the check is sent to the vendor. All paid vouchers are filed by vendor, separated by the fiscal year in which the payment was made, and retained for 7 years, per District Document Retention Policy.

VI. Disbursements

The MCS D checking account will require signatures by any two of the following officials:

- General Manager
- Finance Director
- Human Resources Manager

Checks will be issued only after the Voucher has been signed indicating approval by the Department Director and Finance Director, with a final review by the General Manager. **Lost checks will be re-issued less the amount of the bank's Stop Payment fee, to cover the cost of the stop payment order for the lost check. (March 2013 – JO, CMRT)**

Checks will be issued as needed to meet deadlines and take advantage of discounts. Except under unusual circumstances check writing will be batched and done at the first part of

each week (Monday or Tuesday). Payroll will be issued on the 10th and the 25th of each month.

The Finance Director will reconcile the checking account within five (5) working days of receipt of monthly bank statements and verify that all checks 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 or Finance Director. Unusual situations should be documented by memorandum or letter. Suggestions for improvement are welcome and will be carefully considered by management.