



# Accounting Policies Manual

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## **INTRODUCTION**

The following accounting manual is intended to provide an overview of the accounting policies and procedures applicable to the City of Hemet. Its purpose is to ensure that assets are safeguarded, financial statements are in conformity with generally accepted accounting principles, and that finances are managed with responsible stewardship. This manual is intended as well to formalize accounting policies and selected procedures for the accounting staff and to document internal controls.

The contents of this manual were approved as official policy of the City of Hemet by the City Council under direction of the Finance Director. All Finance employees from the City of Hemet are bound by the policies herein, and any deviation from established policy is prohibited.

# **GENERAL POLICIES**

## **FINANCE DEPARTMENT OVERVIEW**

### Organization

The Finance Department consists of sixteen permanent full-time staff members that manage and process financial information for the City of Hemet. The positions comprising the Finance Department of the City of Hemet, and the titles of each position used throughout this manual, are as follows:

- Finance Director
- Accounting Manager
- Principal Accountant
- Accountant
- Customer Service/Accounting Supervisor
- Procurement Administrator
- Payroll/HR Specialist
- Management Analyst
- Accounting Technician III:
  - Accounts Payable
  - Business Licensing
  - 2 Utility Billing
- Accounting Technician II:
  - Main Cashier
  - 2 Utility Billing
- Office Specialist

### Responsibilities:

The primary responsibilities of the Finance Department consist of:

- General Ledger
- Budgeting
- Annual Audit
- Financial Statements Preparation
- Cash Management
- Grants Administration
- Purchasing

- Accounts Receivable
- Cash Receipts
- Business License
- Accounts Payable
- Cash Disbursements
- Payroll
- Bank Reconciliation
- Cash Reconciliation
- External Reporting of Financial Information
- Compliance with Government Reporting Requirements

## **BUSINESS CONDUCT**

### Practice of Ethical Behavior:

Unethical actions, or the appearance of unethical actions, are unacceptable under any conditions. The policies and reputation of the City of Hemet depend to a very large extent on the following considerations.

Each employee must apply her/his own sense of personal ethics, which should extend beyond compliance with applicable laws and regulations in business situations, to govern behavior where no existing regulation provides a guideline. It is each employee's responsibility to apply common sense in business decisions where specific rules do not provide all the answers.

In determining compliance with this standard in specific situations, employees should ask themselves the following questions:

1. Is my action legal?
2. Is my action ethical?
3. Does my action comply with the City of Hemet policy?
4. Am I sure my action does not appear inappropriate?
5. Am I sure that I would not be embarrassed or compromised if my action became known with the Organization or publicly?
6. Am I sure that my action meets my personal code of ethics and behavior?

Each employee should be able to answer "yes" to all of these questions before acting.

Each Director, manager and supervisor is responsible for the ethical business behavior of her/his subordinates. Directors, Managers and supervisors must weigh carefully all courses of action suggested in ethical as well as economic terms, and base their final decisions on the guidelines provided by this policy as well as their personal sense of right and wrong.

#### Compliance with Laws, Regulations and Organization Policies

The City of Hemet does not tolerate the willful violation or circumvention of any Federal, State or Local law by an employee during the course of that person's employment; nor does the City of Hemet tolerate the disregard or circumvention to their policies or engagement in unscrupulous dealings. Employees should not attempt to accomplish by indirect means, through agents or intermediaries, that which is directly forbidden. Implementation of the provisions of this policy is one of the standards by which the performance of all levels of employees will be measured.

#### Disciplinary Action

Failure to comply with the standards contained in this policy will result in disciplinary action as outlined in the City's personnel rules and regulations.

The following action shall constitute a violation of this policy:

1. Authorizing or participating directly in actions that are a violation of this policy.
2. Deliberately failing to report a violation or deliberately withholding relevant and material information concerning a violation of this policy.
3. Retaliation, directly or indirectly, or encouraging others to do so, against any employee who reports a violation of this policy. This shall apply to all directors, managers and supervisors.

#### **FRAUD POLICY**

The City of Hemet is committed to its duty to ensure effective stewardship of public money and other assets and resources for which we are responsible. It is the policy of the City of Hemet to prevent and deter all forms of fraud that could threaten the security of our assets or our reputation. The City is committed to the prevention, detection, investigation and corrective action relative to fraud.

City Officials and employees must, at all times, comply with all applicable laws and regulations. The City will not condone the activities of officials or employees who achieve results through violation of the law

or unethical business dealings. The City does not permit any activity that fails to stand the closest possible scrutiny.

This policy sets out specific guidelines and responsibilities regarding appropriate actions that must be followed for the investigation of fraud and other similar irregularities.

### **Definitions**

**Asset Inventory Misuse:** converting City assets/inventory for personal use i.e. gas, vehicles, office supplies, etc.

**Asset Misappropriation:** theft or misuse of City assets.

**Bribery:** offering, giving, receiving, or soliciting of anything of value to influence an official act or a business decision.

**Cash Larceny:** cash stolen from the City after recording on the City books.

**Conflict of Interest:** undisclosed economic or personal interest in a transaction that adversely affects the City.

**Corruption:** wrongful use of influence to procure a benefit to self or another person contrary to duty to City or taxpayer.

**Economic Extortion:** employee demand of pay to influence an official act or a business decision.

**Fraudulent Cash Disbursements:** disbursement of funds through trick or device i.e. false invoices, time records, expense reports, check tampering etc.

**Fraudulent Statements:** purposeful falsification of an organization's financial statements.

**Illegal Gratuities:** person benefiting from an official act or a business decision who gives a gift to a person who made the decision.

**Larceny:** stealing assets/inventory from the City.

**Occupational Fraud:** the use of one's occupation, title or authority for personal enrichment through misuse or misapplication of employer's resources or assets.

**Other similar irregularities:** any activity involving questionable behavior or business dealings that put City revenue, property, information and other assets at risk of waste or abuse.

**Skimming:** cash stolen from the City before recording on City books.

### **Responsibilities**

City will investigate any acts of fraud or other similar irregularities.

- Department heads and elected officials are responsible for instituting and maintaining internal controls.
- City Manager has primary responsibility for administering this policy.

- City Manager will be notified of allegations of fraud and notify City Council.
- City Manager is subject to the advice of the City Attorney.
- Investigation results will be reported to City Attorney and City Manager.
- City Attorney will pursue reasonable efforts to obtain recovery of City losses and possible criminal referral.

### **Procedures**

Any employee or elected official who has knowledge of an occurrence of irregular conduct, or has reason to suspect that a fraud has occurred, shall immediately notify his/her supervisor or the City Manager. If the employee has reason to believe their supervisor may be involved or does not feel comfortable reporting the occurrence to their supervisor, the employee shall immediately notify the City Manager.

Employees and elected officials have a duty to cooperate during an investigation. Any employee or elected official who knowingly makes false allegations will be subject to discipline and or termination.

Whistle-Blower Protection will be accorded in accordance with appropriate laws and ordinances. The City will protect employees who act in accordance with the requirements of this policy from acts of coercion, intimidation, threats of termination, discipline or suspension.

Upon notification from an employee of suspected fraud, or if management has reason to suspect that a fraud has occurred, they shall immediately notify the City Manager.

Upon notification or discovery of a suspected fraud, the City Manager will promptly investigate the suspected fraud. In all circumstances, where there are reasonable grounds to indicate that a fraud may have occurred, the City Manager will inform the City Attorney. Subject to the advice of the City Attorney, the City Manager will contact the proper legal authorities.

City Manager shall take immediate action to secure any evidence and prevent the theft, alteration, or destruction of relevant records. Such actions include, but are not necessarily limited to, removing the records and placing them in a secure location, limiting access to the location where the records currently exist, and preventing the individual suspected of committing the fraud from having access to the records. If a suspicion of fraud is substantiated by the investigation, disciplinary action, in accordance with local law shall be taken by the appointed authority, in consultation with the City Manager and City Attorney.

### **Media Issues**

Any City employee or elected official contacted by the media with respect to alleged fraud or audit investigation shall refer the media to the City Manager. The alleged fraud or audit investigation shall not be discussed with the media by any person other than through the City Manager, in consultation with the City Attorney.

## **Documentation**

At the conclusion of the investigation, the results will be reported to the City Manager, City Council, City Attorney and others as determined necessary. If the report concludes that the allegations are founded, the report will be forwarded to the appropriate authority for further course of action.

## **Reporting to External Administrators**

The City Attorney will report to the external auditors of the City all information relating to investigations.

## **SECURITY**

### **Finance Department**

Due to the design of City Hall, the Finance Department (Accounting and Utility Billing) are accessible to internal employees only during working hours. The following areas/offices within the Finance Department do have a locking door and must secure the area when critical or confidential material is not able to be locked in a fireproof cabinet:

- Finance Director
- Accounting Manager
- Payroll/HR Specialist
- Procurement Administrator
- Customer Service/Accounting Supervisor

The cash received from customers; as well as, the endorsement stamps shall be stored in a fireproof cabinet that is located inside the vault room right outside of the Utility Billing area. This vault room will be closed and locked at all times with the Customer Service/Accounting Supervisor securing the key for entry. Select personnel will be granted access to the fireproof cabinet and issued an individualized code that will be maintained and monitored by the Customer Service/Accounting Supervisor. Upon severing employment with the City of Hemet, the Customer Service/Accounting Supervisor will be responsible to disable their access. The Finance Director will have ultimate authority over the fireproof cabinet access.

Blank check stock for accounts payable and payroll are kept in a locked, fireproof cabinet within the Finance Department. A control log is required to track check usage and monitored by the Accounting Manager. Signatures for these checks are maintained and stored in a secure cabinet with the banking files. When signing authority changes, these signatures are obtained by finance staff, submitted to City's financial software company, and converted into an electronic file. Once the electronic file is created, it is

uploaded to the City's secured server and saved to the appropriate module by the City's Information Technology Division. Only duly authorized personnel with data input responsibilities are allowed access to the system.

#### **Access to Electronically Stored Accounting Data**

It is the policy of the City of Hemet to utilize passwords to restrict access to accounting software and data. Accounting personnel are expected to keep their passwords secret. Administration of passwords shall be performed by the Finance Director, Accounting Manager and IT Division. Each password enables a user to gain access into the accounting software only to those menus necessary for each employee's required duties.

#### **Storage of Back-Up Files**

It is the policy of the City of Hemet and responsibility of the IT Division to maintain backup copies of electronic data files offsite in a secure, fire-protected environment, back-up is performed on a daily basis. Access to back-up files shall be limited to individuals authorized by management.

### **GENERAL LEDGER AND CHART OF ACCOUNTS**

The general ledger is defined as a group of accounts that supports the information shown in the major financial statements. The general ledger is used to accumulate all financial transactions of the City of Hemet, and is supported by subsidiary ledgers that provide details for certain accounts in the general ledger. The general ledger is the foundation for the accumulation of data and reports.

#### **Chart of Accounts Overview**

The chart of accounts is the framework for the general ledger system, and therefore the basis for the City of Hemet accounting system. The chart of accounts consists of account titles and account numbers assigned to the titles. General ledger accounts are used to accumulate transactions and the impact of these transactions on each asset, liability, net asset, revenue, and expense account.

The City of Hemet chart of accounts is comprised of three types of accounts:

- Balance Sheet:
  - 1000 Assets
  - 2000 Liabilities

- 3000 Equity
- 0000 Revenue Accounts
- 1100 – 9999 Expense Accounts

Balance sheet accounts are asset, liability, and equity accounts and they appear on the statement of financial position. The revenue and expense accounts, as well as gain and loss accounts, appear on the statement of activities. The revenue and expense accounts are annually closed or zeroed out, but balance sheet accounts are permanent. Balances roll from one year to the next.

Accounts are numbered using a three-digit sequence for fund, a four-digit sequence for department or account type and a four-digit sequence for object. All of the funds of the City of Hemet can be divided into three categories; governmental funds, proprietary funds and fiduciary funds.

### **Control of Chart of Accounts**

The City of Hemet chart of accounts is monitored and controlled by the Accounting Manager. Responsibilities include the handling of all account maintenance, such as additions and deletions. Any additions or deletions of accounts should be approved by the Finance Director, who ensures that the chart of accounts is consistent with the organizational structure of the City of Hemet and meets the needs of each division and department.

### **Account Definition**

#### **Assets**

**Assets** are probable future economic benefits obtained or controlled by the City as a result of past transactions or events. Assets are classified as current assets, fixed assets, contra-assets, and other assets.

**Current assets** are assets that are available or can be made readily available to meet the cost of operations or to pay current liabilities. Some examples are cash, temporary investments, and receivables that will be collected within one year of the statement of financial position date.

**Fixed assets** are tangible assets with a useful life of more than one year that are acquired for use in the operation of the organization and are not held for resale.

**Contra-assets** are accounts that reduce asset accounts, such as accumulated depreciation and reserves for uncollectible accounts receivable.

**Other assets** include long-term assets that are assets acquired without the intention of disposing them in the near future. Some examples are security deposits, property and long-term investments.

### **Liabilities**

**Liabilities** are probable future sacrifices of economic benefits arising from present obligations of the City to transfer assets or provide services to other entities in the future as a result of past transactions or events. Liabilities are classified as current or long-term.

**Current liabilities** are probable sacrifices of economic benefits that will likely occur within one year of the date of the financial statements or which have a due date of one year or less. Common examples of current liabilities include accounts payable, accrued liabilities, short-term notes payable, and deferred revenue.

**Long-Term Liabilities** are probable sacrifices of economic benefits that will likely occur more than one year from the date of the financial statements. An example is the noncurrent portion of a bond payable.

### **Net Assets**

**Net Assets** are the difference between total assets and total liabilities. See the next section for City of Hemet policies on classifying net assets.

### **Revenues**

**Revenues** – The City of Hemet governmental funds are principally supported by taxes and intergovernmental revenues. Business type activities funds recover all or significant portion of their cost through user fees and charges.

The governmental activities from City of Hemet include general government, public safety, community development, public works, and parks and recreation. The business type activities of the City of Hemet include the water enterprise.

### **Expenses**

**Expenses** are outflows or other use of assets or incurrences of liabilities from delivering or producing goods, rendering services, or carrying out other activities that constitute the City of Hemet ongoing major or central operations.

### **Classification of Net Assets**

In the Government-wide financial statements and proprietary fund financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the City (such as creditors, grantors, contributors, laws, and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The City's other restricted net assets are temporarily restricted (ultimately expendable assets). All other net assets are considered unrestricted.

### **Changes to the Chart of Accounts**

Additions to, deletions from or any other changes to the City of Hemet standard chart of accounts shall only be done with approval of the Finance Director.

### **City of Hemet Fiscal Year**

The City of Hemet shall operate on a fiscal year that begins on July 1st and ends on June 30th. Any changes to the City's fiscal year must be ratified by majority vote of the City Council of the City of Hemet.

### **Journal Entries**

All general ledger entries that do not originate from a subsidiary ledger shall be supported by the corresponding documentation which shall include a reasonable explanation of each such entry. Examples of such journal entries include:

1. Recording of non-cash transactions
2. Corrections of posting errors
3. Non-recurring accruals of income and expense

Certain journal entries, called recurring journal entries, occur in every accounting period. These entries may include, but are not limited to:

1. Accruals of recurring expenses
2. Interest Allocation
3. Reclassification of Payroll Cash Account
4. Due to Due from account adjustment

It is the policy of the City of Hemet that all journal entries not originating from a subsidiary ledger shall be reviewed by the Accounting Manager and authorized by the Finance Director.

**POLICIES ASSOCIATED WITH REVENUES AND**  
**CASH RECEIPTS**

## **REVENUE**

### **Revenue Recognition Policy**

The City of Hemet receives revenue from several types of transactions. Revenue is recognized depending on the type of fund the revenue pertains to.

Revenues in the government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Revenues in the governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for debt service expenditures which are recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

Property taxes, transient occupancy taxes, and interest are susceptible to accrual. Sales taxes collected and held by the state at year-end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

### **Refunds**

Utility deposits will be refunded in accordance with Resolution Number 4059 pursuant to section 82-74 of the Code of the City of Hemet.

## **CASH RECEIPTS**

### **Overview**

Cash (including checks payable to the City) is the most liquid asset an organization has. Therefore, it is the objective of the City of Hemet to establish and follow the strongest possible internal controls in this area.

### **In-House Cash Receipts Processing**

For funds that are received directly at the City of Hemet, cash receipts are centralized to ensure that cash received is appropriately directed, recorded and deposited on a timely basis.

If necessary, all incoming checks are to be routed to the Accountant for proper coding and appropriate tracking. Checks, along with all other cash transactions are then provided to the Accounting Technician, serving as the City's main cashier, in the utility billing division of the Finance Department for posting. In addition to the City's main cashier located at City Hall, cash payments are also processed at the City's Police Department and Library by designated cashiers under the same policy and procedure.

The cashier processes payments received through the payment software. At the end of the day the cashier will sort and batch receipts. The daily batches will be forwarded to the Customer Service/Accounting Supervisor to perform the overall daily reconciling activity. If a designated employee is not available to receive the batch, a secure, wall-mounted safe is located in the City Hall mailroom for the batch to be stored. Access to this safe is by secure combination held by the Customer Service/Accounting Supervisor. A deposit slip is prepared from the cash/check received and compared to the daily receipts listing for discrepancies. Deposits are prepared and taken to the bank by an individual other than the employee who prepared the daily cash receipts listing (armored service).

The individuals who entered, posted and prepared the daily list of cash receipts shall not be involved in the accounts receivable process.

The entire daily cash receipts package, which includes transaction activity and the respective supporting documentation, will be forwarded to the Accountant to further reconcile, verify the accuracy and post into the general ledger.

### **Endorsement of Checks**

It is the policy of the City of Hemet that all checks received that are payable to the City shall immediately be restrictively endorsed by the cashier that prepares the daily receipts listing. The restrictive endorsement shall be through the register, for all receipts at the window, and includes the following information:

1. "For Deposit Only"
2. "City of Hemet"
3. Bank account number
4. Date
5. Amount
6. Receipt number

For mail and miscellaneous receipts, the restrictive endorsement is through the endorser machine and contains the following information:

1. Bank Name
2. Date
3. "For Deposit Only"
4. "City of Hemet"
5. Account number

### **Timeliness of Bank Deposits**

The City of Hemet contracts with armored transport services to collect the monies at the City Hall location on a daily basis.

### **Reconciliation of Deposits**

On a monthly basis, the Principal Accountant, who does not prepare the initial cash receipts listing or bank deposit, shall reconcile the listings of receipts to bank deposits reflected on the monthly bank statement. Any discrepancies shall be immediately investigated and reported to the Finance Director and/or Accounting Manager.

## **BILLING/INVOICING PROCEDURES**

The Finance Department of the City of Hemet is responsible for the billing, customer service and collection of the receivables.

### **Utility Billing**

The City administers its own water agency and bills utility customers on a monthly basis. Water meters are read by field staff and presented to the Utility Billing division of the Finance Department. Upon receipt of the meter readings, the Accounting Technician III imports the readings into the City's financial software. Reports to determine any errors, exceptions or inconsistencies are run. Any readings or other irregularities found are sent back into the field to be investigated.

Once all readings have been confirmed, the Accounting Technician III updates the account information and generates the utility bills. Bills are then uploaded to a third-party vendor to be mailed and electronically stored and presented for online payment options.

### **Business License**

The City issues business licenses on an ongoing basis. All licenses expire on the last day of each calendar year. A business owner acquires a license to conduct business within the city limits and pays an appropriate tax based on the type of business as outlined in chapter 18 of the City's municipal code.

### **Accounts Receivable**

The Accountant is responsible for the invoicing, adjustments, and collections of all City receivables within the subsidiary ledger. Invoices are generated on a monthly, quarterly, annually and as needed basis.

Any request for billings must be submitted to the Finance Department with the appropriate supporting documentation, including the customers' name and address, signed department approval and GL accounting coding.

## **ACCOUNTS RECEIVABLE MANAGEMENT**

### **Overview**

On a monthly basis, a detailed accounts receivable report (showing aged, outstanding accounts by customer) is generated and reconciled to the general ledger by the Accountant. This is for citywide receivables, including routing billing and monthly utility billing for water services. All differences are immediately investigated and resolved. The Accounting Manager reviews the accounts receivable report on a monthly basis.

### **Collections**

Collections for **active utility accounts** is as follows:

- All charges for water service shall be billed monthly in accordance to the billing schedule and due within 14 days.
- Any water bill unpaid by the due date shall be considered delinquent and will be granted an additional 50 days to submit payment. Upon the 65<sup>th</sup> day from original bill date any unpaid bill will be assessed a penalty and sent a Shutoff Notice.
- Accounts with unpaid balance upon the 75<sup>th</sup> day from original bill, will have the water service disconnected and the account will be subject to an additional reconnection charge.
- Water Service shall not be restored until all past due charges and reconnection fees have been paid in full by a secured means (cash, cashier check, money order or credit card).

Collections for **closed utility account** is as follows:

- Collections are performed on a monthly basis according to a review of the outstanding items shown on the accounts receivable aging report. This report shows the current month's activity for each customer and prior month balances outstanding for 30, 60 and 90 days.
- Accounts with unpaid balances are reviewed monthly by the Customer Service / Accounting Supervisor. After a balance is unpaid for 30 days the designated personnel will contact the customer by sending letter #1 requesting payment.
- If 90 days have passed without payment, the Customer Service / Accounting Supervisor will send letter #2 notifying the customer that the account will be turned over to the Franchise Tax Board for collections through tax filings.
- A record will be kept of all correspondence.

Collections for **accounts other-than-utility accounts** is as follows:

- All charges for city services shall be billed in accordance to the billing schedule and due upon receipt.
- Collections are performed on a monthly basis according to a review of the outstanding items shown on the accounts receivable aging report. This report shows the current month's activity for each customer and prior month balances outstanding for 30, 60 and 90 days.
- Accounts with unpaid balances are reviewed monthly by the Accountant. After a balance is unpaid for 30 days the designated personnel will contact the customer by sending letter #1 requesting payment.
- If 60 days have elapsed without payment, the Accountant will send letter #2 requesting that payment be made within 30 days and that if payment is not received the account will be sent to a collection agency.
- If 90 days have passed without payment, the account will be held for consideration of write-off.
- A record will be kept of all correspondence.

#### **Credits and Other Adjustments to Accounts Receivable**

From time to time, credits against accounts receivable from transactions other than payments and bad debts will occur. Examples of other credits include adjustments for billing errors. All credits shall be processed by an employee who is independent of the cash receipts function. In addition, all credits shall be authorized by the Accounting Manager.

#### **Accounts Receivable Write-Off Authorization Procedures**

It is the policy of the City of Hemet to ensure that all available means of collecting accounts receivable have been exhausted before write-off procedures are initiated. Write-offs are initiated by the Customer Service / Accounting Supervisor for uncollectible utility accounts and the Accountant for all other-than-utility accounts with the approval of the Finance Director before being presented to City Council for final consideration.

If an account receivable is deemed uncollectible, the listing of accounts to be written off shall be signed by the Finance Director indicating the approval of the write off of the account. Once a write-off has been processed, the Customer Service / Accounting Supervisor will maintain a master list of uncollectible utility accounts and the Accountant will maintain a master list of uncollectible other-than-utility accounts.

Customers listed on the write off list will be extended future credit only if the back debt is paid. If write-off procedures have been initiated, the following accounting treatment applies:

1. Current fiscal year accounts receivables that are written off will be charged against the bad debt expense account. Debit to bad debt expense account and credit to accounts receivable.
2. Accounts written off that are dated prior to the current year will be treated as bad debt and will reduce the allowance for doubtful accounts, discussed in the next section. Debit to allowance for uncollectible account and credit to accounts receivable.

### **Delinquent Options**

#### *Extension Payment Program (Utility Accounts Only)*

A payment extension may be requested to the Customer Service / Accounting Supervisor within the utility billing division. Dependent upon the account history, an extension request form should be completed and kept on file detailing the payment amount and dates. Delinquency charges are still applicable. If Extension is granted, water service will not be disconnected.

**POLICIES ASSOCIATED WITH EXPENDITURES**  
**AND DISBURSEMENTS**

## **PURCHASING POLICIES AND PROCEDURES**

See City of Hemet's Ordinance number 1941 for the purchasing policy. This policy was revised and adopted by City Council on January 8<sup>th</sup>, 2018.

The policies and procedures for all purchases made by the City of Hemet are in accordance with City of Hemet Ordinance number 1941 per Division 3 of Article V of Chapter 2 of the Code of the City of Hemet.

### **Overview**

It is the policy of the City of Hemet to follow a practice of ethical, responsible and reasonable procedures related to purchasing, agreements and contracts, and related forms of commitment. The purchasing policy describes the principles and procedures that all staff shall adhere to in the completion of their designated responsibilities.

### **Procedures**

The Procurement Administrator, or in the alternative such other person as may be designated in writing by the Finance Director, shall be and is appointed to perform the functions of the Purchasing Officer for the City. All contracts shall be reviewed and approved by the City's legal counsel.

All department directors shall have the authority to initiate purchases on behalf of their department within the guidelines described in the City's purchasing policy. Department Heads may delegate purchasing authority to responsible individuals within their department. Department Directors shall inform the Finance Department of all individuals that may initiate purchase requisitions in order to complete the configuration in the City's accounting software. The system administrator (Finance Director or Accounting Manager) will set up the individual's user access within the software with purchase requisition authority and the Procurement Administrator will appoint areas of requisition access within the purchasing module based on the respective director's discretion.

All City purchases in excess of \$2,500.00 require a purchase order requisition. Requisitions must be entered into the accounting system. The requisitions will be electronically routed for approval to the department head, Finance Director, and City Manager as needed. Because the Finance Director is an approver he/she shall not have the authority to initiate purchase requisitions and purchase orders. A

purchase order will be issued by the Finance Department only after the requisition has been approved at all of these levels.

The requisition must include the following information:

1. Description of item (goods/services) being requested for purchase
2. General ledger account number
3. Amount of purchase
4. Quantity
  - a. All purchases requested "Requisitions" must be approved by immediate supervisor/manager and department head.
  - b. All "Requisitions" at or below \$15,000 shall be approved by the Procurement Administrator
  - c. All "Requisitions" over \$15,000 shall be approved by the Finance Director
  - d. All "Requisitions" over \$30,000 shall be approved by the City Manager
  - e. All "Requisitions" over \$50,000 must have prior Council approval
5. Once a requisition has been released by the originator and fully approved, it is then eligible to be converted to a purchase order. Once requisitions are converted, they are ready to be reviewed, posted and printed. The Procurement Administrator distributes hard copies of all converted purchase orders to the respective department and Finance's Accounts Payable division.
6. The designated staff in each department has to prepare the account payable packages in order to proceed with the payment of the invoice. Please refer to Accounts Payable Policy and Procedures for more detail.

#### **Vendor Files and Required Documentation**

The Accountant shall receive a completed and signed W9 form and create a vendor record for each new vendor from whom the City of Hemet purchases goods or services. The W9 form shall be filed in a secured filing cabinet in the General Accounting area.

#### **Ethical Conduct in Purchasing**

Ethical conduct in managing the City's purchasing activities is an absolute essential. Staff must always be mindful that they represent the City of Hemet and share a professional trust with other staff and the general membership.

Staff shall discourage the offer of, and decline, individual gifts or gratuities of value in any way that might influence the purchase of supplies, equipment, and/or services.

**Conflicts of Interest Prohibited**

No employee or council member of the City of Hemet shall participate in the recommendation, selection approval or administration of a vendor if a real or apparent conflict of interest would be involved. Such a conflict would arise if a City Council member, employee, or any member of his/her immediate family, his/her spouse/partner, or an organization that employs or is about to employ any of the parties indicated herein, has a financial or other interest in the vendor selected. In certain instances, the City may not enter into contracts or do business with certain entities that are owned, operated, managed by, or that employ officers of the City.

Employees and council members of the City of Hemet shall neither solicit nor accept gratuities, favors, or anything of monetary value from vendors or parties to sub agreements.

**Non-Discrimination Policy**

All vendors/contractors who propose to perform any work or furnish any goods under agreements with the City of Hemet shall agree to these important principles.

1. Vendors/contractors will not discriminate against any employee or applicant for employment because of race, religion, color sexual orientation or national origin, except where religion, sex, or national origin is a bona fide occupational qualification reasonably necessary to the normal operation of the vendors/contractors.
2. Vendors/contractors agree to post in conspicuous places, available to employees and applicants for employment, notices setting forth the provisions of this non-discrimination clause. Notices advertisement and solicitations placed in accordance with Federal law, rule or regulation shall be deemed sufficient for meeting the intent of this section.

**Awards to Debarred and Suspended Parties**

The City will not make any award or permit any award (sub grant or contract) to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549 and 12689 “Debarment and Suspension”.

## **Bid Protest Review Procedures**

### *Introduction:*

The intent of this procedure is to provide bidders with a process to formally object to a contract award. Before deciding on protesting a solicitation award, bidder should first discuss any issues with the Procurement Administrator. For contracts or purchase orders that require approval by the City Council, bid documents and responses are considered confidential until after the bid opening and such documentation will not be released to the public for review until after the City Council acts on the contract or purchase order award recommendation.

### *Definitions:*

Purchasing – Procurement Administrator

Solicitation – A request for bid, proposal, or quote

Bidder - A vendor, contractor, firm, or company submitting a solicitation proposal.

Protest- Formal written document contesting award of a contract.

### *Bidders Protest Procedures:*

Any bidder in the course of a competitive solicitation who is determined non-responsive or who is not being recommended for award of a contract may Protest the solicitation award.

1. A bidder may submit a Protest if they believe that:
  - a. The rating factors and/or evaluation criteria put them at an unjust disadvantage,
  - b. Purchasing erred in its conclusion that the bidder's solicitation was non-responsive or failed to follow procedures set forth in the solicitation document and therefore was unfairly disqualified from the solicitation process,
  - c. Bidder provided the overall best value response, and that Purchasing erred in not recommending them for award of the contract or purchase order, or
  - d. Purchasing failed to follow written policy and/or procedures.
2. The bidder must submit a formal written Protest to the City Clerk prior to the time set for the City Council to act or within ten (10) business days after the award by the Procurement Administrator.
3. The bidder's Protest should provide evidence that the City failed to follow procedures specified in the solicitation or made identifiable mathematical errors or other calculation errors while evaluating the solicitation.

Within a reasonable amount of time, the Protest review shall be completed and a determination shall be provided in writing to the bidder. Throughout the review process, the City has no obligation to delay or otherwise postpone an award of a contract based on a bidder's protest.

*Bidder Solicitation Request Review Guidelines*

Bidders have an obligation to adhere to review timeframes and to submit appropriate documentation to support their concerns.

Bidder's formal Protest must:

1. Cite the legal basis for the review request.
2. Reference relevant documentation that will support their case.
3. Reference the solicitation number and the appropriate sections and page numbers.

A review may be granted if the Protest is submitted prior to the time set for the City council to act or within ten (10) business days of award notification by the Procurement Administrator and the following criteria is met:

1. The firm/person submitting Protest is a bidder.
2. The Protest review request alleges that:
  - a. Bidder submitted a responsive solicitation that was erroneously disqualified; or
  - b. If Bidder is determined to be not responsible, that Bidder's solicitation proposal should have been the lowest cost, responsive and responsible, best value bidder or ranked the highest rated bidder and was not selected for contract award.
3. The Protest itemizes in appropriate detail and with factual reasons, the grounds for review as set forth below:
  - a. The Protest must assert that the City made an error in disqualifying the bidder.
  - b. The Protest must assert that the City failed to follow policy and/or procedures.
  - c. The Protest must assert that the City made identifiable mathematical or other errors in the evaluation process.
  - d. The Protest must assert that the City demonstrated bias in the conduct of the evaluation.

### *Protest Review and Analysis*

Unless State or Federal statutes or regulations otherwise provide, the review of any determination or action will be conducted by the Procurement Administrator, Finance Director and City Manager with the advice of the City Attorney and be limited to the following:

- Review of Solicitation Requirements
- Review of Disqualified Proposal
- Review of Proposed Vendor Selection Criteria

In all cases, the first level review of any protest shall be conducted by the Procurement Administrator handling the solicitation. However, should a bidder disagree with the conclusion of the Procurement Administrator, the bidder may submit a formal written request for further review by the Finance Director and City Manager.

The City Council with the advice of the Procurement Administrator, Finance Director, City Manager and City Attorney will render a decision on the Protest. The City Council's decision shall be final.

The City's website will include information on how a bidder may Protest.

### **CREDIT CARD POLICY AND PROCEDURES**

See City of Hemet's Credit Card Policy in Appendix

### **ACCOUNTS PAYABLE POLICY**

The purpose of this policy is to establish the responsibilities, controls, authorizations and procedures for the accurate and timely payment of invoices and check requisitions processed by Accounts Payable.

#### **Definitions**

**ACH:** Automated Clearing House

**AP:** Accounts Payable

**EFT:** Electronic Funds Transfer

**PO:** Purchase Order

**Purchase Request:** an internal document notifying the Purchasing Office of items to be ordered or services to be rendered

**Vendor:** a business or individual that provides a product or service to the City.

### **Responsibilities**

Employees within all departments submitting an invoice or check requisition for processing must ensure that invoices and check requisitions are provided to the Accounting Technician III in a timely manner to meet the payment terms and internal processing deadlines.

### **Policy**

#### *Vendors*

All vendors must be authorized by the City of Hemet and must complete and return a form W-9: Request for Taxpayer Identification Number and Certification and obtain any necessary licenses and permits.

Once vendors have been authorized, an employee of the Finance Department creates a new vendor file in the City's financial record keeping system which assigns a unique number to the vendor. Only vendors who have been authorized by will be paid by the City of Hemet.

#### *Invoice Processing for Payment*

Payments are to be made on original invoices received from vendors. Payments are not to be made based on statements from vendors.

All invoices must reference the appropriate purchase order when necessary. It is the practice of the City to require vendors to send invoices directly to the AP division of the City of Hemet. If the invoice is received by the requesting department, the invoice should be forwarded to AP for payment processing. Invoices can be received through inter-department mail, US mail or AP email.

Upon receipt of the vendor invoice, it is entered into the AP workflow for appropriate review and approvals. All invoices must include department's authorized signature and general ledger account coding. If the invoice is for an amount greater than \$2,500, it must also reference the Purchase Order created for its approval. If these items are missing from an invoice, AP will send the invoice out to the appropriate department for approval and coding.

Invoices must be approved by the department head or an individual who has been granted signing authority by the department head to approve before payment is made.

In an effort to avoid shut offs and late fees, Invoices for Utilities (water, electric, gas, etc.) are coded by the Accounting Technician III and approved by the Accounting Manager within Council approved budgeted amounts. This information is then made available to Facilities Staff to review and correct if needed.

Once all requirements for the invoice and vendor have been met, it is matched to the purchase order. The invoice data is then entered into the City's financial system.

Departments shall request and follow up with any PO variances with the Purchasing Office. Questions and errors must be resolved before payment is made.

Before processing an invoice for payment, the following is to be verified by the Accounting Technician III:

- PO number, vendor name and amount on the invoice match the PO
- Items on the invoice match the PO line items
- Remit address on invoice matches AP system address
- General ledger accounts appear appropriate, based on the current chart of accounts
- Check is flagged for enclosure, if appropriate (remittance advice)
- Due dates on all registrations and dues to ensure timely payment
- Payment is made from an invoice not a quote or statement
- Payment type is accurate
- Check is flagged to be returned to department, if appropriate. (Note: Approval to return a check to the department must be made by the Finance Director or Accounting Manager.)
- Invoice amount is within the approved budget
- Invoice is not a duplicate of an invoice already paid

If a duplicate invoice is received for processing, the software program will prevent second entry of an invoice if the information was indexed correctly both times. However, due to clerical errors, an invoice may be processed and paid twice. If a duplicate payment is made, the payment made in error should be voided. If the duplicate payment is discovered after the check is cashed, the vendor shall be billed for overpayment.

#### *Invoice Deadlines*

Invoices should continuously be submitted to AP as they become available. It is the goal of the Accounts Payable Division to provide a two-week turnaround from the time the invoice and all supporting documentation are received to process payment of the invoice.

AP checks are generated every two weeks in tandem with the payroll schedule.

Invoices and claims received by AP by Tuesday before 11am of the check issuing week will be processed for payment. Any invoices or claims submitted after this deadline will not be processed until the next check cycle.

Any urgent request for payment that falls outside of this time frame will only be processed if said payment cannot be held until next pay cycle and it is approved by the Finance Director for a special process. These should only occur in emergency, non-planned situations and should be the exception to the rule, not the norm.

Once the Accounting Technician III has reviewed, entered and reconciled the data entry, it is given to the Accounting Manager for review and final approval. Upon the Accounting Manager's final approval, the checks may be generated.

### **Check Preparation**

It is the policy of the City of Hemet to print vendor checks and expense reimbursement checks on a bi-weekly basis. Checks shall be prepared by persons independent of those who initiate or approve expenditures, as well as those who are authorized check signers.

All vendor and expense reimbursement checks shall be produced in accordance with the following guidelines:

- Expenditures must be supported in conformity with the purchasing, accounts payable, and travel, expense and reimbursement policies referencing in this manual.
- Timing of disbursements should generally be made to take advantage of all early-payment discounts offered by vendors.
- Generally, all vendors shall be paid within 30 days of submitting a proper invoice upon delivery of the requested goods or services.
- Total cash requirements associated with each check run is monitored in conjunction with available cash balance in bank prior to the release of any checks.
- All invoices with supporting documentation attached are submitted to the Accounting Manager for final review and approval prior to checks printing.
- Checks shall be printed in numerical order.
- Checks shall never be made payable to "bearer" or "cash".
- Checks shall never be signed prior to being prepared. (No signed blank checks).
- Upon the preparation of a check, vendor invoices and other supporting documentation shall immediately be stamped with "PAID" or "INVOICE ENTERED" in order to prevent subsequent reuse.

### **Check Signing**

No checks shall be signed prior to the check being completed in its entirety (no signing of blank checks). It is the policy of the City of Hemet that each Accounts Payable check shall be signed by two authorized

check signers and on Payroll checks, there shall be one authorized signer. Checks should not be signed if supporting documentation appears to be missing or there are any questions about a disbursement.

Checks are electronically signed through the City's accounting software on a special printer with MICR ink which is secured inside Payroll's office.

### **EFT Processing**

For those vendors who choose to take advantage of the City's EFT payment option are processed in the same manner as checks however an electronic file is created which is uploaded to the City's online banking platform.

Once the Accounting Technician III uploads the file and notifies the Accounting Manager that it is ready for final review and approval. The Accounting Manager logs into the City's online banking and reviews and approves the file. An electronic copy of the approval is stored with the cycles supporting documentation.

### **Segregation of Duties**

Segregation of duties separates roles and responsibilities to ensure that an individual cannot process a transaction from initiation through to payment without the involvement of others and thereby segregation of duties reduces the risk of fraud or error to an acceptable level.

For example, no one individual should be able to set up a new vendor, create a purchase order for that vendor, post and approve the invoice from that vendor, create, approve and record the payment to that vendor. Giving a single individual the ability to perform all of the above operations increases the risk of fraud or error.

### **Mailing of Checks**

Once the checks are printed, they are no longer allowed to be handled by the preparer. The checks are then safe kept with the Office Specialist, who will prepare them to be mailed.

Checks shall not be mailed by individuals who authorize expenditures.

### **Voided Checks and Stop Payments**

Checks may be voided due to processing errors by making proper notations in the check register and defacing the check by clearly marking it as "VOID". All voided checks are processed by the Accounting

Technician and a journal entry is generated and shall be retained to aid in preparation of bank reconciliations.

Stop payment orders may be made for checks lost in the mail or other valid reasons. Stop payments are processed by the Accounting Technician through the City's online banking portal. A confirmation is printed and attached to the hard copy of the journal entry that is generated by the City's accounting software.

#### **Record-Keeping Associated with Vendors**

The City of Hemet shall obtain a completed Form W-9 from all vendors to whom payments are made. A record shall be maintained of all vendors to whom a Form 1099 is required to be issued at year-end. Payments to such vendors shall be accumulated over the course of a calendar year.

### **PAYROLL AND RELATED POLICIES**

#### **Classification of Workers as Independent Contractors or Employees**

It is the policy of the City of Hemet to consider all relevant facts and circumstances regarding the relationship between City of Hemet and the individual in making determinations about the classification of workers as independent contractors or employees. This determination is based on the degree of control and independence associated with the relationship between the City of Hemet and the individual.

Facts that provide evidence of the degree of control and independence fall into three categories:

1. Behavioral control
2. Financial control
3. The type of relationship of the parties

Facts associated with each of these categories that will be considered by the City of Hemet in making employee/contractor determinations shall include:

1. Behavioral control:
  - a. Instructions given by the City of Hemet to the worker that indicate control over the worker (suggesting an employee relationship), such as:
    1. When and where to work
    2. What tools or equipment to use
    3. What workers to hire or to assist with the work

4. Where to purchase supplies and services
    5. What work must be performed by a specified individual
    6. What order or sequence to follow
  - b. Training provided by the City of Hemet to the worker (i.e. employees typically are trained by their employer, whereas contractors typically provide their own training)
2. Financial control:
  - a. The extent to which the worker has unreimbursed business expenses (i.e. employees are more likely to be fully reimbursed for their expenses than is a contractor)
  - b. The extent of the worker's investment in the facilities/assets used in performing services for City of Hemet (greater investment associated with contractors)
  - c. The extent to which the worker makes services available to the relevant market
  - d. How the City of Hemet pays the worker (i.e. guaranteed regular wage for employees vs. flat fee paid to some contractors)
  - e. The extent to which the worker can realize a profit or loss.
3. Type of Relationship:
  - a. Written contracts describing the relationship that City of Hemet and the individual intend to create
  - b. Whether City of Hemet provides the worker with employee-type benefits, such as insurance, paid leave, etc.
  - c. The permanency of the relationship
  - d. The extent to which services performed by the worker are a key aspect of the regular business of City of Hemet

If an individual qualifies for independent contractor status, the individual will be sent a Form 1099 if total compensation paid to that individual for any calendar year, on the cash basis, is \$600 or more. The amount reported on a Form 1099 is equal to the compensation paid to that person during a calendar year (on the cash basis). Excluded from "compensation" are reimbursements of business expenses that have been accounted for by the contractor by supplying receipts and business explanations.

If an individual qualifies as an employee, a personnel file will be created for that individual and all documentation required by the City of Hemet personnel policies shall be obtained. The policies described in the remainder of this section shall apply to all workers classified as employees.

### **Payroll Administration**

City of Hemet operates on a bi-weekly payroll. For all City of Hemet employees, a personnel file is established and maintained, with current documentation, as described throughout this section and more fully described in City of Hemet Personnel Manual.

The following forms, documents and information shall be obtained and included in the personnel files located in Human Resources for all new employees:

1. City of Hemet Employment Application (and resume, if applicable)
2. Applicant references
3. Interview questions and notes
4. Form W-4 Employee Federal Withholding Certificate
5. Form DE-4 State Withholding Certificate (if applicable)
6. Form 1-9 Employment Eligibility Verification
7. Copy of driver's license
8. Copy of Social Security card issued by the Social Security Administration
9. Starting date and scheduled hours
10. Job title and starting salary
11. Authorization for direct deposit of paycheck along with a voided check or deposit slip

### **Changes in Payroll Data**

It is the policy of City of Hemet that all of the following changes in payroll data are to be authorized in writing:

1. New hires
2. Terminations
3. Changes in salaries and pay rates
4. Voluntary payroll deductions
5. Changes in income tax withholding status
6. Court-ordered payroll deductions

New hires, terminations, and changes in salaries or pay rates shall be authorized in writing on a Personnel Action Form (PAF) by the following individuals:

1. City Manager
2. Finance Director
3. Department Director
4. Human Resources Manager

All employee record changes in accordance with a PAF are entered by the Human Resources Technician and verified by the Payroll Specialist. This maintains separation of duties.

Voluntary payroll deductions and changes in income tax withholding status shall be authorized in writing by the individual employee.

Documentation of all changes in payroll data shall be maintained in each employee's payroll file.

#### **Payroll Taxes**

The Finance Department is responsible for ensuring that all required tax forms are properly completed and submitted, and that all required taxes are withheld and paid. Payroll taxes are paid on pay dates through the respective online platform.

It is the policy of City of Hemet to obtain an updated Form W-4 from each employee when withholding changes are requested. Withholding of federal income taxes shall be based on the most current Form W-4 prepared by each employee. All Form W-4 are maintained in each employee's payroll file.

#### **Preparation of Timesheets**

Each City of Hemet employee must submit an electronically signed and approved timesheet no later than 11:00 AM on the Monday following the close of each pay period. Timesheets shall be prepared in accordance with the following guidelines:

1. Each timesheet shall reflect all hours worked during the pay period.
2. If special accounts need to be charged for employee time, the account and number of hours needs to be properly coded.
3. Timesheets must be electronically signed by the employee and approved by their immediate supervisor.

After preparation, timesheets shall be approved by department directors or his/her designee, prior to submission to the Finance Department. Corrections identified by an employee's supervisor/department director shall be authorized by the employee by placing the employee's initials next to the change. In the event that the employee or supervisor is unavailable the director may sign authorizing the correction.

A City employee who is on leave, on travel, or is ill on the day that timesheets are due may telephone or e-mail timesheet information to his or her supervisor (or designated alternate). Time so submitted must reflect the actual time worked.

### **Processing of Timesheets**

Processing of timesheets in the Finance Department is performed by the Payroll Specialist. The Payroll Specialist checks all timesheets for mathematical accuracy, then inputs all timesheets into the payroll system.

The Payroll Specialist may not change or correct timesheets. When errors are noted, a corrected and approved timesheet will be requested from the employee and respective supervisor. Tampering with, altering, or falsifying time records, recording time on another employee's time record, or willfully violating any other timesheet policy or procedure is not allowed.

### **Direct Deposit and Payroll Checks**

The transfer of the direct deposit is conducted through Citibank ACH. The Payroll Specialist will initiate the direct deposit transaction on the bank's website. The Accounting Manager will review and compare amount to direct deposit report and approve the transaction.

The Payroll Specialist will prepare a transfer request to the payroll account with supporting documentation for the amount of the bi-weekly payroll cycle. The Accountant will initiate the transfer through the online banking software into the payroll checking account.

Payroll Taxes and other employee deductions are initiated by the Payroll Specialist and processed by the Accountant.

At no time will the payroll transfers be initiated and completed by the same staff member. All payments are approved by the Finance Director.

The printing of the payroll checks requires security paper and a MICR ink. The checks should be signed by the Director of Finance; therefore, a signature key is kept in an encrypted file that only approved IT personnel have access to.

#### **Review and Approval of Payroll**

Upon production of all payroll reports and checks, the Accounting Manager reviews payroll reports, taxes to be paid and all other relevant information. These procedures shall be performed prior to the distribution of the check to employees.

#### **Distribution of Payroll**

Payroll payments (or check stubs for electronic deposits) shall be distributed by individuals who do not approve time sheets, are not responsible for hiring and firing, and do not control the preparation of payroll.

**POLICIES PERTAINING TO SPECIFIC ASSET AND**  
**LIABILITY ACCOUNTS**

## **CASH AND CASH MANAGEMENT**

### **Internal Controls and separation of duties**

The Finance Department is responsible for the cash management of City funds. It is finance staff's responsibility to ensure sufficient funding is available in bank accounts to meet bi-weekly and all other financial obligations.

The investment of excess funds of the City is delegated by Council and in accordance with Division 6 of Article III of Chapter 2 of the Hemet Municipal Code. Excess funds are better described as the available cash balances of all General, Special, Enterprise, and Fiduciary Funds of the City. The Investment Policy of the City of Hemet describes the responsibilities and restrictions related to investment of excess funds. In order to minimize risk of fraud, internal controls must be exercised at all times.

- Wire transfers require secondary approval prior to completion.
- The City Treasurer and/or Deputy City Treasurer may direct Finance staff to transfer funds to or from an investment account. This request must be made in writing. Staff will confirm availability of funds and provide confirmation once the transfer is complete.
- Direct Deposit and ACH payments must be approved by the Finance Director or his/her designee

### **Cash Accounts**

#### **General Checking Account (operating account):**

The primary operating account provides for routine business check disbursements. All cash deposits are made to this account.

#### **Electronic Funds Transfer Account (EFT):**

The checking account where all credit card payments are deposited.

Cash transfers are done on an as needed basis to cover disbursements. Excess funds in these accounts are transferred into short-term investments or higher interest-bearing cash equivalents. Authorized signers on the general checking account include the following; City Treasurer, City Mayor and Finance Director.

Payroll Account:

The payroll account is separate from the operating account. The payroll account has been established to maintain a running balance of \$10,000. As such, only the amount needed to cover each payroll is transferred into this account from the operating account, based on the amount calculated.

Authorized signers on the payroll account include the following; City Treasurer and Finance Director.

Employee Dental and Vision Account:

The Employee Dental and Vision account is separate from the operating account. The Employee Dental and Vision account has been established to maintain a running balance of \$60,000. As such, only the amount needed to cover the payments for each month is transferred into this account from the operating account, based on the amount calculated and communicated by the outside service administrator office (Group Management Services).

Workers' Compensation Account:

The Worker's Compensation account is separate from the operating account. The Worker's Compensation account has been established to maintain a running balance of \$80,000. As such, only the amount needed to cover the payment for each month is transferred into this account from the operating account, based on the amount calculated and communicated by the outside service administrator office (CJPIA).

**Bank Reconciliations**

Bank account statements are received each month by mail and forwarded unopened to the Accountant or Principal Accountant. The Accountant or Principal Accountant opens the statement and reviews its contents for unusual or unexplained items. Unusual or unexplained items shall be reported immediately to the bank representative.

The Accountant or Principal Accountant prepares the reconciliation between the bank balance and general ledger balance; the principal accountant shall not be an authorized check signer. It is the policy of the City of Hemet to complete the bank reconciliation process within two weeks of receipt of each bank statement.

The bank reconciliation, including any adjusting journal entries resulting from preparing bank reconciliations are reviewed and approved by the Accounting Manager on a monthly basis.

Cash Reconciliation and copies of resulting journal entries are filed in the current year's accounting files.

### **Cash Flow Management**

The Accounting Manager monitors cash flow needs on a weekly basis to eliminate idle funds and to ensure that payment obligations can be met. Cash transfers between accounts are performed on an as-needed basis.

### **Wire Transfers**

All wire transfers will require two employees. One will be the initiator and the second will be the approver. The Finance Director, Accounting Manager, Principal Accountant and Accountant shall be the only City of Hemet employees authorized to transact wire transfers from the City of Hemet bank accounts. To prevent anyone other than these individuals from transacting wire transfers, a system shall be employed that requires the user to be set up with online banking access with transferring entitlements and the use of bank generated token passcodes. In order to eliminate opportunities for fraud, wires are initiated by one authorized individual and approved by a second authorized individual after review of all information for accuracy and legitimacy.

All wire transfers require the completion of a form detailing the date, amount, reason and general ledger account coding. All wire transfer forms shall be signed by the Finance Director. Confirmation of all wire transfers are delivered to the Accounting Manager for review and a copy is forwarded to the Principal Accountant to maintain with the monthly bank reconciliation.

### **UNCLAIMED FUNDS POLICY**

See City of Hemet's Unclaimed Funds Policy in Appendix

### **PETTY CASH PROCEDURES**

See City of Hemet's Petty Cash Policy in Appendix

## **INVESTMENT POLICIES**

See City of Hemet's Investment Policy Resolution No. 2020-083 and Division 6 to Article III of Chapter 2 of the Hemet Municipal Code

## **ACCRUED LIABILITIES**

### **Identification of Liabilities**

The Finance Department shall establish a list of commonly incurred expenses that may have to be accrued at the end of an accounting period. Some of the expenses that shall be accrued by the City of Hemet at the end of an accounting period are:

- Salaries and wages
- Payroll taxes
- Vacation pay / Annual Leave (see policy below)
- Interest
- Payables

### **Accrued Leave**

Personnel policies of the City of Hemet permit employees to carry forward unused leave from year to year. Such unused leave is payable to an employee upon termination of employment. Accordingly, it shall be the policy of the City of Hemet to record a liability for accrued leave to which employees are entitled. The total liability at the end of an accounting period shall equal the total earned but unused hours of leave multiplied by each employee's current hourly pay rate.

## **FIXED ASSETS**

See City of Hemet's Fixed Asset Policy in Appendix

**POLICIES ASSOCIATED WITH FINANCIAL AND**  
**TAX REPORTING**

## **FINANCIAL STATEMENTS**

### **Standard Financial Statements of the City of Hemet**

Preparing financial statements and communicating key financial information is a necessary and critical accounting function. Financial statements are management tools used in making decisions, in monitoring the achievement of financial objectives, and as a standard method for providing information to interested parties external to the City of Hemet.

The basic financial statements of the City of Hemet shall include:

1. Statement of Financial Position - reflects assets, liabilities and net assets of the organization and classifies assets and liabilities as current or non-current/long-term.
2. Statement of Activities - presents revenues, expenses, and other changes in net assets of the organization, by category of net asset (unrestricted, temporarily restricted and permanently restricted).

### **Frequency of Preparation**

The objective of the Finance Department is to prepare accurate financial statements in accordance with generally accepted accounting principles and distribute them in a timely and cost-effective manner. In meeting this responsibility, the following policies shall apply:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States of America by licensed certified public accountants.

### **Annual Financial Statements**

A formal presentation of the City of Hemet annual financial statements shall be provided by the Independent Auditor to the City Council of the City at a regular scheduled council meeting.

## **REPORTING REQUIREMENTS**

### **Overview**

To legitimately conduct business, City of Hemet must be aware of its tax and information return filing obligations and comply with all such requirements of federal state and local jurisdictions. Filing requirements of City of Hemet include:

- Sales tax returns
- Information returns for retirement plans
- Annual reporting of compensation paid
- Payroll tax withholding tax returns
- Quarterly fuel reports
- Quarterly Building Standards fees reports
- Quarterly grant funding reporting
- Annual State Controllers Report
- Quarterly SB1186 reports
- Annual Single Audit report for Federal Grants

### **Filing of Returns**

It is the policy of the City of Hemet to become familiar with the obligations in each jurisdiction and to comply with all known filing requirements. The Finance Department shall be responsible for identifying all filing requirements and assuring that the City of Hemet follows all such requirements.

It is also the policy of the City of Hemet to file complete and accurate returns with all authorities. City of Hemet shall make all efforts to avoid filing misleading, inaccurate or incomplete returns.

Filings made by the City of Hemet include, but are not limited to, the following returns:

1. W-2's and 1099's -Annual report of employee and non-employee compensation, based on calendar-year compensation, on the cash basis. These information returns are due to employees and independent contractors by January 31 and to federal government by February 28.
2. Form 941 -Quarterly payroll tax return filed with IRS to report wages paid to employees and federal payroll taxes. Form 941 is due by the end of the month following the end of each quarter, or 10 days later if all payroll tax deposits have been made in a timely manner during the quarter.
3. DE 9 – Quarterly contribution return and report of wages to the State of California used to report unemployment wages to the State.
4. DE 9C – Quarterly State wages report to the State of California used for reporting state taxable wages, income tax withheld and number of employees to the State.
5. CalPERS Report – Bi-weekly report of employee and employer retirement contribution.

Federal and all applicable State payroll tax returns are prepared by the City of Hemet.

# **FINANCIAL MANAGEMENT POLICIES**

## **FINANCIAL MANAGEMENT**

### **Purpose**

The purpose of this Policy Statement is to establish Financial Policies to ensure that the City's finances are managed in a manner which will, (i) continue to provide for the delivery of quality services, (ii) maintain and enhance service delivery as the community grows in accordance with the general plan, (iii) guarantee a balanced budget annually assuring that the City is always living within its means, and (iv) establish reserves necessary to meet known and unknown future obligations. To achieve these goals the Financial Policies, include General Policies, Revenue Policies, Cost of Growth Policies, Reserve Policies, Expenditure and Budgeting Policies, Debt Policies, and Capital Improvement Policies.

### **General Policies**

1. The City will manage its financial assets in a sound and prudent manner.
2. The City will maintain sound financial practices in accordance with State law and direct its financial resources toward meeting the City's long-term goals.
3. The City will develop and maintain programs to ensure its long-term ability to pay all the costs necessary to provide the level and quality of service required by its citizens.
4. The City will maintain accounting systems in conformance with generally accepted accounting principles.
5. The City will establish and maintain investment policies in accordance with State laws that stress safety and liquidity over yield.

### **Revenue Policies**

1. The City will strive to maintain a diversified and stable revenue base that is not overly dependent on any land use, major taxpayer, revenue type, restricted revenue, inelastic revenue, or external revenue.
2. The City will aggressively pursue revenue collection and auditing to ensure that money due the City is received in a timely manner.
3. The City will seek Federal and State grants and reimbursements for mandated costs whenever possible.
4. The City will investigate potential new revenue sources, particularly those which will not add to the tax burden of residents or local businesses.

5. The City will work proactively with the League of California Cities and local communities to monitor legislation that may impact the City financially.
6. The City will avoid targeting revenues for specific purposes whenever possible.
7. The City will establish user fees when appropriate and monitor all user fees and other charges so that the fees and charges are reflective of the cost of providing the services.
8. The City will periodically analyze actual revenue received.
9. The City will maintain and develop methods to track major revenue sources and evaluate financial trends.
10. The City will seek methods to continually improve the accuracy of revenue forecasts.

### **Cost of Growth Policies**

1. The City will recover the costs of new facilities and infrastructure necessitated by development, consistent with State law.
2. The City will require large developments to prepare a fiscal analysis which measures direct and indirect costs and benefits to the City.

### **Reserve Policies**

1. The City will establish, dedicate, and maintain reserves annually to meet known and estimated future obligations.
2. The City will seek to establish specific reserve accounts which include, but are not limited to, designated reserves for the following:
  - a. A General Fund reserve for economic uncertainties of not less than 20% of expenditures.
  - b. Totally funded workers' compensation.
  - c. Liability insurance.
  - d. Value of accrued vacation and sick leave.
  - e. Estimated cost of retirees medical payments on a pay as you go basis
  - f. Depreciation and replacement of vehicles and major equipment.
  - g. Major maintenance and renovations of building, parks, and landscaping.
  - h. The City will establish reserves for replacement of facilities and infrastructure.
  - i. The City will establish reserves for cash flow purposes.

### **Expenditure and Budgeting Policies**

1. Operating budgets will be prepared to fund current year expenditures with current year revenue. However, surplus fund balances may be used to increase reserves, fund Capital Improvement Projects, or be carried forward to fund future years operating budgets when necessary to stabilize services and fund capital outlay.
2. The City will deliver services in the most cost effective manner, including utilizing the services of volunteers in areas where it is economically viable.
3. Budgets will state the objectives of operating programs and identify the services and resources being provided to accomplish the specified objectives.
4. Budgets will fully account for and apportion all costs, fees, and General Fund transfers associated with the Enterprise Funds.
5. Departmental expenditures are limited to City Council appropriated expenditures in the following major categories:
  - Personal Services
  - Supplies & Services
  - Capital Outlay
6. Budget increases required to hire additional permanent personnel require City Council approval.
7. The City will periodically update replacement and maintenance financing plans and incorporate them into the Budget.

### **Debt Policies**

1. The City will limit the use of debt so as not to place a burden on the fiscal resources of the City and its taxpayers.
2. The City will limit long-term borrowing for capital improvements or projects that cannot be financed from current revenues.
3. When capital projects are debt financed, the debt will be amortized for a period not to exceed the expected useful life of the project.
4. Whenever possible, the City will investigate the use of special assessment, revenue or other self-supporting bonds to limit the General Fund obligation for debt service payments.
5. The City will not use long-term debt for current operations.
6. The City will not use short-term borrowing to support routine operations, provided however, that it may be used to meet temporary cash flow needs.

7. The City will maintain strong communications with bond rating agencies about the City's financial condition and follow a policy of continuing financial disclosure.
8. The City will strive to improve the City's credit rating.
9. The City will utilize inter-fund loans when possible to reduce the cost of financing capital improvements.

### **Capital Improvement Policies**

1. The City will construct all capital improvements in accordance with an adopted capital improvement program.
2. The City will develop a five year plan for capital improvements to be updated at least biannually. Future capital expenditures will be projected annually for a five year period based on changes in the community population, real estate development or replacement of the infrastructure.
3. The City will coordinate preparation of the Capital Improvement Budget with preparation of the Operating Budget. Future operating costs associated with new capital improvements will be projected and included in Operating Budget forecasts.
4. The City will identify the estimated costs and potential funding sources for each proposed capital project before it is submitted to Council for approval.
5. The City will attempt to determine the least costly financing method for all new projects.
6. The estimated cost of Capital replacement for water enterprise funds will be updated at least every two years to ensure that rates and charges are covering the full cost of operating these programs.

## **BUDGETING**

### **Overview**

Budgeting is an integral part of managing any organization in that it is concerned with the translation of organizational goals and objectives into financial and human resource terms. A budget should be designed and prepared to direct the most efficient and prudent use of the organization's financial and human resources. A budget is a management commitment of a plan for present and future organizational activities that will ensure survival. It provides an opportunity to examine the composition and viability of the organization's programs and activities simultaneously in light of the available resources. The budget is a plan that establishes the spending authority for the City's programs and projects during the twelve

months budget period. The City's Annual Budget serves as the foundation for the City of Hemet Financial Planning and Control.

Prior to June 30 of each year the City Manager submits to the City Council a proposed operating budget for the Fiscal Year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Public meetings are conducted and prior to June 30, the budget is adopted by motion of the City Council.

The appropriated budget is prepared by Fund (e.g. General Fund), Department (e.g. Community Development) and Division (e.g. Planning). Operating budgets will be prepared to fund current year expenditures with current year revenue. However, surplus fund balances may be used to increase reserves, fund Capital Improvement Projects, or be carried forward to fund future year's operating budgets when necessary to stabilize services and fund capital outlay.

The City will deliver services in the most cost-effective manner, including utilizing the services of volunteers in areas where it is economically viable.

Budgets will state the objectives of operating programs and identify the services and resources being provided to accomplish the specified objectives. Budgets will fully account for and apportion all costs, fees and General Fund transfers associated with the Enterprise Funds.

Departmental expenditures are limited to City Council appropriated expenditures in the following major categories:

- Personnel Services
- Operating Expenses
- Internal Services
- Capital Outlay

The City will periodically update replacement and maintenance financing plans and incorporate them into the Budget. Budgets are adopted annually and all annual appropriations lapse at fiscal year-end.

### **Preparation and Adoption**

It is the policy of the City of Hemet to prepare an annual budget using the accounting basis that is in conformance with generally accepted accounting principles. To prepare the organization budget, the Finance Director shall gather proposed budget information from all Department directors (and others with budgetary responsibilities). Budgets proposed and submitted by each department should be accompanied by a narrative explanation of the sources and uses of funds and explaining all material fluctuations in budgeted amounts from prior years. All requests for additional personnel shall include a narrative explaining the need for an increase in staff potential duties for the new employee and expected salary. All requests for capital shall include a narrative explaining the reason for the need of the respective item.

After appropriate revisions and a compilation of all department budgets a draft of the organization-wide budget is prepared by the Finance Director. The appropriated budget is prepared by:

- Fund (e.g. general fund)
- Function (e.g. Public Safety)
- Department (e.g. Police).
- Division (e.g. communication)

The draft of the organization-wide budget, individual departments' budgets as well as the narratives (new capital and additional personnel) are presented to the City Manager for discussion, revision, and initial approval. Each individual capital request is evaluated to determine whether the capital item is needed to clear a safety issue, a legal requirement or to improve customer service. All requests for additional staff are reviewed for viability based on the economic condition of the City.

At a public meeting, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. The proposed budget is presented to City Council for discussion, revision and adoption. Public meetings are conducted at Council Chambers to obtain citizen input. Prior to July 1, the budget is adopted by motion of the City Council.

It is the policy of the City of Hemet to adopt a final budget prior to July 1 of the new fiscal year. The purpose of adopting a final budget at this time is to allow adequate time for the Finance Department to input the budget into the accounting system and establish appropriate accounting and reporting

procedures (including any necessary modifications to the chart of accounts) to ensure proper classification of activities and comparison of budget versus actual once the year begins.

If the budget cannot be adopted prior to July 1, Council will be asked to approve a Continuing Resolution with a pre-determined timeframe and instructions for City operations until an annual budget can be adopted.

### **Monitoring Performance**

It is the policy of the City of Hemet to monitor its financial performance by comparing and analyzing actual results with budgeted metrics. This function shall be performed periodically by the Finance Director.

### **Budgetary Review**

- Budget-to-actual comparisons are made on a monthly basis by the Finance Department.
- Budget-to-actual comparisons are presented for City Council review quarterly and at midyear.
- Budget-to-actual comparisons are provided in the Comprehensive Annual Financial Report for each individual governmental fund, for which an appropriated annual budget has been adopted.

The City maintains an encumbrance accounting system of purchase orders and contracts as a means of accomplishing budgetary control. Purchase orders are reviewed to ensure that funds are available and that requests are properly authorized prior to being released to vendors.

### **Budget Modifications (transfers)**

- Department Directors may request transfers of appropriations within their departmental budgets.
- Transfers of appropriations between departments within the same fund require the authorization of the Finance Director and the City Manager.
- Transfers of appropriations between funds require City Council authorization
- Any revision that increases the total appropriations of any fund must be approved by the City Council.
- Budget increases required to hire additional permanent personnel require City Council approval.

## **ANNUAL AUDIT**

### **Role of the Independent Auditor**

It is the policy of the City of Hemet to arrange for an annual audit of the City's financial statements to be conducted by an independent accounting firm. The independent accounting firm selected by the City through the procurement process and a Request for Proposals will be required to communicate directly with the City Manager, City Council and Finance Director upon the completion of their audit.

Audited financial statements, including the auditor's opinion thereon, will be submitted and presented to the City Council for their review and approval, after the financial statements have been reviewed and approved by the Finance Director.

### **Frequency to Review the Selection of the Auditor**

The City of Hemet shall review the selection of its independent auditor in the following circumstances:

1. Anytime there is dissatisfaction with the service of the current firm.
2. When a fresh perspective and new ideas are desired.
3. Every five years to ensure competitive pricing and a high quality of service.

### **Selecting an Auditor**

The selection of an accounting firm to conduct the annual audit is a task that should be taken very seriously. A written Request for Proposal (RFP) will be sent to prospective audit firms. The Finance Director will review the prospective audit proposals and make a recommendation to the City Manager. The City Manager will make a recommendation to the City Council for approval.

### **Preparation for the Annual Audit**

The City of Hemet shall be actively involved in planning for and assisting with the City's independent accounting firm in order to ensure a smooth and timely audit of its financial statements. In that regard, the Finance Department shall aid the independent auditors in the following areas:

- Planning - The Finance Director is responsible for delegating the assignments and responsibilities to finance staff in preparation for the audit. Assignments shall be based on the list of requested schedules and information provided by the independent accounting firm.
- Involvement - City staff will do as much work as possible in order to assist the auditors and, therefore, reduce the cost of the audit.

- Interim Procedures - To facilitate the timely completion of the annual audit, the independent auditors may perform selected audit procedures prior to the City's year-end. By performing significant portions of audit work as of an interim date, the work required subsequent to year-end is reduced. City staff will do as much as possible in order to provide requested schedules and documents and to otherwise assist the auditors during any interim audit fieldwork that is performed.

Throughout the audit process, it shall be the policy of the City of Hemet to make every effort to provide schedules, documents and information requested by the auditors in a timely manner.

**City Manager, City Council and/or Finance Director/Audit Responsibilities**

The Audit responsibilities include, but shall not be limited to, the following:

1. Appointment of, and communication with, the City's independent auditors.
2. Review and approval of the annual, audited financial statements.
3. Discussion of internal control matters with the independent auditor.
4. Responding to any reported instances of fraud involving City of Hemet or its employees.
5. Conducting an annual analysis of the City's financial statements.
6. Making policy and other recommendations to the City Council regarding matters arising out of the audit.

## **APPENDIX**