COUNTY FISCAL MANUAL

Revised – February 2015

Table of Contents

Chapter 1 – Cash 14

Table of Contents

Table of Contents

Table of Contents

Table of Contents

Table of Contents

Table of Contents

Table of Contents

Table of Contents

Table of Contents

Table of Contents

Table of Contents

Table of Contents

Chapter 1 – Cash

1.1.0 CASH

1.1.1 Description of Cash

Cash includes the following:

- Coin and currency (paper money), and cash equivalents (bank drafts, credit/debit card sales, money orders, government warrants, traveler's and cashier's checks).

- Checks on hand (personal checks received over the counter, mail, etc.).

- Expendable cash funds - change funds, petty cash, revolving funds, cash aid funds, special purpose funds, etc.

- Other liquid assets such as postage (stamps), parking validation stamps and bus tokens/passes, gift cards, etc.

1.1.2 Objectives of Internal Control Over Cash and Liquid Assets

Cash and the other liquid of assets can easily be converted, temporarily or permanently, to personal use. The highly liquid nature of cash and equivalents requires that strict controls be established over all phases of cash handling operations to limit access to cash such that an individual cannot convert funds for personal use without immediate detection and to provide accurate cash balances for financial reporting and for monitoring cash flow and liquidity.

1.1.3 Internal Controls Over Cash

The following internal controls must be followed to maintain the integrity of cash operations.

- Employee duties within the cash functions must be separated to ensure that one individual does not control all key aspects (receiving, receipting, depositing, disbursing, reconciling and recording) of a cash transaction.

- Procedures and controls must be established to ensure that timely, accurate and complete records are maintained of all cash transactions.

- Cash; check signing machines; signature dies; and blank, partially prepared, mutilated and voided checks must be safeguarded from unauthorized use.

- The functions of receiving and receipting of cash should be centralized to the extent possible. This will limit cash handling functions to as few employees as possible and will centralize activity in the hands of specially designated cashiers.

- Funds in temporary accounts must be controlled centrally. When funds are deposited by branches in temporary bank (collection) accounts, transfers from these accounts should be made only by a department's central cashiering unit, or by someone independent of deposit preparation and verification functions, or via the Treasurer and Tax Collector's (TTC) deposit consolidation service (i.e., Sweep Account-See Section 1.2.1). All accounts must have TTC's Cash Management Division's approval prior to establishment.

- Other liquid assets (e.g., postage stamps, parking validation stamps and bus tokens/passes, etc.) should be monitored centrally. Departments need to adopt policies to ensure accountability and restrict usage for County business only. For example, departments should maintain logs to control and document the use of postage stamps, bus tokens, parking validation stamps, etc. Such logs should document the current inventory balance on hand of the asset (stamps, tokens, etc.), the date of usage, amounts issued, and the name and signature of the user. All such liquid assets should be secured in safes or filing cabinets equipped with lockable side bars.

Unavoidable deviations from the above controls, usually due to limited staffing in smaller units, must be carefully scrutinized by management, and compensating alternate checks and balances established to ensure the continuous integrity of the department's cash operations and accountability and security over cash equivalents and other liquid assets as defined (Section 1.1.1). The Auditor-Controller (A-C) should be consulted if any such deviations from the above controls are made in units that receive large amounts of cash.

1.1.4 Safekeeping of Cash (Safe Controls)

The following internal controls must be followed to safeguard cash, other negotiable instruments and liquid assets from theft:

- Adequate physical security must be maintained at all times over locations where cash is stored and processed. Access to cashiering areas, including cash registers, cash drawers, and safes, must be restricted to as few authorized individuals as necessary.

- Cash, negotiable instruments, and other liquid assets should be secured in a safe at a location away from public view or access.

- Safes should be only used to store cash, negotiable instruments and other liquid assets. Safes should be kept clear of personal belongings, artifacts, and other non-County valuables, etc. When a safe is not available and the amounts of cash negotiable instruments and liquid assets are of limited value, a file cabinet with a lockable side bar must be used. The keys to the side bar lock must be in the possession of a limited number of supervisory and management staff.

- Safes should be inventoried every six months and purged of non-negotiable and unnecessary items.

- Safe combinations should be restricted to key personnel and stored in a secure place. Combinations must not be kept under a blotter, phone or taped on the bottom of a drawer where they may be found by an unauthorized individual.

- Safe combinations should be changed when an individual who has knowledge of the safe combination leaves County service; is transferred to another County department, or otherwise no longer requires access to the safe; when a security breach occurs or when any other reason warrants a safe combination change. Annually, departments should review their safe combinations to ensure no events have occurred that would require a change in the combination.

- Employees entrusted with a safe combination should use the utmost care in safeguarding it. The safe combination should not be written behind pictures, under desk objects, or placed anywhere near the safe. The combination should be memorized and a written copy of the number secured by a supervisor.

- All collections should be kept in a locked safe overnight, during the lunch hour or any other period of absence when cash is not safeguarded.

- In the limited instances where file cabinets with side bar locks are used, security over keys must emulate security over safe combinations. When a key is lost, a new lock must be immediately acquired.

1.1.5 Contractor Cash Flow Advances Guidelines

Cash advances to contractors should only be made when absolutely necessary to allow the contractors to provide critical services. A department should demonstrate the need for making cash advances, and develop a plan on how they will distribute, monitor, and recover cash advances.

The department should submit this plan to the department's respective Chief Executive Office's budget analyst for review. The budget analyst will evaluate the department's need to make the advances, the cash advances' impact on County's General Fund cash flow, and the County's overall financial position. In developing their plans, departments should consider including the following steps/requirements:

Before making advances:

- Review the agency's independent audit report and single audit (if available) for going concern qualifications or other issues.

- Review the agency's financial status by evaluating the agency's net worth, operating income, available cash, and current assets compared to current liabilities.

- Require the agency to submit a business plan demonstrating how the agency will repay the advances.

- Evaluate the agency's prior contracting (e.g., no outstanding audit/monitoring findings, in good standing, etc.) and advance repayment history with the department (if applicable).

- Consider requiring the agency to provide some security for the advance (e.g., a security interest in agency property, performance bond, etc.), particularly if a department believes there is a material risk that an agency may not be able to repay their advance, if the agency has financial issues, if the agency has no contracting track record, and/or if the agency will receive a relatively large advance.

If advances are made, departments must:

- Reconcile advances to the agency's actual expenditures on a monthly or quarterly basis, and recover advances before the end of the contract period.

- Monitor agencies for compliance with the advance and repayment policies.

For cash advances to pass-through agencies making payments on behalf of the County, departments must:

- Require funds be deposited in a separate, interest-bearing account.

- Review agency bank statements on a monthly/quarterly basis to ensure amounts on hand appear appropriate and are not excessive.

- Recover funds by offsetting advance amounts against routine payments to the agencies, but no later than the end of the contract period.

The guidelines are intended to serve as best practices for departments to consider and apply where appropriate. The Auditor-Controller recognizes that not all of these steps will be used or be feasible in all cases, especially in situations where departments need to have the contractors gear up to use one-time funding in a very short time.

Any questions regarding cash flow advance guidelines should be directed to the Auditor-Controller's Audit Division.

1.2.0 BANK ACCOUNTS

Bank accounts are used by departments to facilitate the collection and deposit of revenues and other funds, to disburse County funds to purchase needed goods and services and to disburse monies previously collected and held in trust for another party (e.g., a patient in a County hospital etc.). County bank accounts are either collection accounts (into which revenues, fees and other monies received are deposited) or checking accounts (used to transfer monies to another agency, to disburse monies for minor goods and services received, to return a patient's funds upon the patient's discharge from a County hospital, etc.).

To establish a new bank account, a department must obtain approval from the Treasurer and Tax Collector's Cash Management Division. The Treasurer and Tax Collector will work with the department to determine which bank to use. Before requesting a new bank account, a department should first determine if an existing bank account can reasonably be used to meet the department's needs.

Any questions concerning bank accounts should be directed to the Treasurer and Tax Collector's Cash Management Division.

1.2.1 Collection Accounts

Collection accounts are used to deposit funds collected by departments. Monies received may be payment for services provided, fees/taxes collected by a department, or in some cases, funds to be held in trust. Although there may be isolated exceptions, collection accounts should be zero balance accounts. This means the Treasurer and Tax Collector's deposit consolidation services (i.e., Sweep Account) must be used in conjunction with collection accounts. If a Sweep Account cannot be established, (as is the case of some revenue transfer accounts), and a checking account must be used to deposit collections, then the payee should be pre-printed on the checks (i.e., Los Angeles County Treasurer and Tax Collector).

Using the Sweep Account, monies deposited each day are automatically "swept" nightly from departments' accounts into the Treasurer and Tax Collector's control account, without losing the identity of each depositing department. Nightly deposit consolidation provides the County greater access to funds for interest earning potential, improves cash flow, and consolidates the depositing of department collections.

Section 1.2.2 discusses the use of regular checking accounts used in conjunction with revolving funds.

To establish a collection account, a department must submit a written request, signed by the department head or chief deputy to the Treasurer and Tax Collector's Cash Management Division. The following information must be included with the request:

- The reason(s) why a collection account is needed.
- The department's business address and the address of the departmental location using the account, if applicable.
- The name of the bank where the department would like the account to be maintained. The TTC will make the final decision on which bank will be used.
- Bank account number (if an existing account is to be used).
- The eCAPS account codes that are to be credited, (i.e., trust fund number, unit code and account number into which funds are swept or transferred).
- Anticipated average number of "deposits" (daily, weekly or monthly).

- Anticipated average dollar amount of each deposit.
- Number of department locations depositing.
- Name and telephone number of person responsible for the bank account.
- The address where bank statements should be mailed.

Upon receiving the written request, the Cash Management Division will contact the department's designee to explain the basic procedures of deposit consolidation services.

1.2.2 Checking Accounts

Check disbursements should be issued via eCAPS. However, in cases where it is not possible to meet the disbursing needs of the department by using eCAPS (e.g., petty cash purchases), checking accounts may be used in conjunction with revolving funds to disburse funds.

A checking account can only be opened with the approval of both the Treasurer and Tax Collector and Auditor-Controller. The department heads or chief deputies must submit a request and detailed justification to the Auditor-Controller's Audit Division, on departmental letterhead. The request should, at a minimum, address the following:

- Justification for the checking account, including specific reasons why using eCAPS for these disbursements is not feasible,
- The department's primary business address, and the address of the departmental location using the account, if applicable,
- The anticipated monthly average number and total dollar amount of checks to be written on the account,
- The name(s) and titles of department manager(s) authorized to sign checks,
- The address where bank statements should be mailed, and
- A statement confirming that the bank will be matching the account number, check number, and dollar amount of each check presented for payment against a list of checks previously issued by the department.

The Auditor-Controller's Audit Division staff will review the department's request for a new checking account. If the Auditor-Controller agrees that adequate controls are in place (see Internal Controls Over Bank Accounts, Section 1.2.3 and Internal Controls Over Trust Funds, Section 2.1.3) and that the request is warranted, they will notify the Treasurer and Tax Collector, who has final authority to approve the establishment of new checking accounts.

The Treasurer and Tax Collector's Cash Management Division will review the request and, if approved, prepare a letter to the designated bank authorizing the bank to open the account. This authorization also notifies the bank that the Treasurer and Tax Collector will, at all times, have final authority over the account. The Treasurer and Tax Collector will send a copy of the bank letter to the Auditor-Controller's Audit Division and the requesting department advising them that the account has been approved.

1.2.3 Internal Controls Over Bank Accounts

Departments with bank accounts must institute the following controls over the accounts:

- A formal (written) reconciliation must be performed monthly for each bank account by an individual with no deposit or check writing responsibilities. The person reconciling the account(s) must receive the bank statement directly from the bank and prepare the reconciliation in a timely manner. A suggested reconciliation format is presented in Section 1.2.5.

- Reconciling items must be reviewed and researched immediately. Bank errors must be reported in writing to the bank immediately following the reconciliation process. All reconciling items should be resolved within the next bank statement period. If the item cannot be resolved within the next bank statement period, it will continue to be a reconciling item and must be monitored until resolved. The Treasurer and Tax Collector should be notified of difficulties with banks clearing banking errors.

- Monthly reconciliations must be reviewed and approved by an appropriate level supervisor (evidenced by the signature of the supervisor on the reconciliation). The review should include an investigation of non-check and unusual reconciling items such as unexplained debits/credits.

- ***Revolving fund checking accounts must not be used to deposit departmental collections.***

- Changes to bank accounts, such as branch locations, mailing addresses of bank statements, etc., must be approved by the Treasurer and Tax Collector's Cash Management Division in advance.

- All cancelled checks, bank statements, and monthly reconciliations must be retained for five years.

- Blank check stock must be stored in a secured (locked) area with access restricted to a minimum number of authorized individuals.

- Signing blank checks and checks made payable to cash are strictly prohibited.

- Checks must be pre-numbered and a check register used to record each check written.

- Electronic Fund Transfers and Automated Clearing House (ACH) debits/credits are prohibited for departmental bank checking accounts. If such transactions occur, the Treasurer and Tax Collector's Cash Management Division must be notified immediately.

- Bank overdrafts are prohibited for departmental bank accounts. The bank will return checks issued to the payee for "Non-Sufficient Funds" (NSF).

- Banking irregularities such as forged or counterfeit checks identified by staff and/or by any agency (County department, law enforcement agency, etc.) are to be immediately reported to the Auditor-Controller's Office of County Investigations and the Treasurer and Tax Collector's Cash Management Division.

1.2.4 Closing Accounts

To close a bank account, the following procedures must be followed.

- The department must notify the Treasurer and Tax Collector's Cash Management Division in writing of the need to close the bank account. The department should discontinue using the account and reconcile the account, ensuring the account balance is zero prior to notifying the Treasurer and Tax Collector of the need to close the account. All outstanding and reconciling items must be resolved within the subsequent 90 days.

- The department must certify to the Treasurer and Tax Collector that the bank account was reconciled and that the account balance is zero and submit the request, along with the last bank statement, to the Treasurer and Tax Collector's Cash Management Division. The Treasurer and Tax Collector will prepare a letter to the bank, notifying the bank to close the account. The Treasurer and Tax Collector will also send a copy of the letter to the department.

- In some cases, the Treasurer and Tax Collector may direct a department to close an account. If the department disagrees, the department must respond, in writing, to the Treasurer and Tax Collector' Cash Management Division, within ten (10) working days. The bank will be instructed by the Treasurer and Tax Collector to close the account if the department does not respond within the ten-day timeframe.

- Any changes to the opening or closing instructions to a bank account, (e.g., signature authorization updates, etc.) must be made in writing through the Treasurer and Tax Collector's Cash Management Division. The department head or his/her chief deputy must sign requests for such changes. Signature authorization updates should be forwarded to the Treasurer and Tax Collector's Internal Controls Branch.

- Any unused check stock from a closed bank account must be shredded or destroyed. Departments must document with a written memo to file that they accounted for the unused checks, retaining, as receipts, a voided copy of the first and last checks, and that the stock was destroyed.

1.2.5 Suggested Bank Reconciliation Format

Department Name
Bank and Account #
For the Month Ended June 30, 200X

Balance per bank statement			$	35,000.00	
Add:	Deposit in transit			4,000.00	
	Bank service charge (erroneously posted--to be reversed next month)			20.00	[1]
Less:	Outstanding checks				
	#781	$ 1,000.00			
	#782	500.00			
	#783	500.00	$	(2,000.00)	
	Bank posting error (to be reversed next month)			($120.00)	[1]
Adjusted bank balance			$	36,900.00	
Balance per book			$	36,950.00	
Less:	Check printing charges	40.00			
	Posting error	10.00		(50.00)	[1]
Adjusted book balance			$	36,900.00	

Prepared by ____________________ Date ____________

Reviewed by ____________________ Date ____________

[1] Reconciling items.

1.3.0 COLLECTIONS – RECEIPTING AND DEPOSITING

1.3.1 Collections

Collections are funds received by departments as payment for services provided, fees charged (revenue) or monies to be held in trust. Collections can be received over the counter, through the mail, online, or transferred via electronic wire transfer or Automated Clearing House (ACH) to the receiving entity. Collections ordinarily include:

- Cash and cash equivalents (e.g., personal and cashier's checks, money orders, traveler's checks, and credit/debit card payments under approved conditions.
- Incoming wire transfers (See Chapter 9, Revenue, Section 9.1.4).
- ACH repetitive electronic payments which require approval by the Treasurer and Tax Collector (See Chapter 9, Revenue, Section 9.1.4).

1.3.2 Objectives of Internal Control Over Collections

- To safeguard collections such that an individual is not able to convert collections to personal use without timely detection.
- To ensure that all funds are promptly and properly recorded and deposited into the County treasury.

1.3.3 Receipting of Over-the-Counter Collections - Internal Controls

Cash registers should be used to receipt for collections, when practical (i.e., when there is a large volume of receipts). Where the use of a cash register is not practical, pre-numbered handwritten departmental receipts must be used. To adequately account for all collections, the following controls must be implemented:

1.3.3.1 General Controls Over Collections

- All collections must be receipted for promptly, through the use of a cash register, pre-numbered departmental receipt, credit/debit card receipts (Section 1.3.5.2), etc.
- Upon receipt, all checks should immediately be restrictively endorsed: **"For Deposit Only, County of Los Angeles."** Checks deposited using the Remote Deposit Service (RDS) will receive a virtual endorsement once they are scanned and transformed into an image, and therefore should not receive the above endorsement. The virtual endorsement is not printed on the physical item, but is present when the item is printed or viewed after scanner capture. See Section 1.3.7.7 for requirements on how to store and destroy the original checks.

- Persons receiving collections should not have access to accounting records (such as accounts receivable records).

- An individual independent of the cash receipting or depositing functions should reconcile the receipts to the bank deposit slips to verify that all collections are properly accounted for and deposited. This reconciliation should be performed as soon as possible, but not more than five days after receipts are deposited to ensure timely detection of shortages.

- When cash collections are transferred from one employee to a second employee, accountability should be assigned to one employee. This transfer of cash should be evidenced by reconciliation, receipts, reports, or similar documentary evidence with appropriate signatures of transferring and receiving employees.

- Signs should be posted requesting the payer to ask the cashier for a receipt and, if possible, the sign should include a sample of the appropriate receipt.

- Receipt books and receipts in a book must be used sequentially. Each day, the location supervisor must ensure that receipts are used in sequential order and that all receipts are accounted for (including verifying that the first receipt issued each day numerically follows the last receipt issued the prior day).

- Receipts with alterations or erasures must be marked "void" and a new receipt issued. Voided receipts should be initialed by a supervisor, with a note as to why the receipt was voided. All voided receipts originals and all copies except the anchor copy (which should be left in the receipt book) should be immediately forwarded to the department's business office.

- Receipts should be written and signed in the presence of the payer. ***Receipts must not be signed in advance.*** When completed, the original receipt should be given to the payer, one copy retained at the location, and a second copy retained (attached) in the receipt book.

- Used receipt books, with the anchor copies of the receipts, should be returned to the department's business office for storage.

- The department's business office must account for all receipts to ensure that:

    a) Receipts were issued consecutively.
    b) Voided receipts were properly initialed by the supervisor and the reason for voiding the receipt is indicated.
    c) Receipts with alternations or erasures which are not marked “void” are investigated. Missing, stolen, or defaced (damaged) receipts should be investigated immediately and reported to appropriate departmental management.

- Departmental receipt copies (the second and succeeding copies of a multi-part form) must be carbon copies of the original. They must not be completed in pencil or ink.

1.3.3.2 Controls Over Cash Registers

- Cashiers should receipt each collection at the time of the transaction by entering the transaction into a cash register.

- Cashiers should verify that the amount rung-up on the cash register matches the amount received at the end of a transaction.

- Cashiers must not tear, cut, destroy or discard any portion of the detail (journal) tape. Each cashier is responsible for all transactions receipted under his or her cashier number.

- Only one cashier should be assigned to a cash register at a time.

- Cashiers must only have access to their assigned cash register operation keys. ***Access to supervisory and programming keys (e.g., the ability to change the tax rate within the cash register), must be limited to managers and cashier supervisors who do not have cashiering duties or cash handling responsibilities.***

- ***Cashier "sign-on" codes on assigned cash registers must be unique and not shared or transferred from one cashier to another.***

- Cashiers are responsible for requesting that management change "sign-on" codes or register keys when the codes or keys may have been compromised.

- Whenever a cashier is relieved, the relief cashier must use a separate cash drawer to ensure that the collections of the two cashiers are not commingled. Cash register tape totals should be run off the main cashier's collections (before the relief cashier enters any transactions) and the collections kept separate and secured.

- The cashier should obtain supervisory approval for any voided receipt rung on the cash register.

- Cashiers' supervisors should void all incorrect or inaccurate transactions using their access key on the register. The cashier should print "**VOID**" on the original cash register receipt (the copy normally given to the customer). A supervisor should review and approve the voided transaction (by annotating the tape) immediately after the void takes place. In no case shall supervisors leave their access key in the register.

- When receipting payments by mail, cashiers should validate the receipt of payment through either the preparation of a listing of mail receipts; issuance of a receipt attached to a case file; return of the receipt (mailed) to the customer; or by forwarding one of the multiple part receipt copies to their departmental business office.

1.3.3.3 Controls Over Departmental Receipts

- Departmental receipts must be procured, controlled, and accounted for by individual departments.

- The supply of unused receipts must be secured (locked up), with access limited to those in the department's business office responsible for controlling receipt books. When the entire book is used it should be returned to the department's business office. Before issuing a new book of receipts to a location or individual, the individual issuing the book should verify that no receipts are missing from the returned receipt book.

- Control logs for receipt books must be maintained centrally, and at all locations using receipts, for books received and issued. Departmental receipts should be recorded in the control log when received by the department and when issued to an individual, unit or office responsible for cash collections. Departments that use receipts at multiple locations should log out the receipt books to each location. Two or more books should be issued to each location initially, except where there is minimal use. A new book(s) should not be issued to a location until a used book(s) is returned, with all receipts accounted for. The following information should be recorded in the control log.

    a. Date the receipt book was received.

    b. Receipt numbers.

    c. Name of employee assigned custody of the book.

    d. Date used book was returned to the business office.

- An inventory of all used, unused, and voided receipts (including partially used receipt books) must be performed at least annually (using the log books) and documented. Receipt books issued to a specific location should be reconciled to the records of the issuing unit.

- Used receipt books may be destroyed after five (5) years or when audited by the Auditor-Controller.

- Individuals who maintain and control receipt books should not have cash handling responsibilities.

- When an employee terminates, the department should ensure that all receipt books issued to the terminating individual are returned and accounted for.

1.3.4 Procedures for Acceptance of Checks Over-the-Counter

The following guidelines have been established for acceptance of checks:

- Checks should only be accepted for the amount owed to the County and the payer should be requested to furnish valid identification. Checks received over-the-counter and drawn on an out-of-state bank may be accepted with valid identification and, if possible, available funds verified with the out-of-state bank.

- The payer's valid California Driver License should be requested to accept a check. The Driver License number and the expiration date should be written on the face of the check. ***EXPIRED IDENTIFICATION SHOULD NOT BE ACCEPTED.*** If a Driver License is not available, some other type of identification, preferably with a picture of the payer, indicating the name and address (DMV ID card, employer ID card, or other picture identification, including out-of-state Driver License if the payee is the same) should be requested.

- Checks received must be payable to a County Department or the County of Los Angeles, be without a second-party endorsement, be in an amount not exceeding the amount due the County and must not be postdated or stale dated.

- Bank cashier's checks or money orders must be drawn on a banking institution located in the United States and in an amount not exceeding the amount of the payment; a traveler's check can be accepted if the payer shows satisfactory identification.

- If a department requests a person's social security number in connection with payment by check, the department should provide a written disclosure statement that would read as follows:

  "The (County department) has requested you to supply your social security account number in connection with payment by check. Production of your social security number is voluntary; no law or regulation requires that it be produced. The social security number, if produced will be used as an aid in identifying you, should it be necessary to pursue collection of any unpaid amount, including using it if necessary to identify you in a tax intercept program by which the amount owed would be offset against the tax refund due."

- An identifying in-house number (e.g., case file number, parcel number, account number, etc.) and the initials of the cashier accepting the check should be written on the face of the check. This information will help facilitate follow-up if the check is subsequently returned due to "Non-Sufficient Funds (NSF)."

- Checks must be made payable to a County department or Los Angeles County. If the payer's name, address, and telephone number are not pre-printed on the check; this information should be obtained from the payer and written on the front of the check. The payer's name and address should be substantiated by picture identification.

- If a check is made payable to an employee and the payer is available, the check should be rewritten. If the payer is not available, the check should be restrictively endorsed and deposited.

- Checks presented to a County department for payment of services and/or for fees, fines, collections, etc., by someone other than the payer of the check should be accepted and, if possible, the maker's address and telephone number obtained.

- With the exception of those checks which are deposited using Remote Deposit Service and receive a virtual endorsement, all checks should be restrictively endorsed as soon as accepted with an endorsement similar to the one below. ***DO NOT WAIT TO RESTRICTIVELY ENDORSE CHECKS UNTIL THE DEPOSIT IS PREPARED OR MADE UNLESS THE CHECKS WILL BE DEPOSITED USING THE REMOTE DEPOSIT SERVICE.***

SAMPLE ONLY MODIFY AS INSTRUCTED	LINE #
For Deposit Only	1
Pay to the Order of	2
(YOUR BANK)	3
Deposit to the Credit of	4
COUNTY OF LOS ANGELES	5
(YOUR DEPARTMENT'S NAME)	6
(YOUR DIVISION, SECTION, etc.)	7
Absence of all Prior endorsements	8
Guaranteed	9

Line #3 should be changed to the name of your department's depository bank or the Los Angeles County Treasurer, as appropriate for your use. Line #6 and 7 should be changed to your department's/organization's name.

Note: On September 1, 1988, the Federal Reserve adopted Regulation CC which establishes a standard for endorsing checks. When endorsing checks, the endorsement stamp should be restricted to the left 3" or right 1½" of the back of the check. Any questions or concerns with regard to Regulation CC should be directed to the Treasurer and Tax Collector's Cash Management Division.

- Two-party checks (i.e., the payee is other than a County department or Los Angeles County) should **NOT** be accepted.

- Postdated checks should not be accepted unless received in the mail. These checks should be deposited with the daily collections.

1.3.5 Credit/Debit Card Programs

Credit/debit card programs are a means for payment of services and to increase the cash flow to the County. Government Code Section 6159 cites authority for credit/debit card acceptance by courts, cities, and/or other public agencies. Civil Code Sections 1747.02 and 1748.1 provide additional definitions and explain surcharges and violations. In addition, further guidance is provided in the Board of Supervisors' Credit/Debit Card Payment Acceptance Policy Number 3.015 and the related Board Orders referenced in the policy.

1.3.5.1 Objectives of Internal Controls Over Credit/Debit Cards

The objective of internal controls over credit/debit cards is to ensure:

- Electronic credit/debit card transactions are properly recorded through a secured Point-of-Sale terminal that approves the transaction, and initiates a transfer of funds from the cardholder's account to the Treasurer and Tax Collector's designated bank account.

- A cost-effective Countywide credit/debit card acceptance program which minimizes the expense to the customer and preserves the County's revenue.

1.3.5.2 Internal Controls Over Credit/Debit Card Receipts

The following internal controls must be established for the acceptance of in-person credit/debit card transactions:

- All credit/debit card programs must be approved by the Treasurer and Tax Collector's Cash Management Division prior to implementation. The approval of the Chief Information Office must also be obtained prior to implementation for any application system which utilizes the Internet or wireless communication to transmit data to the merchant service provider. The department must include a certification letter from the department head or designee that the department will comply with all of the controls in CFM Section 1.3.5.2.

- All credit/debit card transactions must be authorized and captured through the credit/debit card Point-of-Sale terminal, which is purchased or rented from the County's contracted merchant services provider. Sales slips of captured transactions should not be taken to the bank. Capture is the method by which a transaction is stored in the Point-of-Sale terminal and forwarded at a predetermined time to the card processor to facilitate receiving payment for the credit/debit card transaction. The captured transactions are automatically deposited by the merchant services provider or merchant bank into a designated County bank account.

- A current listing of authorized employees to process credit/debit cards (i.e., log on numbers) must be available and controlled by a management-level employee at the processing location.

- Controls must be established to safeguard and secure credit/debit card sales slips. Sales slips should be retained in the order that sales occur.

- Voids should be matched with the original sales slip and processed by the Cashier Supervisor.

- Security controls must be established over the use of operator personal identification codes.

- Proper identification must be requested from the cardholder prior to processing the transaction. Cardholder shall mean the person whose name is embossed on a credit/debit card, or whose name appears on the card as the authorized user. Approved identification includes a State issued Driver License or approved photo Identification Card. The cardholder's address, telephone number or other personal identification information should not be recorded on the credit/debit card sales slips.

- Controls must be established to minimize the occurrence of chargeback transactions. A chargeback is a processed credit/debit card transaction that is reversed (i.e., charged back to the County) because either the cardholder or the cardholder's bank determines something is wrong with the transaction. In most cases, before processing the chargeback, the card company or merchant bank will send a "Retrieval/Inquiry Request" requesting information regarding the transaction. The Retrieval/Inquiry Request must be researched and responded to within the timeframe set forth on the "Retrieval/Inquiry Request" notice. When a chargeback is processed, a Chargeback Notice is sent to the Department, with the latest date that the chargeback transaction can be disputed.

- Cashiers (i.e., Department staff processing credit/debit card transactions) are not allowed to process credit/debit card chargebacks. An authorized individual who is not a cashier and does not perform reconciliations, should process all refunds back to the cardholder's credit/debit card.

- Credit card transactions must not be split so as to process separate transactions to meet the cardholder's credit limit. Cash or checks may be accepted to cover amounts beyond the presenter's credit card limit, but only to satisfy the amount owed.

- Cashiers must not retain any documents bearing a credit/debit card number and expiration date.

- Cashiers must verify the effective date of the credit/debit card and determine that the card is not expired. The card can be accepted only if the transaction date falls within the date range listed on the card (in the case of those cards showing a beginning and ending date), or only if the transaction date falls on or before the expiration date listed (in the case of those cards showing only an ending date). If the card is not valid, or has expired, the card must be returned and another card or form of payment must be requested.

- Credit/debit cards must be reviewed for the required trademarks and/or holograms. If the card does not have the required trademarks and/or holograms, or has been altered in any way, the authorization clerk must call the authorization center for further assistance, in accordance with the Merchant Services Agreement.

- Cashiers must ensure that the last four digits of the account number embossed on the card match the four digits of the account number displayed on the terminal.

- Cashiers must ensure that the signature panel on the reverse side of the card has been signed and that the card has a magnetic stripe.

- Department cashiers must compare the signature on the credit card slip with the signature on the card.

- Departments must be knowledgeable of the terms and conditions of the Merchant Services Agreement.

- Department cashiers must balance their daily credit/debit card transactions before the bank's cut-off time. The cut-off time in Southern California is specified in the applicable Merchant Services Agreement. A separate individual (i.e., other than the cashier) should run a machine tape total, excluding voids, of the day's transactions and compare that total to the terminal total.

- Department cashiers must not take credit/debit cards to cover bad checks.

- Department cashiers must not process cash advances to cardholders. Payments must be in the exact amount of the transaction.

- Departments must not process credit/debit card transactions for another department.

- Departments must review and reconcile the credit/debit card merchant statements to ensure the department is being charged the pricing indicated on the Equipment Pricing Schedule, Processing Fee Schedule, and the Card Interchange Program and Rate Schedule from the Merchant Services Agreement.

Departments that accept telephone/mail ("card-not-present") payments must verify to the greatest extent possible the cardholder's identity and the validity of the transaction. Basic fraud controls include the following actions:

- Obtain an authorization from the card issuer.

- Enter into the card terminal the authorization request with the cardholder's billing address, expiration date, and the card verification code. An issuer-validated card verification code or value (three-digit or four-digit number printed on the front or back of a payment card) is a good indicator that the card is genuine. An invalid or missing expiration date may indicate that the person does not have the actual card in hand.

1.3.5.3 Protection of Cardholder Data

The cardholder data requiring protection consists of the account number, cardholder name, expiration date, and/or service code. The service code is the three-digit or four-digit value in the magnetic-stripe that follows the expiration date of the payment card on the track data; it is used for various purposes such as defining service attributes, differentiating between national and international interchange, and identifying usage restrictions. To help ensure that cardholder data is adequately protected:

- All County credit/debit card application systems, including application systems hosted and/or furnished by a third-party vendor, that store, process, or receive cardholder data to accept credit/debit cards, must comply with the Payment Card Industry (PCI) Data Security Standard (DSS).

- All County credit/debit card application systems developed in-house (e.g., by a contractor or County employees), purchased from another government agency or purchased as a Commercial Off The Shelf (COTS) application system, and that store, process, or transmit cardholder data, must comply with the County's Chief Information Security Officer's application security standards. Some of the factors to be addressed are network connectivity, database access, and secure coding practices for the application.

- Physically secure all paper that contains cardholder data and employ security measures in disposing of sensitive cardholder data when no longer needed.

- Prohibit the storing in any database, log files, or Point-of-Sale products, any sensitive data from the magnetic stripe or data chip of the card. This data is alternatively called full track, track, track 1, track 2, and magnetic stripe data. In the normal course of business, the following data elements from the magnetic stripe may need to be retained: the cardholder's name; the card number; card expiration date; and service code. To minimize risk, store only those data elements needed for business. Never store the card verification code or value used to verify card-not-present transactions or personal identification number (PIN) verification value data elements.

- Printed receipts and/or other transaction records given to the cardholder should display only the last four digits of the account number.

- Never send cardholder data via email.

- Stored account numbers in databases, logs, files, backup media, etc., must be secured by means of encryption or truncation.

- Account numbers must be truncated to reflect only the last four digits before they are logged (saved) in the audit log.

- Cardholder data must be restricted on a need-to-know basis.

- Multiple physical security controls (such as badges, escorts, or two sets of doors which require individuals to enter and close the first set before being granted access through the second set must be implemented) in places that would prevent unauthorized individuals from gaining access to the facility.

- Where wireless technology is used, restrict access to the wireless access points, wireless gateways, and wireless handheld devices.

- Physically protect equipment (such as servers, workstations, laptops, and hard drives) and media (including, but not limited to, computers, removable electronic media, paper receipts, paper reports, and faxes) containing cardholder data from unauthorized access.

- Implement procedures to handle secure distribution and disposal of backup media and other media containing sensitive cardholder data.

- Inventory and securely store all media devices that store cardholder data.

- Delete or destroy cardholder data before it is physically disposed of (for example, by shredding papers or erasing information from backup media to ensure it cannot be reconstructed).

- Maintain and implement policies and procedures to manage third-party service providers with whom cardholder data is shared, or that could affect the security of cardholder data, as follows:

  a. Maintain a list of third-party service providers.

  b. Maintain a written agreement that includes an acknowledgement that the third-party service providers are responsible for the security of cardholder data which the third-party service providers possess or otherwise store, process, or transmit on behalf of the department, or to the extent that they could impact the security of the customer’s cardholder data environment.

  c. Ensure there is an established process for engaging third-party service providers, including proper due diligence prior to engagement.

  d. Maintain a program to monitor third-party service providers’ PCI DSS compliance status at least annually.

  e. Maintain information about which PCI DSS requirements are managed by each third-party service provider, and which are managed by the department.

- In the event that transaction data is accessed or retrieved by an unauthorized person or entity, immediately notify the Chief Information Office's Chief Information Security Officer. The Board of Supervisors Policy Manual should also be reviewed for additional requirements regarding information technology related security incidents.

1.3.6 Collections Received by Mail - Internal Controls

- Where there is a large volume of checks received by mail, two employees should be assigned to open the mail and record receipts. The assigned employees should:

  a. Open and sort the mail.

  b. **With the exception of those checks which are deposited using Remote Deposit Service and receive a virtual endorsement, restrictively endorse all checks immediately**.

  c. Prepare a listing of checks received (if the volume of mail is too large, an adding machine tape may be prepared in lieu of listing each receipt).

  d. Cross-reference each check to the supporting documents (e.g., case file, patient record, etc.).

  e. Reconcile the listing of mail receipts to checks and supporting documents to ensure that all receipts have been accounted for.

  f. Forward a copy of the mail receipts listing and supporting documentation to the person responsible for reconciling collections to deposits.

  g. Forward the checks to the cashier for immediate entry on the cash register or issuance of a departmental receipt or recording of the receipt.

  Note: Out-of-state checks received through the mail should be accepted and deposited immediately.

- An individual independent of the cash handling function should investigate questionable items (e.g., unidentifiable payments, wrong payee, etc.).

- Supervisory personnel should approve (in writing) all adjustments to the listing of mail receipts.

1.3.7 Deposits

The eCAPS Deposit Permit (DP) is used to record cash receipts (e.g., cash, checks, money orders, etc.) into any County fund. There are several ways to process deposits in the County, including the following:

- Treasurer and Tax Collector (TTC) Window Deposit
- Local Bank Deposit, Remote Deposit Service, and TTC SWEEP
- Sacramento Lockbox
- Automated Clearing House (ACH)
- TTC Lockbox - Manual or Automated

To ensure that the County's cash records are updated timely and to safeguard assets, deposits must be made promptly. The frequency of deposits will also be determined by the amount of funds received by a depositing office.

1.3.7.1 General Controls Over Deposits

The following controls must be implemented to safeguard cash and checks and ensure that deposits are made promptly:

- Collections must be deposited promptly and intact. No disbursement should be made from collections prior to deposit.
- Deposit integrity must be maintained at all times by ensuring that amounts deposited in cash and checks are accurately recorded on the deposit slip. An independent verification of the amount to be deposited to receipts and reports must be made by a supervisor.
- Departments making deposits using an Armored Transport Service must prepare one deposit for cash and coin and one deposit for any checks not deposited remotely.
- Departments that collect $500 or more in cash or checks daily should make the deposit by the close of each business day.
- Collections of less than $500 per day may, at the discretion of the department, be held and deposited when the total reaches $500, provided that deposits are made at least weekly, (e.g., close of business on Friday or end of the scheduled work week) regardless of the amount collected.
- Individual checks of $500,000 or more should be reported to the Treasurer and Tax Collector's Cash Management Division on the morning of the deposit to facilitate investment of the funds.
- In general, DPs will be posted to the appropriate revenue account when the revenue is considered earned. Departments may post to their departmental trust account if the revenue has not been earned or the revenue account is not known at the time of deposit.

- For departments using the eCAPS Receivable module, the DPs will initially be posted to their departmental trust account. An eCAPS Journal Voucher Cash Transfer (JVCT) is used to update the customer receivable account and record the revenue.

- Departments should ensure the DP in eCAPS agrees with the actual deposits. In addition, for Local Branch Deposit (TTC SWEEP Approach) and Remote Deposit Service, departments should ensure DP's agree with the monthly bank statement.

1.3.7.2 Treasurer and Tax Collector (TTC) Window Deposit Approach

For a TTC window deposit, departments are required to enter the DP and apply the departmental approvals for the DP in eCAPS. Departments will print the DP from eCAPS and bring the hard-copy of the DP with the cash and checks, to the TTC cashiering window.

- All DPs data should be entered by the department.

- Two approvals on all DPs are applied by the department. At least one approver should not have data entry rights.

- DPs must be approved by the departments within one business day of receipt of the funds if they total $500 or more.

- Final approvals on all DPs must be entered by the TTC's Cashiering Unit.

- Once submitted by the department to the TTC, a DP will not be cancelled by the TTC approver, but may be rejected by the TTC if funds are not processed in eCAPS within five days of the approved DP.

- Corrections to check amounts must be made by the TTC's Banking and Remittance Processing Division with an Adjustment DP.

- The total amount of receipts issued for collections should be reconciled daily to the corresponding DP amount approved in eCAPS.

- Deposits with the Treasurer need to conform to the Treasurer and Tax Collector's cash strapping (bundling) procedures. Contact the Treasurer and Tax Collector's Banking and Remittance Processing Division for instructions on bundling of deposits.

1.3.7.3 Local Branch Deposit, Remote Deposit Service, and TTC Sweep Approach

If monies collected are deposited into a local bank account, the funds must be transferred to the TTC each night using a Sweep Account (deposit consolidation service). Contact the TTC's Cash Management Division to arrange for a Sweep

Account or to discuss alternate methods (e.g., Armored Transport Service, lock box). The TTC's SWEEP system will automatically generate DPs for each department Sweep account.

- The department will retrieve the SWEEP DPs from the eCAPS Document Catalog, verify the postings, and take appropriate action to recognize the revenue crediting the receivable or reclassifying the accounting posting.

- Bank deposit information (duplicate deposit slips) should be received directly from the bank by a person independent of the deposit function. **Non-Sufficient Funds** checks should also be reported by the bank to the same independent person.

- Departments should ensure a DP in eCAPS agrees with the actual deposits and with the monthly bank statement.

1.3.7.4 Sacramento Lockbox/ACH-EFT Approach

External entities such as the State of California and federal agencies routinely deposit funds directly into the County's bank accounts. Deposits from the State are referred to as "Sacramento Lockbox" deposits. Federal agencies and other entities, when arranged through the TTC, send electronic file transfers. The bank notifies the TTC when such deposits have been made. At approximately the same time, the depositing agency forwards a transmittal/remittance advice to notify the TTC and/or the Department of the Auditor-Controller's (A-C) Accounting Division of the deposit and provides information related to the remittance.

1.3.7.5 TTC Manual Lockbox Approach

Departments may make arrangements with the TTC's Banking and Remittance Processing Division to establish post office lockboxes for customer remittances, provide balance sheet account information to enable the TTC to create the DP and deposit the remittances. Customers send payments and/or remittance advices to the lockbox by US mail as directed by the departments.

1.3.7.6 TTC Automated Lockbox and Departmental Miscellaneous Receipts

Departments may make arrangements with the Treasurer and Tax Collector's Banking and Remittance Processing Division to establish post office lockboxes for customer payments and scannable remittance advices. Departments should provide balance sheet account information to enable the TTC to prepare the deposits. The TTC assigns a "Client Number" to each department participating in the automated lockbox program. Customers send payments and scannable remittance advices to the lockbox by US mail as directed by the departments.

- To initiate the DP, TTC staff will:

a. Open the mail by lockbox and remove the check(s) and scannable remittance advice(s).

b. Process scannable remittance advices and checks on the TTC's remittance processing equipment.

c. Reconcile the checks to the scannable remittance advices.

d. Deposit the funds in the bank.

- The TTC's Departmental Miscellaneous Receipt (DMR) System will send a digital file of DMR DPs to eCAPS to generate the DP documents with the dollar amount calculated during the reconciliation process.

- The TTC's Internal Controls Branch Supervisor will apply an eCAPS Approver 3 approval for final submission of the lockbox DP(s) for posting to eCAPS. The approval will be a paper-based, off-system procedural step.

- The department must search eCAPS for the Automated Lockbox DP(s) and verify their proper posting.

1.3.7.7 Remote Deposit Service

Most County departments that deposit checks into a Bank of America account are required to utilize that bank's Remote Deposit Service (RDS). Among those which are exempt from utilizing the RDS are:

- The Treasurer and Tax Collector, which deposits funds through other electronic means;

- Those departments only depositing County warrants at a local Bank branch to replenish a revolving fund account;

- Those departments which are occupants of the Kenneth Hahn Hall of Administration which deposit their checks at the Treasurer and Tax Collector's Cashiering Unit;

- Those departments which have third-party providers depositing checks on their behalf; and

- Those departments for which the RDS would not be cost-effective, as determined by the Treasurer and Tax Collector.

The RDS is a web-based application that allows departments to make electronic deposits from any desktop computer using scanners provided by the bank. An authorized user runs the paper checks through the scanner, thereby capturing images of the checks along with the Magnetic Ink Character Recognition (MICR) data on each check. At any point in the day prior to the bank's cutoff time, the user transmits the images and data to the bank using a secure Internet connection. In addition to the following controls for the scanning of checks and their electronic submission to the bank, departments should follow all existing deposit controls and procedures required by the CFM:

- Limit access to scanners, electronic check images, and the bank's RDS based on each user's responsibilities as required by CFM Section 8.7.4.

- Ensure deposits can only be made to authorized County bank accounts.

- Ensure authorized staff independent of the deposit process reconciles deposits with eCAPS reports and bank statements (which are available electronically through the bank's online application in addition to or in place of those which are mailed to departments); reviews and resolves deposit errors from the bank or on eCAPS, and other management and exception reports.

- Ensure encryption and other appropriate data security protocols are in place for the electronic transmission of sensitive information between the County and the bank, and for the software that supports the scanners and deposit process.

- Establish a secure means of check processing, storage, and disposal (e.g., shredding), and ensure that all scanned checks are accounted for and disposed of properly.

- Ensure that users are knowledgeable of the requirements in the bank's RDS user guides.

- Ensure the original paper checks are safeguarded for a minimum period of 14 days or when all reasonable attempts to collect on the item have been made.

- Storing the checks in a secure location with access limited only to those staff who have a need to maintain such access.

- After the storage period, which is needed in case the image of the check transmitted to the bank cannot be processed due to various reasons, each item should be destroyed to an extent which makes it impossible to reconstruct the item. A cross-cut shredder is recommended.

- The bank will make the check images available for seven (7) years through the image access service of its online application. Since checks are available to view online for seven (7) years, departments should not download and save the images. If a department needs to save the images, it should obtain clearance from its departmental Information Security Officer before doing so.

- Departments should keep any existing paper deposit slips in case there are any checks rejected by the scanner two times; in such cases, these checks will have to be deposited as paper items. When depositing checks through the RDS scanner, departments should use only the virtual deposit slip created within the RDS application. Departments should not use paper deposit slips for the RDS, and should not use the deposit slips created within the RDS application to deposit paper items at a local bank branch.

- Ensure that foreign checks are not deposited through the RDS. Deposits of foreign checks should be processed in accordance with the instructions listed in the bank's RDS user guide.

- Establish internal controls to safeguard scanners from tampering, accidental loss, damage, or theft, as required by CFM Section 8.7.6.

- Ensure the scanners are used in a secure work area.

- Ensure the departmental Information Security Officer reviews the configuration of the scanners to ensure proper security controls are in place to mitigate risk.

Any questions regarding the RDS should be directed to the Treasurer and Tax Collector's Cash Management Division.

1.4.0 CASH SHORTAGES AND OVERAGES

Cash shortages and overages may occur as a result of daily cashiering operations. In addition, cash shortages may result from burglary, robbery, misappropriation, or other circumstances. Departments are required to internally monitor cashiering shortages of $100 or less. Daily cash shortages of more than $100 must immediately be reported, by telephone, to the Auditor-Controller's Office of County Investigations (OCI) at (213) 893-0348 and in writing. See Section 14.1.2 for shortages of more than $100.

1.4.1 Internal Controls

- Departments (except the Treasurer and Tax Collector) are responsible for identifying cash shortages and overages, if any, on a daily basis.

- All shortages and overages must be separately accounted for and reported. ***Shortages and overages must not be offset against each other.***

- Branch locations should notify their departmental business office of all overages and shortages.

1.4.2 Cash Shortages

Effective November 12, 1996, the Board of Supervisors approved eliminating the Cash Difference and Cash Overage Funds. Discontinuance of these funds eliminates significant amounts of paperwork and accounting entries to keep track of nominal shortages and overages. With this change, departments do not have to report shortages of $100 or less to the Auditor-Controller. Similarly, departments will not be reimbursed by the Auditor-Controller for shortages of $100 or less. Departments still have to closely monitor and investigate all shortages.

Note: For shortages that affect trust funds (See Trust Accounts Section 2.3.2), departments must reimburse the trust fund from their departmental budgets.

- Departments must prepare a Cash Difference or Overage Report (See the sample of Cash Difference or Overage Report in Section 1.4.4). All information requested should be entered on the form and the circumstances that led to the shortage documented in the **NOTES** section on the form.

  Note: The Cash Difference or Overage Report should be completed and maintained internally by departments to account for cash shortages of $100 or less. For shortages of more than $100 the Report must be completed and submitted to the Auditor-Controller's Office of County Investigations.

- Cash Difference or Overage Reports are to be numbered and signed by the department's accounting or business manager and filed by fiscal year by the department. Unless otherwise audited, departments must retain Cash Difference or Overage Reports, including supporting documentation, for a minimum of three years.

- The deposit slip (permit) should be prepared for the amount of the actual deposit made (do not include the cash shortage amount).

- Departments should create a summary report of all cash shortages for the fiscal year-end and have it available for review by the Auditor-Controller's Audit Division.

- ***Deposits should not be withheld or delayed because of an overage or shortage unless there is an overriding justification.***

- Departmental fiscal managers should closely monitor cash shortages to identify trends or unusual occurrences of cash shortages and should follow up on instances where shortages appear frequently. The Auditor-Controller's Office of County Investigations (OCI) should be contacted when shortages occur with regularity in any area.

- If any shortage is the result of a suspected theft or intentional misappropriation, the responsible law enforcement agency should be contacted. A copy of the resultant law enforcement agency's report should be kept on file in the department's business office. The OCI should also be notified of the incident.

- Shortages resulting from counterfeit bills received by the department should be reported in accordance with procedures discussed in Section 1.7.0 (Counterfeit Currency) of this chapter.

- Shortages that occur on deposits unrelated to departmental revenues, such as money held in trust on behalf of others, should continue to be reimbursed by departments. Departments should prepare a journal voucher to reimburse trust fund shortages as follows:

  Expense-Departmental Budget
  Cash-General Fund (or other applicable fund)

  Cash-Trust Fund
  Trust Accounts Payable

  The specific shortage reports that are being reimbursed should be referenced in the journal voucher explanation section.

  Note: This Section is only applicable to shortages in daily collections. It does not apply to shortages in accounts or revolving fund shortages. Shortages in accounts and revolving fund shortages that occur after a cash deposit has been made should be reported to the OCI in accordance with procedures in Chapter 14 (Losses) and/or Chapter 15 (Employee Misconduct) of this manual.

1.4.3 Cash Overages

- Departments should prepare a Cash Difference or Overage Report for all overages by cashier (follow the same format used for reporting cash shortages). One report may be used to document cash shortages/overages that occur on the same day.

- Cash overages which cannot be specifically identified and refunded to the payer should be receipted for and deposited. The Deposit Permit should include the cash overage, which should be recorded as revenue to the depositing department.

1.4.4 Sample - Cash Difference or Overage Report

COUNTY OF LOS ANGELES
CASH DIFFERENCE OR OVERAGE REPORT

Report of:	Fund/Organization Level 1:	Account Number:	Date of Collection/Receipt:
Report prepared by:	Telephone No.:	Fiscal Year:	Report No.:
ACCOUNTABILITY		**Amount**	
		Detail	Total

DEPOSIT PERMITS BY FUNDS				
Fund/Organization Level 1	Account	Amount		
CASH DIFFERENCE AND CASHIER SHORT				
Name		Cashier No.		
CASH DIFFERENCE AND CASHIER OVER				
Name	Cashier No.	Receipt No.		
		TOTAL		

Supervisor Name:____________________ Signature:____

Title:____________________ Date:____

NOTES:

1.5.0 NON-SUFFICIENT FUNDS (NSF) CHECKS

1.5.1 Description and Authority

Government Code Section 6157 and County Code Section 5.02.010 authorize all County officers to accept negotiable instruments (checks) in payment of any license, permit, fee, fine or any obligation owed the County. County Code Section 4.10.010 (effective January 1, 2002) requires County departments to impose a $33 charge (or alternate approved rate by the Board of Supervisors) for all checks returned due to "Not Sufficient Funds" (NSF).

Section 1719 of the Civil Code provides that the maker of an NSF check is liable for treble damages (a minimum of $100 to a maximum of $1,500) in addition to the face value of the NSF check if payment plus the $33 charge is not received within 30 days of notification of the NSF check. When a department receives a NSF check, the department must ensure that no services paid for with the NSF check are rendered if possible until the NSF check is made good. It is also the department's responsibility to send a written demand by Certified Mail to recover any funds connected with an NSF check. For further discussion regarding written demands, see Section 1.5.3.

1.5.2 Handling of NSF Checks

The following guidelines have been established for handling NSF checks:

- A $33 charge should be assessed for all returned checks. Charges collected should be deposited as departmental revenue in the account used for Service Charges for Returned Checks. The $33 charge may be waived if the payer can show evidence that the NSF check was a result of a bank error (e.g., posting a deposit to someone else's account, etc.).

- A sign should be posted in a visible area indicating that any check returned by the bank will have the above $33 charge added to and become part of the total obligation due to the County.

- Procedures for checks returned NSF are as follows,

    a. If a department deposits its collections directly with the Treasurer and Tax Collector or if a check deposited directly with a bank is returned, the following steps should be taken:

        1) Establish a log of incoming NSF checks which will identify the checks, collection efforts, and status of the checks (e.g., paid, unpaid, referred to the Treasurer and Tax Collector, etc.).

        2) If applicable, immediately stop any services being provided. Flag the payer file to ensure that no future services are provided and that no other checks are accepted until the NSF check is made good.

        3) Immediately contact the payer with a written demand sent by Certified Mail and try to collect the funds (Certified Mail Receipts - PS Form 3800 - can be obtained from the Post Office). Be sure to record the Certified Mail Receipt number on the demand letter. Only accept cash, cashier's checks or money orders for payment on NSF checks. Wording which has been approved by County Counsel in the demand letter should be used (See Section 1.5.3).

        4) If the 30 day period in the demand letter expires without payment, the department should immediately refer the NSF check to the Treasurer and Tax Collector. Attach the original NSF check, a copy of the demand letter, and the original Certified Mail Receipt to the Collection Referral form.

5) The Treasurer and Tax Collector will notify departments when collections on referred NSF checks are received.

6) NSF check processing duties should be separated to the greatest extent possible to ensure that incompatible functions, such as pursuing collections is separate from dispositioning and accounting for collections. In no case should a person pursuing collections be authorized to adjust the amounts due.

As a rule, timely collection action on a debt increases the possibility of collection. Allowing NSF check writers to purchase goods and services without an aggressive attempt to obtain repayment encourages them to write more NSF checks. Aggressive action tends to increase the likelihood of payment reducing the number of uncollectible NSF checks.

With the use of the demand letter, and with Section 1719 of the Civil Code in place notifying NSF check makers of liability of treble damages in addition to the amount of the NSF check, the collection effort will be strengthened. Any questions concerning NSF checks should be directed to the Auditor-Controller's Office of County Investigations at (213) 893-0348.

1.5.3 Sample - NSF Check Demand Letter

Date_________________

CERTIFIED MAIL

RECEIPT NO.

Dear:

Your check in the amount of $ has been returned unpaid by your bank. You must submit a cashier's check or money order for the amount of your check plus a $33 handling fee for a total amount of $ payable to this office within 30 days from the date of this letter.

Section 1719 of the California Civil Code provides that you will be liable for damages which total three times the amount of the check, with a minimum of $100 and a maximum of $1,500, in addition to the face value of the check for failure to pay the amount of a dishonored check plus the $33 charge within 30 days from the date of this letter.

If you fail to redeem the returned check within 30 days from date of this letter, it will be referred to the Los Angeles County Department of Treasurer and Tax Collector for enforcement in accordance with this law.

Sincerely,

1.6.0 REVOLVING FUNDS

1.6.1 Authority and Description

A revolving fund, established in accordance with Government Code Section 29321.1, is a predetermined amount (fixed sum) of money maintained on an imprest (fixed) basis that is available for use by departments in carrying out official County business. A revolving fund can be used to make change (during regular collection activities) or to purchase goods and services which are legal and authorized charges against the County. Authority to spend revolving funds must be authorized in the Board approved budgetary process and operating funds must be encumbered prior to making expenditures.

Departments may establish revolving funds for specific purposes such as Cash Aid disbursements and grants (Special Purpose funds). Revolving funds can consist of cash on hand and/or funds deposited in a checking account (approved by the Treasurer and Tax Collector). The fixed assigned amount of a revolving fund will vary depending on the purpose and the need (e.g., volume of activity, frequency of reimbursement, etc.).

A departmental revolving fund can be assigned or sub-assigned to various locations (e.g. sections, divisions, etc.) within a department. Departments should control each sub-assignment in the same manner as the regular fund assignment.

- Petty Cash (used for small departmental expenditures) is defined as an imprest cash fund of an assigned fixed amount. The imprest fund is restored to its original amount at frequent intervals by the issuance of a County warrant payable to the fund custodian of the petty cash fund or the department head, or by ACH direct deposit. The replenishment warrant or direct deposit is equal in amount to the expenditures made from the fund supported by receipts. Uses of Petty Cash are discussed in greater detail in Section 4.6.0 - Revolving Fund Purchasing Authority.

- A change fund (See Section 1.6.5) is an imprest fund used to facilitate the collection of money from customers. The amount of the change fund is deducted from the total cash on hand at the close of the business each day to determine the daily cash collections. The remaining cash collections should be counted and reconciled to the cash register tape daily or to handwritten receipts.

- Cash Aid Funds (See Section 1.6.8) are distributed to certain departments (Departments of Public Social Services, Health Services, and Children and Family Services) for the purpose of supplying emergency funds to welfare recipients, foster children and indigent patients. Such uses include bus tickets or other transportation needs, and work search funds for General Relief recipients.

- Special Purpose Revolving Funds may occasionally be established for a specific purpose such as the District Attorney's Witness Protection Fund. The usage and accountability of such funds will generally be governed by specific legislation, grant or program requirements, etc.

1.6.2 Objectives of Internal Control

- To ensure departments maintain proper accountability and security over all revolving fund monies used to purchase needed services or supplies and provide change to cashiers (i.e., change fund) to conduct daily operations.

- To ensure revolving funds are only used for authorized purposes. (See Section 4.6.0, Revolving Fund Purchasing Authority)

- To ensure that monies used to purchase needed services and supplies are authorized through the Board approved budgetary process.

1.6.3 Internal Controls Over Revolving Funds

In addition to the general controls cited in Section 1.1.3, the following are controls and procedures that should be followed to ensure proper accountability and security over all revolving funds.

- Each fund must be maintained on an imprest basis (a fixed sum of money is assigned as the fund amount). The assigned fund amount will consist of: cash-on-hand and in the fund's checking account, receipts/invoices for which reimbursement has not yet been requested, and reimbursement requests in process, but not received.

- A statement of responsibility, which specifies the amount of the assigned fund and which is signed by the current custodian of the fund, must be on file in the department's business office. A signed statement (See sample form in Section 1.6.7) of responsibility must be maintained for each sub-assignment (e.g., petty cash, change, cash aid, special purpose, etc.).

- Annually or whenever the fund custodian changes, a department must complete a responsibility statement to account for its revolving fund(s), including all sub-assignments and the name of each custodian.

- Responsibility for each revolving fund assignment and sub-assignment must be vested in only one person. Someone else, however, should have controlled access to the fund in case of absence or emergency.

- There should be a separate custodian for each fund assignment/sub-assignment (i.e., change fund assignment or petty cash assignment at each departmental location with an assigned fund).

- The custodian of the fund must not have any other cash handling responsibilities (including the ability to sign checks or authorize revolving fund disbursements).

- Surprise cash counts of the revolving fund monies of $200 or more should be conducted at least quarterly. Surprise cash counts of revolving fund monies less than $200 should be conducted at least annually. The surprise cash counts should be conducted by employees not having cash handling responsibilities over the specific fund being counted. A record of the date and the amount counted should be maintained in the department's business office.

- Each day that the Revolving fund is used, the fund custodian should reconcile it to its assigned amount.

- The fund must not be used to cash checks or loan money to employees, except advances for properly pre-authorized petty cash purchases.

- All revolving fund monies must be secured at all times in a locked safe, locked file cabinet, or locked cash drawer.

- Each revolving fund assignment must be maintained separately from all other assigned funds. Funds must not be commingled. For example, the change fund must not be used to replenish the petty cash fund and, likewise, the petty cash fund must not be used to make up any differences in the change fund.

- Revolving fund(s) must be kept clear of shortages and overages. Change fund shortages or overages resulting from daily cashiering operations are to be reflected in the daily collections, not the revolving fund. (See Section 1.4.0)

- Refunds of revolving fund disbursements for which reimbursement has already been requested and/or received must be deposited into the General Fund via a "Deposit Permit" crediting the appropriate expense account.

- Under no circumstances should daily collections be withheld (not deposited) and used to establish or increase a revolving fund.

1.6.4 Establishing or Changing the Amount of a Revolving Fund

If a department determines that a new revolving fund is needed or the amount of an existing revolving fund needs to be changed, the department must submit a letter to the Auditor-Controller's Audit Division requesting that a revolving fund be established, increased or decreased. The letter should document the following:

- The reason(s) for the request to establish a revolving fund or to change the amount of the revolving fund.

- The proposed use(s) and specific authorizing legislation, where applicable.

- The amount of the fund or increase/decrease needed. For petty cash funds, the amount of the fund should equal approximately one month’s expenses (an estimate based on available data). For change funds, the amount needed will depend on the number and types of transactions to be made and the number of locations needing change funds.

Note: Departments must keep a current listing of all revolving fund assignments and sub-assignments. The listing should be routinely updated as changes in assignment balances and fund custodians occur. The Auditor-Controller's Audit Division requires an accounting of all revolving fund assignment balances prior to approving increases/decreases to a fund assignment.

1.6.5 Change Funds

A portion of a departmental revolving fund can be used as a change fund. A change fund is only needed by departments having cash collections. It is to be used to make change during the normal course of business. The change fund must always remain at its assigned (fixed/imprest) amount. For example, if a $50 change fund is assigned, at the end of each day, $50 should be counted out and set aside from the daily collections. Any overages or shortages as a result of daily cashiering are to be reflected in the daily collections, not the change fund. All change fund sub-assignments should use the imprest method of accounting.

1.6.6 Replenishment of a Revolving Fund

A revolving fund may be replenished via Electronic Funds Transfer (EFT) or via a County warrant issued by the Auditor-Controller's Disbursements Division; **NEVER** by withholding cash receipts. The payee name on the EFT or warrant must match the revolving fund bank account name. To request replenishment via EFT, an e-mail must be sent to the Auditor-Controller's Disbursements Division at disb.directdeposit@auditor.lacounty.gov. Once each month (or more often if the need arises), departments should request reimbursement of a revolving fund. The specific reimbursement procedures for revolving funds should be in accordance with each department's online vendor payment guidelines and Expenditures, Chapter 4. The following guidelines apply:

- Departments must request reimbursement of the fund in the exact amount of the expenditures made from the fund. The total of monies on-hand (and/or in a checking account) and unreimbursed expenditures or reimbursements in process must always equal the fund assignment. All expenditures for which reimbursement is requested must be supported by properly approved invoices and receipts.

- Upon receipt of the warrant reimbursing the revolving fund, department staff should immediately cash the warrant and secure the funds with the revolving fund monies (or deposit the funds into the revolving fund checking account, as appropriate).

- At fiscal year end, the department should request reimbursement of the fund at an appropriate time to ensure that expenditures are reflected in the proper accounting period.

- If reimbursement of a revolving fund is not regularly needed on a monthly basis, it may be an indication that the fund assignment is excessive for the department's needs. In such a situation, department staff should reevaluate the amount of the fund assignment and excess funds should be returned (with an appropriate written explanation) to the Auditor-Controller's Accounting Division.

- Shortages in an assigned revolving fund (that is, a shortage that occurs after a daily cash deposit has been made and the fund fully accounted for) are to be reported to the Auditor-Controller's Office of County Investigations in accordance with procedures in Reporting and Reimbursement of Losses, Chapter 14 and/or Employee Misconduct, Chapter 15.

1.6.7 Sample "Statement of Responsibility" Form

Revolving Fund – Responsibility Statement

(Date)

County of Los Angeles ____
Department Name

I certify there is in my custody $__________________ at ______________________________ (i.e., location) as of the above date, a portion of the Revolving Fund established for use by the (Department name), in accordance with the provisions of the Government Code.

I acknowledge responsibility for the $_______________. This responsibility statement supersedes all previous acknowledgements. This fund is under the immediate supervision of ____________________________________ (print Supervisor's Name).

____
Custodian name (Type or Print name)

____
Signature of Custodian

____
Date

____
Telephone Number

____
Secondary Custodian Name
(Type or Print name)

Approved by:

____

Supervisor's Signature

____
Title

1.6.8 Cash Aid Funds - Authority and Description

Cash aid funds are distributed to certain departments (Departments of Public Social Services, Health Services, and Children and Family Services) for the purpose of issuing emergency funds to welfare recipients, foster children and indigent patients. Such uses include bus tickets or other transportation needs, and work search funds for General Relief recipients.

1.6.9 Internal Controls Over Cash Aid Funds

In addition to the general controls cited in Section 1.1.3, the following are controls and procedures that should be followed to ensure proper accountability and security over Cash Aid Funds.

- Cash aid funds should be used only for those expenses authorized, not for expenses covered by the department's regular revolving fund.
- Cash aid funds must not be commingled with the department's regular revolving fund monies.
- All issuances of cash aid should be recorded on a cash aid disbursements log indicating the case name, case number, amount of issuance, recipient's signature, date of payment and any other necessary information. This information must be recorded legibly to assist in the reimbursement process.
- The recipient's signature must be obtained for all cash aid disbursements. The signature must be verified by comparison to the recipient's Department of Motor Vehicles' (DMV) Driver License or other valid picture identification. A visual comparison with the picture on the license or other identification card (e.g., DMV ID card, employer ID card, current passport etc.) should also be made.
- Unannounced cash counts of the fund should be performed at least quarterly by supervisory personnel.
- Only authorized personnel should have access to cash aid funds.
- All funds must be stored in a secure location (e.g., safe).
- Shortages and overages should be handled in accordance with the Cash Shortages and Overages, Section 1.4.0 of this manual.

1.6.10 Reimbursement of Cash Aid Funds

Once each month request reimbursement of the cash aid fund as follows:

- Submit a letter to the Auditor-Controller's Disbursements Division requesting reimbursement of the fund. The letter should identify total funds expended and the breakdown of expenditure types (e.g., cash, bus tickets, etc.). Reimbursement requests for the prior month cash aid expenses should be submitted no later than the 10th of each month.

- Facilities requesting reimbursements should maintain all supporting documents and corresponding reimbursement request letters in good order. Supporting documentation should be made available for review by Auditor-Controller representatives upon request.

- Upon receipt of the reimbursement, the warrant should be immediately cashed and the funds secured with the cash aid monies. Allow two weeks for receipt of the reimbursement warrant.

1.7.0 COUNTERFEIT CURRENCY

1.7.1 Description

The U.S. Secret Service of the Department of the Treasury is responsible for the control and suppression of counterfeit currency. County departments must complete a United States Secret Service "Counterfeit Note Report" (Form SSF 1604) to report counterfeit currency (See http://www.secretservice.gov/money_receive.shtml for the "Counterfeit Note Report" Form SSF 1604). This report can be obtained online and submitted with the suspect's counterfeit note to the Los Angeles County Treasurer and Tax Collector, any local bank, or the U.S. Secret Service.

1.7.2 Internal Controls Over Handling of Currency

The following internal controls must be followed in handling of currency:

- Cashiers should look at all currency they receive and compare any suspect bills with a genuine bill of the same denomination and series or use a counterfeit pen marker or any other electronic devices available to authenticate the bills (This should always be performed for currency denominations of $100 or greater after visual observation of imbedded security markings).

- Questions as to the authenticity of the currency should be directed to the U.S. Secret Service.

- Currency identified as being counterfeit must not be returned to the individual that passed the counterfeit bill.

- Cashiers taking in counterfeit currency should write their initials and date on the border of the bill prior to surrendering the counterfeit bill.

- Cashiers should limit as much as possible the handling of the bill to preserve any fingerprints and place it in a protective cover.

- Cashiers' supervisors should surrender known counterfeit bills to the U.S. Secret Service. A Counterfeit Note Report (Form SSF 1604) should be completed at the time of surrender of the counterfeit currency.

- Departments that receive a high volume of currency should consider providing their cashiers with currency counting machines with counterfeit detection.

1.7.3 Counterfeit Currency Deposited with the Treasurer and Tax Collector

The Treasurer and Tax Collector will notify departments if counterfeit currency was discovered as part of a department's current or prior deposit. The Treasurer and Tax Collector will:

- Notify the department that a "Red Deposit" (negative adjustment) was processed against the deposit.

- Complete and forward to the affected department a copy of a "Counterfeit Note Report" (Form SSF 1604) for the amount of the counterfeit currency.

- Adjust the cash collection record for the amount of loss.

1.7.4 Reporting of Counterfeit Currency

For all counterfeit currency, the department must:

- Submit a report to the Auditor-Controller's Office of County Investigations describing the type of collection the counterfeit bill was located in and any other circumstances related to receipt of the counterfeit bill.

- Upon approval by the Office of County Investigations, a reimbursement warrant will be issued to the department.

- Upon receipt of the warrant from the Auditor-Controller's Disbursements Division, the department should immediately receipt for and deposit the warrant with the daily collections.

Chapter 2 – Trust Funds

2.1.0 TRUST FUNDS

2.1.1 Definition of Trust Funds

Trust funds consist of monies received and held by the County as a trustee, custodian, or agent for other parties or jurisdictions. Government Code Section 24351 requires each officer of a county or judicial district to deposit with the County Treasurer all trust money coming into his/her possession. Trust funds are controlled and disbursed in conformance with the Government Code and the authority and purpose of the specific fund.

Examples of trust funds include:

- Court fines and fees held in trust until earned and then distributed to the proper jurisdiction.
- Funds received from prisoners, hospital patients, etc., held for safekeeping until release.
- Funds collected and disbursed by the District Attorney and Probation Departments for court ordered settlements.
- Departmental revenue deposited temporarily into trust until transferred to revenue accounts.
- Unearned funds held in trust for various special purpose grant programs.

2.1.2 Objective of Internal Control Over Trust Funds

As a trustee/agent of the trust funds, the County is required to maintain proper accounting, reporting, and security over all funds held in trust for individuals, private organizations, other governmental units, and/or other funds and to establish safeguards to ensure funds are used only as intended.

2.1.3 Internal Controls Over Trust Funds

The following internal controls must be adhered to when establishing and maintaining trust funds:

- The department must maintain historical data documenting the trust fund's purpose and authority.
- Restricted donations and funds received from outside agencies/third parties must be immediately deposited into a departmental trust account.

- The documentation supporting disbursements from trust funds must be cancelled or otherwise identified as "paid" to prevent reuse. Also, the date paid and/or warrant number should be recorded to facilitate as needed payment tracing.

- Disbursements from trusts must indicate a payee that is an individual, group or company and not indicate a payment to "Cash" or “Bearer.” If the Requisition is to replenish a Revolving Cash Trust Fund (See Section 2.5.0), the warrant must be made payable to the department head or a designated departmental representative (e.g., Deputy Director) to negotiate the warrant.

- Trust warrants cannot be requisitioned from donation trust funds. These funds are available only after being journal vouchered into the department's operating budget (See Section 2.4.0, Donations and Donation Trust Funds). Departments need to establish or use the department’s operating budget and then transfer the funds when the donation revenue is earned.

- Records identifying the source and disposition of all trust monies must be maintained by a person with no cash handling responsibilities. These records should include receipts for trust monies received, supporting (cancelled) documentation for all disbursements made from trust, and monthly reconciliations (to eCAPS, bank records, etc.) of trust fund activity (See Section 2.1.5).

- When the need for the trust fund (purpose for which the trust fund was established) no longer exists, the trust fund should be closed by reconciling the trust and dispositioning all fund balances. The chief fiscal officer should sign off on the trust reconciliation and prepare a letter requesting the Auditor-Controller's Accounting Division to close the trust fund.

- Each trust account must be reconciled periodically (See Section 2.3.0) by staff independent of the trust requisition process. Documentation of trust account reconciliations must be retained by the department for audit purposes.

- In addition, departments must comply with specific trust and expenditure procedures provided by the Auditor-Controller’s Disbursements Division.

See the eCAPS training manuals located in the eCAPS production database at (http://ecaps.co.la.ca.us/webapp/FINPSRV11/advantage/Advantage/Help/MainHelp/MainMenuProject.htm) for more detailed procedures.

2.1.4 Establishment of Trust Funds

Departments must obtain approval to establish a new trust fund. Departments must submit a written request, signed by the department head/chief fiscal officer or designee to the Auditor-Controller's Accounting Division. The request must state the proposed purpose and use of the trust fund. All appropriate correspondence supporting the need to establish the trust fund (e.g., Board letters, etc.) should be attached to the request.

Specific authorization is required for a trust fund to be credited with interest earnings. This authorization may be in the form of a specific law, Board approval, or other legal requirement imposed by the funding source to pay interest. Sufficient documentation must accompany requests for interest-bearing trust funds.

Departments anticipating a trust fund to have a high volume of disbursements, which would be adversely affected by delays in processing such disbursements, may also consider requesting establishment of a revolving cash trust fund checking account to expedite the disbursements (See Section 2.5.0).

2.1.5 Departmental Records

Trust fund cash balances reported on eCAPS must be supported by detailed departmental records. Departments must maintain records that identify each subsidiary payee and a control total of the subsidiary payee(s). Each deposit and disbursement must be posted to the subsidiary and control record.

2.2.0 TRUST FUND DEPOSITS AND DISBURSEMENTS

2.2.1 Deposits

Trust monies collected must be promptly receipted for and deposited into the County Treasury and credited to the appropriate trust fund. If a collection account (See Cash Section 1.2.1) has been established for trust fund collections, monies deposited to the account should be swept and recorded in the appropriate eCAPS trust fund. This process is coordinated with the Treasurer and Tax Collector.

2.2.2 Disbursements

Disbursements from trust funds are normally made to disburse funds to the rightful owner or to disburse funds of a non-budgeted entity or jurisdiction for which the County is acting as trustee/agent. ***Trust funds should never be used to circumvent the County's budgetary process (i.e., County expenditure payments should never be disbursed from trust funds).***

Disbursements out of trust ***except in unusual pre-approved instances*** are made by using a Trust Warrant Request (TWR). TWRs are used to pay non-encumbered disbursements that are charged directly against a balance sheet account. TWRs can be created online in eCAPS or through a department's interface system.

2.2.3 Internal Controls Over Trust Warrant Request Processing

All eCAPS Trust Warrant payment documents require one individual who is responsible to perform data entry and at least two separate individuals with payment approval capabilities. No approver can be assigned multiple approver capabilities.

The first and second approvers (Approver 1 and Approver 2) must be at least at the level of Accountant II or higher with Approvers 3 and 4 holding progressively higher positions of responsibility within the Department. At least one of the approvers must have no purchasing or receiving duties. In addition, individuals responsible for preparing and approving TWRs should be independent from the responsibilities of monitoring or reconciling trust funds.

The following is a summary of the eCAPS approver assignment guidelines that departments will be expected to meet. Any exceptions must be properly justified and include a discussion of any compensating controls. The exceptions must be documented and authorized by the requesting department head or designee before they are submitted to the Auditor-Controller's Enterprise Systems Support Division for review and approval.

- Data Entry: Can be any employee without approval capabilities.
- Approver 1: Must be an Accountant II or higher.
- Approver 2: Must be an Accountant II or higher.
- Approver 3: Must be at least a Fiscal Officer, Head of Accounting, or equivalent.
- Approver 4: Must be Executive Management.

In addition, approval by the Auditor-Controller's Disbursements Division is required for all TWR payments.

See the eCAPS training manuals located in the eCAPS production database at (http://ecaps.co.la.ca.us/webapp/FINPSRV11/advantage/Advantage/Help/MainHelp/MainMenuProject.htm) for more detailed procedures and approval requirements. Specific questions regarding the completion of TWRs or when use of TWRs is appropriate can be directed to the Auditor-Controller's Disbursements Division.

Source documents (e.g., departmental documentation, legal codes, original receipts, subsidiary ledgers, etc.) must be retained by the department initiating the payment for at least five years, in accordance with Government Code 26907.

2.2.4 Types of Disbursements

In general, disbursements from trust funds are made through the issuance of a warrant. However, in preauthorized instances, disbursement can be made through direct deposit or wire transfer. In addition, departments can arrange to pick up their warrants instead of having them mailed. See Section 2.2.5 below for additional information relating to Warrants Requiring Special Handling.

For payment processing timeframes and payment cycles see (http://ecaps.co.la.ca.us/webapp/FINPSRV11/advantage/Advantage/Help/MainHelp/MainMenuProject.htm). In addition, questions relating to all disbursement types can be directed to the Auditor-Controller's Disbursements Division.

2.2.5 Warrants Requiring Special Handling

In general, warrants printed in the Nightly and Same Day Cycles are mailed by the Auditor-Controller the same day they are printed. Departments that prefer to pick up their warrants instead of having them mailed must code their eCAPS payment documents with Special Handling Code "1." Additional handling codes are used for clients of the Auditor-Controller's Shared Services Division. Warrants are available for pick up at the Auditor-Controller's Disbursements Division's General Claims Section the morning after they are printed.

The following are internal controls/procedures for warrants requiring special handling:

- Departments must ensure that the person picking up and processing the warrant for mailing or delivery is a different than the persons involved in the preparation, approval and reconciliation processes. The warrants must not be returned to the preparer.

- Departments must ensure that the person picking up and processing the warrant for mailing or delivery does not have access to trust records.

- Departments should ensure that the person picking up the warrants has an appropriate ID and/or a letter of introduction, signed by the department's Fiscal Officer, attesting that the individual is authorized to pick up the warrants.

2.2.6 Replacement Warrants

An original warrant generated from a TWR that is determined to be lost or missing and has not been cashed, can be replaced within two years from the issuance date. To request a replacement warrant, the department that requested the original warrant must send a written request, signed by an authorized signatory, to the Auditor-Controller's Disbursements Division's Issuance Resolution Unit.

The Issuance Resolution Unit will prepare and mail an "Affidavit of Lost or Missing Warrant" to the payee on the warrant or to the department that requested the original warrant. For specific questions relating to the warrant replacement process, consult the Auditor-Controller's Disbursements Division.

2.2.7 Trust Warrant Cancellations

At times, a department may need to cancel a trust warrant because it was inappropriately issued. If this happens, the requesting department must submit a written request signed by the department's Fiscal Officer to the Auditor-Controller's

Disbursements Division’s General Claims Section to cancel the warrant. The word "cancelled" must be written across the warrant.

Two approvals are required to approve the cancellation action for online Trust Warrant Request (TWR) documents. The first approval will be provided in the department by an individual with approval level 1 or higher. The document will then be forwarded to the Auditor-Controller’s Disbursements Division for the second approval.

Note: The original trust warrant must accompany the request for cancellation to the Auditor-Controller’s Disbursements Division’s General Claims Section. If the original warrant is not available, (i.e., cannot be located) then the department must contact the Auditor-Controller's General Claims Section for instructions.

Departments must comply with all County trust and expenditure accounting policies and with specific trust and expenditure procedures provided by the General Claims Section. Source documents (e.g., departmental documentation, legal codes, original receipts, subsidiary ledgers, etc.) must be retained by the department initiating the payment for at least five years, in accordance with Government Code 26907.

2.3.0 TRUST FUND RECONCILIATIONS AND MONITORING

To ensure the integrity of trust fund activity, the following controls must be established.

- For each trust account, the department must maintain detailed (internal) subsidiary records and a control account. Monthly, the subsidiary records must be reconciled to the control account.

- The department's internal trust records must also be reconciled monthly to eCAPS. Funds having low dollar amounts in trust (less than $5,000) and low activity (less than five transactions per month) may be reconciled quarterly.

- The monthly trust fund reconciliation must be reviewed and approved by the department's Fiscal Officer or supervisory staff without trust fund responsibilities. The review/approval should be documented with the approver’s signature on the reconciliation.

- Trust fund reconciliations must identify all reconciling items that are outstanding (not resolved at the time of the reconciliation). All reconciling items must be followed up and resolved promptly or justified in writing, if delayed (See the sample Trust Fund Reconciliation in Section 2.3.1).

- Trust monies held in bank accounts must be reconciled monthly. If only a portion of trust monies is held in a bank account, it is important that the entire fund be reconciled, not just the bank account. All reconciling items must be investigated and resolved promptly.

2.3.1 Sample Trust Fund Reconciliation

Trust Fund Reconciliation
For the Period Ending June 30, 2007

			eCAPS	Departmental Records
BALANCE PER:			**$ 24,936.01**	**$ 10,815.78**
ADD:				
Deposits in Transit (not yet recorded on eCAPS)				
	6/28/07	330.00		
	6/29/07	210.01		
	6/30/07	89.00	629.01	
Shortage in accounts to be reimbursed (due to over-reimbursement - see Section 2.3.2)				146.00
Transposition error on Departmental Records				27.00
DEDUCT:				
Outstanding Transactions (not yet paid or recorded on eCAPS)				
	# 130	1,533.00		
	# 131	7,500.00		
	# 134	5,500.00	(14,533.00)	
Duplicate postings on eCAPS to be reversed			(43.24)	
ADJUSTED FUND BALANCE			**$ 10,988.78**	**$ 10,988.78**

Prepared by ______________________ Date ____________

Reviewed by ______________________ Date ____________

2.3.2 Shortages in Trust Accounts

County officers and employees are responsible for receiving and paying out money in the capacity of a fund custodian. Shortages in accounts occur when the County, as an agent or a custodian of funds deposited into trust, disburses more money than deposited for the intended recipient, deposits trust funds into the wrong fund or incorrectly posts a transaction in eCAPS. Shortages may also occur because of bank errors, voided or NSF checks, inappropriate bank charges, etc. Shortages should be identified during the trust account reconciliation.

County officers and employees acting in the capacity of a fund custodian may obtain relief for shortages in the associated trust account(s) ***where there is no proof of fraud or gross negligence in connection with the shortage and where the loss is not covered by insurance.*** Government Code Section 29390 provides that County officers and employees may be relieved from the liability by a resolution of the Board of Supervisors incorporating appropriate limitations and safeguards. Following are the procedures for applying for relief from shortages in accounts:

- Requests for relief from shortages in account(s) are to be made by letter describing in detail the circumstances of each shortage, including the name and identification number of the shorted fund(s)/account(s). This letter must be prepared in duplicate and signed by the department head or chief deputy and forwarded to the Auditor-Controller’s Office of County Investigations.

- The Auditor-Controller's Office of County Investigations will conduct an investigation to determine whether evidence of fraud or gross negligence exists and to determine whether the shortage is covered by insurance.

- If there is no evidence of fraud or gross negligence and the shortage is less than $10,000, the Auditor-Controller's Accounting Division will be notified to initiate a transfer of funds reimbursing the trust fund and charging the department's Services and Supplies appropriation for the shortage. In 1990, the Board of Supervisors delegated the authority to relieve shortages less than $10,000 to the Auditor-Controller. Shortages of $10,000 or more, where there is no evidence of fraud or gross negligence, require Board resolution to effect relief from the shortage. A copy of the Journal Voucher that created the transfer will be forwarded to the Department.

If the Office of County Investigations’ review indicates possible fraud or gross negligence, shortages of any amount will immediately be referred to the District Attorney for further investigation.

Questions regarding shortages in accounts should be directed to the Auditor-Controller's Office of County Investigations.

2.3.3 Trust Fund Monitoring

Trust funds must be closely monitored to ensure they are being utilized as intended. Therefore, departments should examine trust fund deposits and withdrawals to ensure they are in compliance with the purpose of the trust fund. Also, spending plans should be developed and approved by management to prevent the accumulation of trust monies.

2.4.0 DONATIONS AND DONATION TRUST FUNDS

Government Code Section 25355 permits the County to accept donations or other gifts for any public purpose. A Donation Trust Fund may be required to temporarily account for donations pending their use. All donation amounts are subject to County budgetary guidelines and policies, i.e., donations must be recorded as departmental revenues when earned and amounts expended from donated funds must be charged to departmental appropriations.

Departments receive donations that are either ***restricted*** (i.e., the donor prescribes the lawful uses and purposes under the terms of the gift, bequest, or devise) or ***unrestricted*** (i.e., the donation is unaccompanied by limit on use of property received or income thereof and normally spent in the fiscal year received). Restricted Donations received that are to be spent or used by the department over a period encompassing two or more fiscal years should be deposited to a Donations Trust Fund. Donations (restricted or unrestricted) received by departments that are to be spent or used in the same fiscal year are deposited to the department's operating budget (crediting the department's Miscellaneous Revenue). The department should process a Journal Voucher Cash Transfer (JVCT) document to transfer the revenue from the donation account to the department's operating budget.

2.4.1 Establishing and Monitoring Donation Trust Funds

A donations trust fund may be established to temporarily account for donated funds pending their appropriation in a departmental budget. A department may also opt to temporarily account for donated funds in its departmental trust account. The volume and dollar value of donations should be considered in determining whether to establish a separate trust fund for donations. If there is a need to establish a donations trust fund, a letter should be sent to the Auditor-Controller's Accounting Division in accordance with Section 2.5.2.

Revenues and expenditures from donations should be included in departmental budgets. If unanticipated donations are received during a fiscal year, a budget adjustment should be processed. When donated funds are to be spent, an encumbrance must be established in the department's operating budget and purchases must be made in accordance with County expenditure guidelines. These funds are available only after being journal vouchered into the department's operating budget.

Departments should use existing petty cash or revolving funds that are used for departmental operations when applicable. If a new revolving fund is needed to facilitate spending donated funds, a request to establish a Donations Revolving Fund should be made in accordance with Section 2.5.2. ***Under no circumstances should purchases be made directly from a Donations Trust Fund or departmental trust account.***

Donated funds should be transferred from trust to the General Fund (or other operating fund) and departmental revenues should be credited. Afterwards, the funds can be spent. Departments are responsible for complying with any restrictions imposed by the donor that the County has agreed to. For example, funds may be designated for specific departmental programs or the use of the donated funds may be restricted to spending only the interest earnings with the principal remaining intact.

2.4.2 Donation Reporting Requirements

Section 25355 of the Government Code allows County Boards of Supervisors the option of delegating to any County officer or employee the authority to accept or reject any gift, bequest or devise made to or in favor of the County, provided that such person files with the Board each quarter a report that describes the source and value of each gift. The Los Angeles County Board of Supervisors delegated to County department heads the authority to accept or reject any gift, bequest or devise made to, or in favor of the County, the value of which does not exceed $10,000, and instructed department heads to acknowledge such gifts. Any donation that exceeds $10,000 must be placed on the Board agenda for the Board's consideration and acceptance.

In addition, Board policy requires each department to file a quarterly report, with the Executive Officer-Clerk of the Board of Supervisors, listing all gifts received, regardless of the amount. The report must include:

- Name of donor (unless donor wishes to remain anonymous).
- Address of donor.
- A description of the gift, whether in cash or non-monetary gifts of value.
- Amount of cash donation or the fair market value of the non-monetary gift donated.

2.4.3 Tax Deduction Guidelines for Gifts to Los Angeles County

Contributions or gifts to the County of Los Angeles or to any of its departments, such as the Departments of Health Services, Public Social Services, Children and Family Services, Parks and Recreation, Probation, Public Defender, etc., are tax deductible if they are for public purposes. Los Angeles County is a chartered county and, as defined by the California Government Code, Section 23000, is a political subdivision of the State of California. Subject to certain exceptions which are not applicable in this case, Section 17201 of the California Revenue and Taxation Code allows the same itemized deductions for California personal income tax purposes as are allowed under the Internal Revenue Code.

Sections 170(a) and 170(c) (1) of the Internal Revenue Code permit an itemized deduction for contributions and gifts to or for the use of a political subdivision of any State, if the contribution or gift is made for exclusively public purposes.

Los Angeles County's federal Identification Number is 95-6000927, and its California Tax Identification Number is 800-9593.

2.4.4 Usage of Donated Funds

Unrestricted donations can be used for almost any purpose that directly benefits the receiving department's clients or operations. However, unrestricted funds are never to be used for parties, awards, conferences or gifts for County employees. Such uses of donated funds are only allowable if the donor specifically designates (in writing, signed by the donor) that the funds are to be used for such a purpose. Any time restricted donations are received, they can only be used for the purpose specified by the donor.

2.5.0 REVOLVING CASH TRUST FUNDS

2.5.1 Definition

A revolving cash trust fund is an amount of cash requisitioned from trust and set aside (generally in a bank checking account) to expedite high volume refunds. Examples of Revolving Cash Trust Funds include the Hospitals' Patient Personal Belongings trust fund and the Court's Bail Refund trust account.

2.5.2 Establishment of a Revolving Cash Trust Fund

Government Code Section 24351 mandates that all trust monies be deposited with the County Treasurer. Therefore, the establishment or replenishment of a revolving cash trust fund can only be effected through the trust requisition process (See Section 2.2.2). ***Trust monies received are never to be deposited directly into a revolving cash trust fund.***

Prior to establishing a new revolving cash trust fund or changing the amount of an existing fund, Auditor-Controller approval must be obtained. A department must send a written request to the Auditor-Controller's Audit Division. The request must clearly state the purpose of the proposed fund, the amount of or changed amount of the fund, the name of the trust fund from which the revolving cash trust fund is to be withdrawn and the trust fund number. If the new or increased amount of the fund is approved, the Auditor-Controller's Accounting Division will prepare a Trust Warrant Request (TWR) and notify the department of the eCAPS account number (i.e., to record the revolving cash trust fund asset on the County's accounting records) and make arrangements for the warrant to be picked up or mailed to the department. If a decrease to the amount of the fund is approved, the department must deposit the appropriate amount to its assigned eCAPS revolving cash trust fund asset account. Additionally, they must provide the Auditor-Controller's Accounting Division with the eCAPS Deposit Permit number.

When a revolving cash trust fund is established, it may be used to make cash refunds. However, in most cases, the amount of the revolving fund should be deposited into a checking account (See Section 1.2.2 for establishing a checking account).

2.5.3 Internal Controls

The following are required internal controls over revolving cash trust funds:

- Revolving cash trust funds must not exceed the established amount of the trust fund.
- Revolving cash trust funds must be used by the department head for payments that are legally payable out of the deposits in the trust fund.
- Revolving cash trust funds must not be used to purchase or pay for departmental items or materials that require appropriations.
- Revolving cash trust funds must be maintained on an imprest basis and reimbursement must be supported by a record of payments.
- Revolving cash trust funds must be reconciled monthly by the fund custodian and the reconciliation reviewed/approved by an individual independent of the fund.
- The individual reviewing/approving the monthly reconciliation must sign and date the reconciliation sheet.
- If a revolving cash trust fund is established, department management must ensure compliance with internal controls over bank accounts and trust funds (Fiscal Manual Sections 1.2.3 and 2.1.3, respectively).

2.6.0 UNCLAIMED FUNDS

2.6.1 Disposition of Unclaimed Funds

Pursuant to California Government Code Sections 50050 through 50057, the Los Angeles County Treasurer and Tax Collector is responsible for the disposition of unclaimed funds. Unclaimed funds consist of funds that are not the property of Los Angeles County, and are not covered by a special legal restriction of law, and remain unclaimed in the County Treasury or in the official custody of a County officer for three or more years without a claim being filed.

Departments cannot hold unclaimed funds past statutory requirements. If your department has unclaimed funds that have been on deposit for three or more years, disposition of the monies does not fall under any other legal requirements, and the unclaimed funds appear to qualify under California Government Code Sections 50050 through 50057, please contact the County Treasurer and Tax Collector.

2.6.2 Rule Applicability

California Government Code Sections 50050 through 50057 govern the treatment of funds that remain unclaimed. Unclaimed funds consist of funds that are not the property of Los Angeles County and are not covered by a special legal restriction of law, and remain unclaimed in the County Treasury or in the official custody of a County officer for three or more years without a claim being filed. In general, these procedures apply to any funds that are unearned and which a County department is holding on behalf of a third party. Examples of unclaimed funds that may be in the possession of County departments include, but are not limited to, the following:

- Funds which a health or public safety department is safekeeping on behalf of a client and the department is unable to return the funds to the client for various reasons (e.g., the department is unable to locate the client or the client abandoned the funds, etc.)

- A refundable security deposit, which a department is safekeeping and the department is unable to return the security deposit because the depositor cannot be located.

- A payment made to a department, which the department is unable to apply due to insufficient information.

These procedures do not apply to found money and property as described in the Los Angeles County Code Chapter 4.40 (Unclaimed Personal Property). In instances when a department finds money or property as described in the Los Angeles County Code Chapter 4.40 and the owner does not claim within three months of being found by the department, the department shall immediately deliver found money to the Los Angeles County Treasurer and Tax Collector (TTC) and dispose of found personal property pursuant to the guidelines under the Los Angeles County Code Chapter 4.40.050.

In general, the California Government Code requires County departments and other officers of the County to transfer all unclaimed funds to the TTC for disposition as follows:

- Pursuant to California Government Code Sections 50050-50051, unclaimed funds that are fifteen dollars ($15) or greater, and where the depositor's name is known and which have been held for over three years may be published in a newspaper of general circulation once a week for two successive weeks and if not claimed within forty-five days after the first date of publication, should be transferred to the County's general fund. Under Government Code Sections 50050 through 50057, only the TTC may cause a notice to be published, process related claims, and transfer funds that remain unclaimed to the general fund.

Pursuant to California Government Code Section 50057, effective August 16, 2005, the Los Angeles County Board of Supervisors delegated to the TTC the authority to transfer to the general fund, individual items in the amount of one thousand dollars ($1,000) or less which have been unclaimed in the County Treasury for three years, following public notice in a newspaper publication and individual items for which the depositor's name is unknown for one year. The TTC will notify the Department of Auditor-Controller of funds transferred under this delegated authority.

- Pursuant to California Government Code Section 50055, unclaimed funds of individual items that are less than fifteen dollars ($15), or individual items for which the depositor's name is unknown for more than one year, may be transferred to the general fund without the condition of publication, by the TTC.

It is the responsibility of each of the County departments to account for all unclaimed funds and make appropriate and reasonable efforts to refund the unclaimed funds prior to referring the unclaimed funds to the TTC. **Departments shall not hold unclaimed funds past statutory requirements.**

2.6.3 Detailed Referral Procedures

If a department has unclaimed funds that have been on deposit for three or more years, disposition of the monies does not fall under any other legal requirements, and qualifies under Government Code Sections 50050 through 50057, a referral letter (See Section 2.6.4) must be submitted to the Treasurer and Tax Collector, Internal Controls Branch. Upon receipt of the referral letter, the TTC will work with the department to process the claims for unclaimed funds.

Procedures for the referral of unclaimed funds to the TTC:

- Departments should submit an unclaimed funds referral letter (See Section 2.6.4) to TTC, signed by the Department's Fiscal Officer or above. The detail listing of the items must accompany the letter in a hard-copy format as well as in a Microsoft Excel file to the Internal Controls Branch, Unclaimed Funds Section. The Microsoft Excel file may be forwarded to the Internal Controls Branch, Unclaimed Funds Section via e-mail as indicated below. The listing must include the following information, and be in the following format:

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Department/ Division	Date of Deposit	Name	Amount	Departmental Reference No. (or other identifying information)	Other Pertinent Information
Division A	05/06/98	Park, Jason	$ 500	1234	
Division A	12/31/98	Smith, Joan	$ 1,000	5678	

Send the referrals to:

Treasurer and Tax Collector
County of Los Angeles
Internal Controls Branch, Unclaimed Funds Section
500 West Temple Street, Room 462
Los Angeles, CA 90012
(213) 974-8442
E-mail address: uncfunds@ttc.lacounty.gov

After TTC receives the Department's referral letter, TTC will contact and instruct the department to transfer, by using the Journal Voucher Cash Transfer (JVCT) document, the unclaimed monies from its trust account to TTC's trust account (TTC-Unclaimed Fund Referrals, TK7-7810) established for processing unclaimed funds of referring departments. TTC will publish unclaimed funds of referring departments at least once a year.

- The department must identify any additional claiming requirements to be included in the publication.

- Once TTC verifies that the department transferred the funds to TTC's trust account and agrees with the detail listing, TTC will prepare and send the notice of publication to the appropriate newspaper agency for items that are fifteen dollars ($15) or greater and where the depositor's name is known (See Section 2.6.5).

- Unless TTC agrees to an alternative procedure at the request of a referring department, TTC will take phone inquiries and review all claims. The claim must be notarized and in affidavit form (See Section 2.6.6). TTC will confer with the referring department to ensure the documents submitted are appropriate and prove claimant ownership of the funds. Examples of appropriate documents may include copies of the front and back of the cancelled check, the receipt for deposit or payment, the invoice stamped "PAID" by the Department (including the amount and date paid, and a copy of a valid driver's license).

  Departments should use the guidelines provided by the Department of Auditor-Controller that are located on the Uncashed County Checks website (http://cmsapp.co.la.ca.us/auditor/uncashed/claimchecks.cfm) to determine the types of documents that may be required for claims by partnerships, corporations, and executors/heirs of decedent estates.

- After TTC reviews the claim for appropriateness and ensures a copy of the affidavit and supporting documents are attached to the claim, TTC will approve the claim and will authorize the issuance of a warrant to the claimant. If TTC denies a claim, TTC will notify the claimant.

- Once the claiming period has expired (forty-five days after the first date of publication), TTC will prepare a JVCT to transfer any remaining unclaimed amounts from the trust fund to the County's general fund.

2.6.4 Unclaimed Funds Referral Letter

[DEPARTMENT LETTERHEAD]

[Date]

Name of Treasurer and Tax Collector
Treasurer and Tax Collector
500 West Temple Street, Room 462
Los Angeles, CA 90012

Attention:
Internal Controls Branch
Unclaimed Funds Section

SUBJECT: **UNCLAIMED FUNDS PURSUANT TO CALIFORNIA GOVERNMENT CODE SECTION 50050**

Dear Name of Treasurer and Tax Collector:

Our department has unclaimed funds totaling $*[amount]* that have been on deposit with our office in excess of three years. Our department has made appropriate and reasonable efforts to refund unclaimed funds. The monies are currently being held in trust fund/account *[Description/Fund/Account]*. Disposition of the monies does not fall under any other legal requirements and qualifies under California Government Code Sections 50050 through 50057. We are requesting that the Treasurer and Tax Collector process these funds in accordance with California Government Code Section 50050.

[Background of unclaimed monies]

The attached provides the detail (date of deposit, names, amounts, etc.) of the unclaimed monies.

Please contact me if you require additional information.

Very truly yours,

[Fiscal Officer or above]
[Title]

2.6.5 Public Notice of Unclaimed Funds

NOTICE OF UNCLAIMED FUNDS

Pursuant to Sections 50050 through 50057, inclusive, of the Government Code of the State of California, notice is hereby given that the Treasurer and Tax Collector of the County of Los Angeles has unclaimed monies held in excess of three years totaling *$[Amount*], and if not claimed by *[Date-forty-five days after the first date of publication]*, said funds will be transferred to the general fund and become the property of the County of Los Angeles. Such funds are being held in the Los Angeles County trust fund TTC-Unclaimed Fund Referral, TK7-7810.

[**Listing of Unclaimed Funds:**

Date ***Name*** ***Amount*** ***Other Pertinent Information*** *]*

A party of interest must submit a notarized affidavit, which must include the claimant's name, address, amount of claim, and the grounds on which the claim is founded. Proof/s of identity as well as proof of payment, such as a cancelled check or a receipt for deposit or payment must also be submitted. The completed claim and supporting documents should be postmarked no later than *[Date-forty-five days after the first date of publication]* and forwarded to:

Treasurer and Tax Collector
County of Los Angeles
Internal Controls Branch, Unclaimed Funds Section
500 West Temple Street, Room 462
Los Angeles, CA 90012

Should additional information be required, please call (213) 974-8442.

2.6.6 Affidavit of Ownership and Indemnity Agreement

AFFIDAVIT OF OWNERSHIP AND INDEMNITY AGREEMENT

By signing below, I affirm under penalty of perjury that:

1. I am the owner of unclaimed funds presently being held by the Los Angeles County Treasurer and Tax Collector and identified in the legal notice published by the Treasurer as follows:

   Newspaper: ________________________ Date of Publication: ________________

   Name/Description: ___________________ Amount: ___________________________

2. Proof of my ownership of the funds arises from the following facts:

   ____

   ____

   ____

and that documents which prove my ownership of the funds are attached. (Please attach additional sheets if necessary).

3. I hereby request that a warrant be made payable to me and mailed to the address indicated below.

4. I agree to indemnify and hold harmless the County of Los Angeles, its officers and employees from any loss resulting from the payment of this claim.

______________________________	______________________
Signature of Claimant	Date
______________________________	______________________
Name of Claimant (PRINT)	Telephone Number
______________________________	
Address (PRINT)	
______________________________	
City, State, Zip (PRINT)	

State of ____________________
County of ____________________ } ss

Subscribed and sworn to (or affirmed) before me on

this _______ day of _______________________by
Date Month Year

(1)______________________________________
Name of Signer(s)

(2)______________________________________
Name of Signer(s)

proved to me on the basis of satisfactory evidence to be the person(s) who appeared before me.

(Seal) Signature____________________________

Chapter 3 – eHR Payroll and Human Resources

3.1.0 eHR PAYROLL AND HUMAN RESOURCES

3.1.1 Description of eHR Payroll and Human Resources

The responsibility for payroll, human resources (HR)/personnel, and time and attendance processing is decentralized to County departments and is supported by the County's electronic human resources system (eHR).

eHR supports the following seven major functional areas:

- **Payroll** – This area includes computing employees' net pay, processing 401k/457 plan contributions, cafeteria and retirement benefits, accounting for payroll expenses, and processing agency/tax payments. Because departments have responsibility and control over their own personnel and payroll operations, there is a need for vigilant management oversight to ensure the integrity of these operations at all times.
- **Human Resources / Personnel (Core HR)** – Referred to as Core HR, this area includes processing hiring's, changes of employee status, bonuses, and terminations online. Employee personal information is also maintained online.
- **Employee Self-Service (ESS)** – A self-contained self-service application allows employees to manage and control their own personal information. The home page of ESS has three primary sections - My Information, My Updates, and Announcements. The My Information section provides employees access to their work information in "view only" mode, such as detailed leave balances, job history, and current assignment. The My Updates section allows employees to make changes and updates online, such as changing name and address information, or updating emergency contact information. The Announcements section provides online Countywide announcements related to HR matters.
- **Time and Attendance** – The Time and Attendance module allows employees to complete and submit their timecards online. The module also allows supervisors to approve employees' timesheets, and allows departments to prepare timesheets online for employees who are absent or cannot access the system (proxy entry of timesheets).
- **Leave Management** – This area tracks employees' accrual and usage of leave time.
- **Position Control** – This area supports staff planning, human resource budgeting, and position monitoring and analysis (item control). It helps the CEO and departments create and track positions in accordance with appropriations authorized by the Board of Supervisors.
- **On-Boarding** – The On-Boarding process in the eHR Talent Management system is used to add newly-hired employees to eHR. When a candidate accepts a contingent offer, an Appointment Request for the candidate is created in the eHR Talent Management system. Information from the On-Boarding process is entered

in the eHR Talent Management system for subsequent transmission to eHR, once the candidate has been given a start date.

3.1.2 Objective of eHR Payroll and Human Resources Internal Controls

eHR internal controls are intended to ensure the integrity of the payroll and human resources/personnel processes. The degree and nature of controls implemented by County departments will vary depending upon each department's unique circumstances, including payroll and personnel section staffing levels, as well as the number and types of department employees.

Management in each department must carefully scrutinize any deviations from the following control requirements, and ensure that compensating alternate checks and balances are established to ensure the integrity of the department's payroll and HR/personnel operations. The controls should be routinely reviewed to ensure their operational effectiveness. The Auditor-Controller's Audit Division should be consulted if management has any questions about the appropriateness of alternative controls.

3.1.3 eHR Payroll and Human Resources General Internal Controls

The following general internal controls must be followed to: (1) control payroll expenditures; and (2) minimize the potential for payroll-related defalcations.

- Appropriate authority must exist for hiring's, changes of status, employee bonuses, and terminations.

  In many cases, departments do not need to maintain hard-copy source documents to support eHR data-entry transactions, including data entered through Employee Self-Service (ESS). For example, address changes (MYADDR) and timesheets (TIMEI) entered through ESS do not require a hard-copy source document. When a hard-copy source document is still required, the documents should be retained for at least five years for audit purposes. Documents for grant expenditures should be retained longer, if required by the funding source.

- Adequate security must be maintained over payroll and personnel records. Access to such records must be restricted to a limited number of authorized personnel.

- Management should review overtime usage, employee changes of status, etc., at least quarterly for appropriateness of the transactions entered into eHR. Various control and monitoring reports are available in eHR to assist supervisory staff and management to review the transactions. Management should regularly review the reports to verify that the transactions shown on the reports are appropriate.

- Procedures and controls must be established to ensure that adjustments to leave balances are valid and proper. Management should review the *"LEAVE Document Submission Report"* whenever manual adjustments to leave balances are entered in eHR to verify the validity and accuracy of the adjustments.

3.1.4 Separation of Duties Controls

The following internal controls must be implemented:

- The duties of initiating transactions, approving, and processing payroll and HR/personnel transactions into eHR should be assigned to ensure adequate separation of duties. If the size of the department or operating unit precludes an adequate separation of duties, management must implement alternative controls to ensure appropriate checks and balances exist to minimize the risk of fraud. The Auditor-Controller's Audit Division should be consulted if management has any questions about the appropriateness of alternative controls.
- Personnel who can initiate hiring or terminations must not have access to payroll warrants, notices of direct deposit, or banking information.
- Departments should carefully scrutinize the hiring, responsibilities and assignment of individuals who are related to others in the department to ensure that they are not assigned to positions of interrelated trust that could impair the system of checks and balances. Where problems exist, related employees should be reassigned to other responsibilities.

3.1.5 Data Access Security Controls

Security Roles determine which eHR pages (Activity Folders, Queries, Reference Tables, or Documents) users can access, and the specific actions (e.g., Inquire, Edit, Submit, Approve) that they can perform on each page.

<u>eHR Security Controls Should Include the Following:</u>

- Security Role requests must be approved by the Administrative Deputy or management-level designee before they are submitted to the Auditor-Controller's Enterprise Systems Support Division for review and approval.
- The granting of Security Roles should be as restrictive as possible based on each employee's job responsibilities. The Security Role assigned to a particular employee should allow for normal job functions, without access to data that is outside the scope of his/her job responsibilities.
- The combining of Security Roles that enable a User to have access to both payroll and HR/personnel information, or transaction authority should be restricted to management or high-level supervisory personnel.
- eHR passwords should be secured and protected in accordance with the Information System Control guidelines in Chapter 8 of the Fiscal Manual.
- An employee's eHR access should be removed immediately when the employee transfers to a job outside of Departmental Personnel or Payroll sections, or when an employee leaves the department. The employee's access to eHR should be then limited to Employee Self-Service (ESS).
- All eHR user maintenance documents (UDOC) require at least one approval by an individual who did not enter or submit the UDOC (a designated departmental UDOC approver), and has no responsibilities for creating new employee records. Any exceptions must be properly justified, and include a discussion of

any compensating controls, and must be documented and authorized by the requesting department head or designee before they are submitted to the Auditor-Controller's Enterprise Systems Support Division for review and approval.

Management should review Security and Workflow assignments of employees at least quarterly, to ensure compliance with all data access controls, and especially to ensure that those assignments are restricted to the scope of the employees' job responsibilities. The individual doing the review should annotate, sign, and date the User Assignment Report available through Cognos after the review is performed.

3.1.6 Time and Attendance Controls

A work schedule code must be established and maintained in eHR for each employee. For employees with recurring work schedules, a pattern identification code must be entered and maintained in eHR so that regular hours worked do not have to be entered each pay period.

A pattern identification code must still be entered and maintained for employees with flexible work schedules. The employee or proxy will manually adjust the actual hours worked for each day for each pay period.

eHR tracks employee leave benefit balances (vacation, elective leave, etc.). These leave benefit balances can be viewed on the Employee Leave Balance page in the Leave Management Activity Folder (LEAVM).

Employees must sign an acknowledgement that they have received and reviewed a copy of the department's Time Reporting Policies and Procedures, and submit these acknowledgements to the department's Personnel Section.

<u>Time and Attendance Controls Should Include the Following:</u>

- All variances and/or hours worked by the employee must be reported on the employee's timesheet (TIMEI).
- Work schedule changes must be approved by management, and submitted to the Payroll Section immediately for entry into eHR via the FLSA Employee Status Maintenance (FESMT) document.
- Each department must ensure they enter and approve timesheets and variance information into eHR by the Auditor-Controller's payroll processing deadlines. This will minimize the number of post pay period adjustments and the occurrence of employee overpayments and underpayments, minimizing unnecessary work by the department and the Auditor-Controller.
- Each pay period, Payroll staff must investigate exceptions on the *"Leave Benefit Negative Balances Report,"* and immediately process any necessary adjustments in eHR. The *"Leave Benefit Negative Balances Report"* lists instances where an employee's timesheet data creates a negative leave balance for an employee in eHR.

  The *"Leave Benefit Negative Balances Report"* must be annotated to document the disposition of each entry, and should be signed and dated by the payroll staff doing the investigation. The Payroll Supervisor should review these reports each pay period to ensure that they are being reviewed promptly and correctly. The Supervisor should also sign and date the report, and mark it as reviewed.

- Employees should be reminded to use either paper Pay Statements or online Pay Statements (accessed by the Paystub Viewer in mylacounty.gov) to review their Employee Pay Statement of Earnings, Deductions, and Benefit Balances (printed on the pay statement each pay period), and immediately report any discrepancies to their Payroll Section. The *"Employee Leave Balance Report"* and approved TIMEI documents should be used to investigate and resolve any reported discrepancies.
- Each quarter, management (or persons independent of the personnel and payroll functions) should select a random sample of permanent and non-permanent employees' TIMEI documents for a pay period (either the 15th or end of month), (unless the number of employees is so small (less than 15) that a sample would not be practical) and perform the following:
    a. Compare the information from employees who had signed/approved paper timesheets to the corresponding TIMEI document in eHR to ensure the hours worked, variances, etc. were entered into TIMEI in an accurate and complete manner, and that employees signed their paper timesheets.
    b. Verify that the employees are bona fide by tracing their names to their personnel records.
    c. Verify that TIMEI documents indicate the submitter's employee ID and the approver's employee ID, or that paper timesheets contain the appropriate ink signatures and approvals.

3.1.7 eHR Time and Attendance and Employee Self-Service System Controls

The eHR Employee Self-Service (ESS) application allows employees to submit web-based timesheets (online TIMEI documents). The TIMEI timesheet is the County's standard timesheet, and must be submitted to report an employee's time worked and time off (leave/variances) in order for the employee to be paid by the eHR Payroll application. ESS allows employees to enter, view, update, and print their own timesheets online before submitting them electronically to their supervisor for approval.

Employees must enter and verify all hours worked and time off. Time recorded by employees as worked must only reflect time that is actually spent working for the County. After employees have entered and verified all of the hours, employees must electronically sign and submit their timesheets for supervisory approval. The employee's electronic signature confirms that the employee has accurately and completely recorded all of the time worked and time off for the period. Once submitted for approval, the employee can only view and print their timesheets; unless it is rejected by their supervisor for the employee to make additional updates and/or corrections and then resubmit for approval.

The duties of entering and approving timesheets should be controlled through roles that prohibit an individual from entering and approving the same timesheet, unless a timesheet is completed by a proxy. If the size of the department or operating unit precludes an adequate separation of duties, management must implement alternative controls to ensure appropriate checks and balances exist to minimize inaccuracies and possible falsifications.

Managers and supervisors are responsible for reviewing, and approving or rejecting their employees' timesheets online by the established eHR deadlines. Managers and supervisors should ensure their employees scan and attach appropriate documentation indicating their supervisors' approval for overtime recorded on their timesheets to their TIMEI timesheets.

Managers and supervisors are responsible for ensuring appropriate and accurate coding of timesheets for each employee under their supervision when approving or rejecting each employee's timesheet online. Falsification, tampering with, and/or failure to properly complete these documents by employees, managers, or supervisors may result in disciplinary action, up to and including discharge from County service.

Some county departments utilize ancillary systems for scheduling staff; or for processing labor and expenses associated with project work orders; or for preparing mandated labor reports related to emergency incidents; and other labor-related capture systems. To minimize duplicate entry of labor hours across systems associated with time worked and/or leave, inbound interface files from these ancillary systems to eHR can be processed to automatically generate the TIMEI documents in eHR for employees on these systems. Interface files are allowed only in instances where the Auditor-Controller has reviewed and determined that appropriate controls along with supervisory approvals of the employees' time are present.

Paper timesheets may be used in instances where employees do not have access to a computer to enter their time worked and leave time. The paper timesheet must be signed in ink by both the employee and supervisor, and submitted to a designated proxy for entry into eHR.

A proxy is a designated individual, timekeeper, or supervisor authorized to enter and submit a timesheet on behalf of an employee. Proxies are used in situations where an employee is out on leave, if the employee does not have access to a computer, or if the employee is out of the office when their timesheet is due. Under these circumstances, the designated proxy for the employee can enter the timesheet on behalf of the employee, and submit it for approval by the employee's supervisor. In general, proxies should not approve the timesheets that they submit. In instances where the proxy is entering timesheet data from a paper timesheet signed by both the employee and the employee's supervisor, workflow may be turned off so that the timesheet goes directly to a FINAL status for payroll processing by eHR.

Departments should have Time Reporting Policies and Procedures that adhere to CFM requirements and, at a minimum, must indicate that the department will designate proxies to enter and submit timesheets on the employees' behalves. Each employee must verify and document that the time reported on his/her behalf is accurate.

Paper Timesheet Controls

When an employee submits a paper timesheet:

- Employees must record and verify all hours worked and time off (leave) on their paper timesheets.
- Employees must certify the accuracy of their reported time by signing the paper timesheets in ink.
- Employees must forward their signed paper timesheets to their supervisors for review and approval.
- Supervisors also must certify the accuracy of employees' time reported by signing the employees' timesheets in ink.
- Supervisors must review their subordinates' timesheets to verify the hours worked, hours charged to specific assignments, leave time, the overall completeness of the timesheet, and the employee's signature. Supervisors who approve incorrect or incomplete timesheets are not performing their duties, and may be subject to disciplinary action.
- After approving employees' paper timesheets, supervisors should forward the timesheets directly to a designated proxy to enter the hours worked and variances into the eHR system via the TIMEI document.
- Approved original paper timesheets should not be returned to employees, nor be accessible by employees.
- Paper timesheets must include:
  a. Employee name.
  b. Employee ID number.
  c. Title (Item) number.
  d. Total hours worked each day and daily variances.
  e. Total hours charged to each specific program (for State and federal reimbursable programs), or to specific jobs/functions (i.e., job costing) to measure costs and monitor employee productivity.

Proxy Controls

- In instances where the proxy is entering TIMEI documents on behalf of employees from signed paper timesheets each pay period, workflow is not designated (turned off), and the timesheets submitted by a proxy will go directly to a FINAL status.
- Default workflow functionality requires submitted employee timesheets to be approved to a FINAL status, usually by the employee's supervisor or a designated backup. In instances when an employee is out of the office and unable to submit his/her timesheet, a designated proxy may enter and submit the employee's timesheet (TIMEI document). Employees should review TIMEI

entries made on their behalf by the proxies, and must document that the entries made by the proxy are correct and complete (e.g., by later signing a paper copy of the electronic time record - TIMEI). If the employee does not agree with the proxies' changes and the issues cannot be readily resolved, the proxies should contact the department's Personnel and Payroll Section for assistance.

- To the extent possible with workflow designated (turned on), proxies should not approve TIMEI documents they submit on behalf of employees. As described in the Reports Section, these instances will be identified in an exception report, the *"Audit Trail Report"* and must be investigated by Payroll staff.

Timesheet (TIMEI) Controls

- To ensure accurate and complete time reporting, employees should record their variances as they occur, or enter time worked and variances daily as appropriate.
- After all hours have been entered, saved, and verified, employees must validate their timesheet, and review and correct any error messages. The employee will then submit their TIMEI documents for supervisory approval. By submitting the timesheet for approval, the employee will be asked to "electronically" sign their timesheet. Supervisors should electronically approve the TIMEI documents within the established departmental deadlines after each pay period end date to avoid late timesheet processing.
- Departments can elect to require additional approvals for timesheets.
- Individuals who have approval capability shall not approve their own timesheets. eHR will not allow an employee to submit and approve their own timesheet when timesheet workflow is designated.
- Temporary employees (e.g., hourly employees) must report all hours worked using an electronic timesheet (TIMEI) for each pay period.

Timesheet Adjustments

If an error is discovered after a timesheet has been approved, the correction should be sent immediately to the Payroll Section on a Timesheet Correction Form. Employees and supervisors must sign the form to verify the change. Departmental Payroll staff will enter the information from the Timesheet Correction Form into the eHR system, via a Timesheet Adjustment (TADJ) document.

If the employee is not available to sign the form, the supervisor should provide the employees with a copy of the Timesheet Correction Form, before the end of the following pay period. If the employee does not agree with the supervisor's changes, and the issues cannot be readily resolved, the supervisor should contact the department's Personnel and Payroll section for assistance.

eHR Time Collection Exception Reports

Each pay period, Payroll staff should generate and review the following eHR Time Collection Exception Reports:

- **Single Approver Report** – Identifies instances where an employee has submitted their timesheet and it went directly to a FINAL status. This will occur when timesheet workflow is NOT designated (turned off) for an employee's home unit, and the employee submits his/her timesheet such that it goes directly to a FINAL status. Workflow generally is not designated for home units requiring routine proxy entry from approved/signed paper timesheets each pay period; i.e., TIMEI documents entered and submitted by a proxy from signed paper timesheets will go directly to a FINAL status.

  Payroll staff shall review the *"Single Approver Report,"* and document the disposition of each entry, and sign and date the report to indicate their review. Frequent or unjustified entries should be reported to the Payroll Supervisor.

- **Audit Trail Report** – Identifies instances when proxies submit and approve the same timesheet. To the extent possible with workflow designated, proxies should not approve TIMEI documents they submit on behalf of employees. However, with timesheet (TIMEI) workflow designated, proxies may still need to submit an employee's timesheet on behalf of the employee, and approve the employee's timesheet on behalf of the supervisor. Payroll staff should document the disposition of each entry, and sign and date the report to indicate their review. Frequent or unjustified entries should be reported to the Payroll Supervisor.

- **Missing Timesheet Report** – Identifies missing timesheets. The Timekeeper or Payroll staff should annotate the *"Missing Timesheet Report"* with the disposition of each entry, and sign and date the report to indicate their review. In addition, the Payroll Supervisor also should review, sign, and date the *"Missing Timesheet Report."*

3.1.8 Hires, Job Changes, and Terminations Controls

The following internal controls must be implemented:

- All documents related to hiring (e.g., new and rehired employees, etc.), job changes (e.g., promotions, demotions, departmental transfers, etc.), salary rate changes (e.g., Y-rates, adding/deleting bonuses, etc.), and terminations should originate in the Personnel Section, and be reviewed and approved by an authorized individual before they are returned to the Personnel Section for entry into eHR. Personnel staff should forward copies of these documents to the Payroll Section for filing in the employees' payroll files. Documents forwarded to Payroll from Personnel are intended to inform the Payroll Section of changes that would impact employees' pay records.

- Management must ensure that the department is following Civil Service Rules and Guidelines established by the Department of Human Resources related to lay-offs and reductions whenever employees are hired, promoted, reduced, or released due to lay-off.

- Each department shall process and enter personnel actions, such as incomings, salary and bonus changes, and terminations into eHR, before the Auditor-Controller's deadlines. This should reduce the number of post-period adjustments, and minimize the occurrence of employee overpayments and underpayments.

- Occasionally, departments hire employees with an effective start date that precedes the employee's actual start date. Reportedly, this practice has been used to meet hiring authorization deadlines; however, it has resulted in payroll warrants being generated for hours not worked. Departments must not allow this practice, and should show the employee's actual start date on the incoming report. This will reduce the incidence of overpayments, and reflect the employee's true start date on the records.
- Personnel management (or someone independent of entering job data in eHR) should review the work assignment of all employees receiving bonuses annually to ensure that the bonuses are still applicable, and that the employees are still eligible by reviewing the employees' personnel files documentation, as well as their current work assignment. The report should be signed and dated by the person performing the review.
- Personnel management (or someone independent of entering job adjustments, timecard adjustments and/or terminations in eHR, and preferably not the person approving terminations) should maintain a list of terminated employees, indicating the employees' names, employee numbers, and effective termination dates. The employees' names should then be traced to the eHR Payroll Sequence Register for three consecutive months after termination to verify that the termination has been processed, and that the terminated employees do not receive inappropriate pay.
- If a termination action is processed in error for an employee, written approval from the department head or designee must be obtained before the employee is reinstated in eHR. All reinstatement documents must be processed by the Personnel Section and retained in the employee's personnel file. Copies must also be forwarded to the Payroll Section within the department. Departments should also contact the Auditor-Controller's Countywide Payroll Division immediately.
- Each pay period, Payroll staff must investigate all entries on the *"Final Leave Reset Payout Report,"* and prepare the necessary documents to ensure that employees receive their final pay promptly and correctly. This includes making any necessary adjustments to reported leave balances that may include accrued hours after the termination date as the result of an untimely termination action.

Note: The "*Final Leave Reset Payout Report*" should be annotated to document the disposition of each entry; and be signed and dated by the payroll staff performing the investigation. The Payroll Supervisor shall review this report each pay period to ensure that the exceptions are corrected promptly and accurately, and should sign and date the report, and mark it as reviewed.

3.1.9 Overtime Controls

County Code Chapter 6.15 states that, departments may require employees to work overtime when there is a business need. Each department must establish a system of requesting, authorizing, and monitoring overtime hours. There are two methods of compensating an employee for overtime worked: (1) compensatory time; or (2) paid overtime. Except in emergencies, all paid overtime requires prior written approval from the CEO. Overtime will be paid in accordance with the County Code.

All overtime worked shall be in compliance with County Code Chapter 6.15 and CEO Policy Bulletins. In general, department management should routinely monitor and examine workload and overtime reports to determine the appropriateness of overtime worked, especially for employees accruing excessive overtime. The following internal controls must be implemented:

- Departmental management must review the *"Overtime Activity Report"* each pay period to ensure the overtime reported is accurate and appropriately approved. The reviewer should sign and date the report, and mark it as reviewed.
- Non-emergent overtime must be pre-approved, and the documentation of the pre-approval must be scanned and attached to the employee's electronic timesheet (TIMEI).
- Each pay period, Payroll staff should investigate exceptions on the following reports which are generated at the end of each pay period. Potential violations of the Fair Labor Standards Act (FLSA) requirements should be investigated, and any necessary adjustments should be immediately processed in eHR.
  - **Change in Overtime History Exception Report** - Lists employees whose regular and overtime hours entered in eHR do not coincide with the FLSA workweek in eHR.
  - **Excessive Comp Earned/Regular Hours Exception Report** - Lists employees whose total hours entered in eHR exceed their FLSA or MOU (union contract) threshold, but the excess hours were not coded as paid overtime.

Note: Payroll staff should annotate the reports to document the disposition and date of corrective action for each exception. Payroll Supervisors should periodically review the reports to ensure the exceptions are corrected promptly, and sign and date the reports.

3.1.10 Payroll Records Controls

The following internal controls must be implemented:

- A separate payroll file must be maintained for each employee.
- Payroll records must be kept separate from personnel records.
- Adequate security must be maintained over payroll records, and access to the records must be restricted to a limited number of authorized individuals.
- Departments should purge their payroll files at least annually by transferring the files of employees who are out of service or who have transferred from the department to an inactive file.
- Personnel Clerks should not have unsupervised access to any hard-copy payroll records, such as paper timesheets, pay history, payroll folders/files, etc. Also

eHR security shall be used to restrict access to the electronic payroll records and information.

- The following items (or copies thereof) must be maintained in each employee's payroll file, unless entered and maintained online through Employee Self-Service (ESS) as indicated.
  a. Incoming Report.
  b. Federal and State Withholding Allowance Documents (copies).
  c. Current home address and phone number (maintained via ESS).
  d. Documents supporting promotions.
  e. Documents supporting medical injuries where the injury affects pay status (i.e., industrial accidents). If these documents are not maintained in the payroll file, they should be available upon request.
  f. Transfer Documents.
  g. Other changes affecting pay status, including reinstatement documents.
  h. Outgoing Report.
  i. Salary Overpayment Letters.
  j. Authorization to donate leave.
  k. Copy for recipient of donated leave.
  l. Bonus Authorizations.
  m. Garnishment Orders.
  n. Notification of Name Change.

3.1.11 Personnel Records Controls

The following internal controls must be implemented:

- A separate personnel file must be maintained for each employee.
- Personnel records must be kept separate from payroll records.
- Adequate security must be maintained over personnel records, with access restricted to a limited number of authorized individuals.
- Departments should purge their personnel files at least annually by transferring the files of all employees who are out of service or who have transferred from the department to an inactive file.
- Payroll Clerks must not have unsupervised access to employees' personnel folders.
- The following items (or copies thereof) must be maintained in each employee's personnel file in each department, unless entered and maintained online through Employee Self-Service (ESS) as indicated.
  a. Employee Information Sheet.

b. Current home address and phone number (maintained via eHR/ESS).
c. Emergency Contact Information (maintained via eHR/ESS).
d. Notice of Physician Preference.
e. Medical Results Card.
f. Employee Eligibility Verification (federal Form I-9) and supporting documents.
g. Records of oaths, permits, or licenses as required.
h. Warrant Recipient Designation Form (retain permanently).
i. Performance Evaluations/Probation Report.
j. Annual form for reporting outside employment.
k. Reinstatement documents pertaining to employment.
l. Copies of discipline letters (retain permanently unless employee requests sealing after one year and removal after two years).
m. Proof of qualifications for bonus pay (e.g., bilingual pay, etc.).
n. Signed Drug-Free Work Place Policy.
o. Signed Sexual Harassment Policy.
p. Signed Child Support Compliance document.
q. Release for Information (e.g., employment verification).
r. Records of education and training.
s. Personal Requisitions and/or Change of Status forms.
t. Requests for Voluntary Demotion or Change of Classification.
u. Letters of Transfer or Termination.
v. Picture of employee.

- The following items are optional:
  a. Work-related awards and certificates.
  b. Letters of Commendation for exceptional performance.
  c. Out-of-Class Letters signed by the Personnel Officer.

3.1.12 Warrant Distribution Controls

Three types of warrants are issued relating to payroll:

- Regular payroll warrants for employees not on Direct Deposit.
- Supplemental payroll warrants.
- Trust Warrants which are issued to pay garnishments (as a result of withholding orders from the Internal Revenue Service, the State Franchise Tax Board, a

court, etc.), pay a returned direct deposit, refund deductions taken in error, and correct Cafeteria plan contributions applied in error.

The following internal controls must be implemented:

- Payroll warrants (including supplemental warrants) and notices of direct deposit for employees who cannot access them through the Electronic Paystub Viewer must be received and distributed by persons having no other payroll or personnel responsibilities.
- Departments should assign someone who does not work in the payroll or personnel areas to investigate unclaimed warrants and notices of direct deposit. This person should be knowledgeable about personnel and payroll functions.
- Departmental payroll sections and pay location timekeepers should never be directly involved with receiving, distributing, storing, or otherwise handling warrants and notices of direct deposit.
- Payroll payment reconciliation payoffs should be conducted on an unannounced basis at least once every 12 months by personnel with no other payroll or personnel responsibilities to ensure that all employees receiving pay or benefits are bona fide. For each employee on the Department Direct Deposit/Zero Net Pay Distribution Register and Department Warrant Register, have the employee show proper identification and sign the register. Some departments are on an every other year cycle for completing the Internal Control Certification Program (ICCP). However, departments should still perform the payroll payoffs every 12 months regardless of their approved ICCP cycle.
- It is the County's policy that pay warrants not be distributed to employees until payday regardless of the work schedules of the employees or County offices.
- Management should periodically review and monitor their operations to ensure pay warrants and notices of direct deposit are distributed and controlled in accordance with these requirements.

3.1.13 Cancelled and Voided Warrants

Regular and supplemental payroll warrants and trust warrants must be “cancelled” when employees ***are not entitled*** to them. When regular or supplemental payroll warrants are cancelled, submitting departments must make them non-negotiable either by writing or imprinting the word "cancelled" on the warrants. Trust warrants returned to the Auditor-Controller for cancellation must be in negotiable condition, since they will be re-deposited by the Auditor-Controller into a trust fund. They must not be written on or defaced in any way.

Warrants must be “voided” when employees ***are entitled*** to them, but the warrants could not be delivered such as when an employee’s whereabouts is unknown. When regular or supplemental payroll warrants are voided, submitting departments must make them non-negotiable by either writing or imprinting the word "void" on the warrants. Trust warrants returned to the Auditor-Controller for voiding must be in negotiable condition. They must not be written on or defaced in any way.

For garnishments only, departments must immediately notify the Auditor-Controller's Countywide Payroll Division's Garnishment Unit by telephone when a payroll warrant with a garnishment deduction is to be cancelled, so that the garnisher warrant to the recipient/creditor also can be stopped. Time is critical. The risk is high that erroneous payments to garnishers cannot be recovered. Unrecovered amounts will be charged to the applicable department. Departments are independently responsible for any subsequent recovery action.

3.1.13.1 Canceling Warrants

- Departmental payroll sections must verify that an employee is not entitled to a warrant before requesting cancellation.
- For payments initiated through CWTAPPS, the warrant will be cancelled without replacement in eHR.

  For pay initiated through eHR, the hours for paid earnings codes are removed and replaced with non-paid earnings codes for the affected accrual period utilizing the TEHW by the employee's department, the original warrant is cancelled, and a replacement warrant with zero earnings is processed by the Auditor-Controller's Countywide Payroll Division.
- Cancelled warrants should be returned on a flow basis to the A-C's Countywide Payroll Division by the dates in the yearly deadline schedule.
- Cancelled warrants must be safely stored until they are returned to the Auditor-Controller's Countywide Payroll Division.
- Current year cancelled warrants (payroll and trust) must be accompanied by a letter signed by the in-charge Payroll Supervisor or Personnel Officer explaining why the warrant was issued, and why it is being cancelled. It is especially important to return current year warrants by the cancelled warrant date listed for the December 30th payday (last line of the Deadline Schedule) to ensure the employee's W-2 is accurate. Warrants not returned by that date become known as prior-year warrants, and may require that an amended W-2 be issued to an employee.
- Departmental Payroll staff should ensure a warrant has been cancelled by verifying that the cancelled warrant appears on the Departmental Sequence Register.
- Prior-year warrants submitted for cancellation must be accompanied by a letter, signed by the department head, explaining why the warrant was issued, and why it was not returned by the year-end deadline. Prior-year warrants require the A-C's Countywide Payroll Division to manually issue amended W-2 statements to correct erroneous W-2 statements issued by the automated payroll system. This creates unnecessary work for departments and the Countywide Payroll Division, and unnecessary inconvenience for employees.
- The word "cancelled" must be written in ink on the face side of the regular or supplemental payroll warrants.
- Trust warrants must not be written on or defaced.

- Trust warrants must be accompanied by a memo explaining why the department is requesting that they be cancelled.

3.1.13.2 Voiding Warrants

- Departmental payroll sections must make every effort to deliver valid warrants to bona fide current and former employees.
- Warrants that must be voided because the payee cannot be contacted must be returned to the Countywide Payroll Division as soon as possible. Departments should allow up to 20 calendar days before voiding a warrant. This allows adequate time for departments to verify payment eligibility, and to deliver the warrants. However, if a final determination to void a warrant is made sooner, the voided warrants should be returned immediately.
- Trust warrants must be accompanied by a memo explaining why the department is requesting that they be voided, and, if a warrant is being voided because it cannot be delivered to an employee, the status of the employee and all steps taken to deliver the warrant must be documented.
- The voided warrants must be safely stored until they are returned to the Auditor-Controller's Countywide Payroll Division, and not returned to the personnel or payroll sections responsible for original processing.

3.1.14 Unclaimed Warrants and Notices of Direct Deposit

Unclaimed payroll warrants and notices of direct deposit are prime indicators of possible payroll irregularities. The following procedures and controls must be in place.

- Unclaimed warrants and notices of direct deposit must be safely stored until the investigation is complete, and not returned to the personnel or payroll sections responsible for original processing.
- Unclaimed warrants and notices of direct deposit must be investigated to ensure that the employees are bona fide employees. This may be accomplished by comparing the personnel and payroll files, timesheets, and through discussions with the employees' supervisors. Reasons for the unclaimed warrant/notice of direct deposit must be documented.
- Management must ensure that the individual assigned to investigate unclaimed warrants and notices of direct deposit has no other personnel or payroll responsibilities.
- The investigation and release of unclaimed warrants and notices of direct deposit should be completed within 20 calendar days of the warrant's/notice's issue date.
- If a warrant or notice of direct deposit is issued to a person who is determined not to be a bona fide employee:
  a. Immediately report the incident to the Auditor-Controller's Office of County Investigations (OCI), or use the fraud hot line and follow the instructions.
  b. Return the warrant or notice to the Auditor-Controller's Countywide Payroll Division when instructed to do so by the OCI investigator. A letter of

explanation signed by the department head requesting that the warrant be cancelled should be attached to the warrant.

c. Immediately terminate the person from eHR, and ensure that no further payments are issued, unless instructed to do otherwise by management.

- If an employee is bona fide and entitled to a warrant or notice of direct deposit, a diligent effort should be made to provide the warrant or notice of direct deposit to the employee. If still undeliverable:

  a. Payments made by warrant must be voided and returned to the Auditor-Controller's Countywide Payroll Division with a memo of explanation as described in Section 3.1.13.2.

  b. Notices of direct deposit should contain a statement, written on the face side, that they are valid. Afterwards, they should be filed by month, and secured and retained for a minimum of one year by the department. After one year, management should determine if the notices should be shredded.

- If an employee is bona fide and receives a warrant or notice of direct deposit he or she is not entitled to, the payment must be cancelled as described in Section 3.1.13.1.

3.2.0 PAYMENT METHODS

3.2.1 Payroll Warrants

Employees choosing to be paid via warrants (and not by direct deposit) will have their warrants generated twice each month coinciding with the County's direct deposit pay dates. Time worked during the first half of a month will be paid on the payday of the second half of the month, and time worked during the second half of the month will be paid in the following month on the first payday of the month. Mileage and parking will appear on the pay stubs under codes 128 and 129 respectively.

3.2.2 Direct Deposit

Employees who elect to have their pay deposited directly into a bank account are paid twice each month on the 15th and the 30th of the month (or on the last day of the month in February). If these days fall on a weekend or holiday, employees will be paid on the workday prior to the weekend or holiday. Paper and Online Employee Pay Statements for both the 15th and 30th payday include earnings, deductions and benefit balances.

The direct deposit system, by its nature, results in a lesser degree of control over payroll payments (and thus a greater potential for overpayments occurring) than does a warrant payment system. Under direct deposit, once a department submits its payroll to the Auditor-Controller, funds will automatically be transferred directly into an employee's bank account without being routed through the department. Direct deposit does not provide departments the additional opportunity to intercept overpayments that are provided under the warrant payment method. However, the direct deposit system does eliminate the need to control payroll warrants.

3.2.3 Supplemental Payroll Warrants

Supplemental payroll warrants are issued when an employee has been improperly paid (e.g., employee is underpaid or is due a different amount requiring a warrant to be cancelled and a revised warrant issued). To reduce costs and increase control over payroll, departments should minimize the use of supplemental payroll warrants. If possible, pay adjustments should be reflected in the next pay period. Once the employee notifies the department of an error, the department has one day to provide the Auditor-Controller with the information and the warrant will be issued within three business days thereafter.

The following controls should be implemented over supplemental payroll warrants by all County departments:

- Requests for supplemental warrants must be approved in writing by the Payroll Supervisor prior to entering the request in eHR.
- Someone independent of the personnel and payroll functions should verify that a written approval exists for each supplemental warrant issued and listed on the eHR Supplemental Department Warrant Register.

3.2.4 Direct Deposit Reversals

- Direct deposit reversals should be used only to prevent large overpayments that cannot be recovered from a subsequent paycheck, and to stop payments to employees leaving County service without enough benefits to cover the overpayments.
- Departments must be especially diligent to enter transactions into eHR by published deadlines to minimize the risk of overpayments.
- Direct deposit reversals should be requested no later than 2:00 P.M. on the day before the affected payday by telephoning a cancellation request to the Auditor-Control's Countywide Payroll Division's Inquiry Unit. Recovery will be attempted, but requests received after direct deposits are made are particularly difficult to recover. After the 2:00 P.M. deadline, departments must use the overpayment recovery procedures in Section 3.3.0 of this manual.
- Documentation supporting each request must be submitted to, and received by, the Countywide Payroll Division by the first business day following payday.

3.3.0 OVERPAYMENTS

When payroll overpayments occur, collection efforts should be initiated immediately and in compliance with the provisions of the applicable Memorandum of Understanding (MOU) related to overpayments. Every reasonable effort must be made to collect all overpayments.

When the overpayment amount is 15% or less of an employee's "normal" net pay, the department will make the appropriate correction (e.g., salary or timekeeping correction) in eHR, and allow the overpayment amount to be offset against earnings paid to the employee in the next scheduled payroll.

If the overpayment amount is greater than 15% of net pay, the recovery is subject to a repayment schedule where payroll offsets a fixed amount against each future period earnings until the overpayment is recovered. The recovery shall not exceed fifteen 15% of semi-monthly disposable income as defined by State law, unless there is a mutually agreed-upon acceleration provision allowing a faster recovery. The employee also has the option to repay the entire amount in one lump sum.

If an employee terminates service, the department will attempt to recover any outstanding overpayment through the payroll system against the payout of leave time to the employee at termination. If a balance of over $50 remains, the detailed procedures for recovering an overpayment can be obtained from the Auditor-Controller's Intranet site at:

http/:auditorweb.co.la.ca.us/Auditor-Controller/Payroll/Procedures.

The employee should be notified in writing that an overpayment has occurred prior to recovering from the employee's subsequent pay. The employee is provided a letter detailing the overpayment and the amount to be recovered each payday. The overpayment letter should include:

a. The employee's name, employee number, department code, and complete home address.

b. An explanation of how the overpayment occurred.

c. The total gross amount of the overpayment. This is the difference between what the employee was paid and should have been paid.

d. The proposed repayment plan.

e. A specific time period in which the employee can respond prior to any further action being taken.

f. The name and telephone number of the departmental payroll/personnel staff person the employee can contact if he/she has any questions.

g. A detailed schedule showing the earnings paid and what should have been paid for each pay period.

Detailed procedures for recovering an overpayment can be obtained from the Auditor-Controller's Intranet site at:

http/:auditorweb.co.la.ca.us/Auditor-Controller/Payroll/Procedures.

Mileage/parking overpayments are discussed in Overpayments, Section 13.13.15.

3.4.0 OTHER PAYROLL RESOURCES

Personnel Administration Handbook

The Personnel Administration Handbook is the Los Angeles County Code organized by subject matter under a three-factor numbering system. Titles 5 and 6 cover payroll provisions. For example, Section 5.04.030 is the third section of Chapter 4 of Title 5. This handbook is available in each department's personnel section.

Personnel Management Handbook

This handbook covers personnel matters, such as recruitment and placement, classifications, employee development, and retirement. This handbook is available in each department's personnel section.

Interpretive Manual for Pay and Benefit Provisions

This manual interprets and expands on the Los Angeles County Code. Chapter topics include: Leaves of Absence, Step Pay Plan, Physician Pay Plan, department heads, Special Pay Practices, Overtime, Workday and Workweek, Cafeteria Plans/Benefits, Expense Reimbursement, Boards and Commissions, and Management Appraisal. This manual can be found in each department's personnel section and on the Department of Human Resources’ Intranet site.

eHR Desk Procedures and Training Guides

Desk Procedures and Training Guides have been developed for the various eHR modules including Leave Management, Payroll, Personnel, Position Control, and Time and Attendance to assist Users. Materials are available online via the eCAPS Project website in the Resource Center.

Chapter 4 – Expenditures

4.1.0 EXPENDITURES

4.1.1 Expenditure Process Overview and Description

Expenditures are decreases in, or uses of, a department's financial resources for current operating obligations. Prior to incurring expenditures, an appropriation must be approved by the Board of Supervisors and established by the Auditor-Controller in eCAPS. Appropriations are established as part of the budgeting process for each fiscal year.

Once funds are appropriated, the expenditure process generally begins with the submission of appropriate documents to encumber funds. Section 4.1.6 provides details on the different types of encumbrances used and the required supporting documents which are necessary for each type of encumbrance. After an encumbrance is established, goods or services may be procured using approved methods established by the Internal Services Department's Purchasing and Central Services or as authorized by the Board of Supervisors. Once the goods or services have been received, payment may be made to a vendor using the eCAPS online vendor payment process (refer to Section 4.5.3) or a department's Revolving Fund (refer to Section 1.6.0 on Revolving Funds).

Expenditures are recorded in eCAPS using the modified accrual basis of accounting. Expenditures other than accrued interest on general long-term debt are recorded at the time liabilities are incurred whether paid or unpaid.

The Board of Supervisors Policy Manual, Policy # 4.040, Debt Management Guidelines, discusses the comprehensive debt management guidelines to regulate the use of various financing instruments within the County.

4.1.2 Objectives of Internal Controls Over Expenditures

The objectives of internal controls over expenditures are to:

- Control (report) and recognize (record) expenditures in the accounting period in which they are incurred.
- Classify expenditures for financial statement reporting and grant recognition purposes.
- Ensure expenditures incurred do not exceed the approved budget without the appropriate authority.
- Ensure expenditures are made in accordance with applicable laws and established County policies and procedures.

4.1.3 General Internal Controls

Procedures and controls must be established and monitored to ensure that all expenditures are legal, duly authorized, and necessary to perform departmental assigned functions. In addition, there must be assurance that disbursements are recorded accurately, reported promptly, and processed efficiently.

Department management must ensure that an adequate system of checks and balances (segregation of duties) exists to minimize the risk of fraud and abuse in the procurement/disbursement functions. Management must continually monitor its control system to ensure compliance at all levels of the organization. At a minimum, the following duties must be segregated:

- Employees ordering goods or services must not approve purchases, receive goods, or account for purchases.

- Employees approving purchases must be independent of the ordering function and the receipt and control of goods or services.

- Employees receiving goods or services and certifying quantities received must not be associated with nor have responsibilities related to ordering the goods or services or accounting for purchases.

- Employees making disbursements for goods or services (i.e., through petty cash funds or the online vendor payment system) should not be associated with or have responsibilities related to the procurement, encumbrance, approval, and receiving functions.

4.1.4 Appropriations - Defined

An appropriation is a legal authorization granted by a legislative body to make expenditures and incur obligations for specific purposes (e.g., approved budget allowances, etc.). An appropriation is usually limited in amount and time it may be expended. Virtually all expenditures and encumbrances are chargeable to an appropriation.

eCAPS is used to ensure that the available balance of an appropriation is not exceeded. Thus, any new or supplemental encumbrance greater than the available balance of that appropriation will not be processed and will remain as an error in eCAPS until the appropriation is increased or the encumbrance is reduced or deleted. To increase the available appropriation, either a budget adjustment or reduction/cancellation of another encumbrance must be processed before the encumbrance transaction can be processed in eCAPS.

4.1.5 Encumbrances - Defined

An encumbrance is an obligation charged against an appropriation and for which part of that appropriation is reserved. Encumbrances can be established for Purchase Orders, encumbrance requests and Departmental Service Orders (DSO). An original encumbrance or supplement to an existing encumbrance will only be established in eCAPS if there is a sufficient available balance remaining in the appropriation. County policy (i.e., Government Code Section 29120) does not permit the available balance of any appropriation to be exceeded. If the Budget has not been adopted by the Board of Supervisors, then **NO** obligations (including Blanket Encumbrances) should be processed for capital assets (i.e., equipment, land, building, and improvements). For additional information, see Government Code Section 29124.

eCAPS has two categories of encumbrances, Accounting Based (ABS) and Commodity Based (Procurement). The ABS encumbrances may be a Blanket Encumbrance or a Direct Encumbrance. All of the Procurement encumbrances are Direct Encumbrances.

eCAPS allows departments to initiate encumbrances by entering required data online. Different encumbrance documents are utilized in eCAPS to initiate encumbrances. Each encumbrance document has been created for a specific purpose and must correspond with budget appropriations. It is important to understand the various types of encumbrances to ensure that they are used appropriately. The encumbrance document codes are listed below by category. Each type of encumbrance is briefly defined in Types of Encumbrances, Section 4.1.6.

ABS Encumbrances

Doc Code	Doc Name	Type	Input By
CNTR	Contract Encumbrance	Direct	Department
DSO	Departmental Service Order	Blanket	A-C
GAEBL	Blanket Encumbrance	Blanket	Department
GAED	Direct Encumbrance	Direct	Department
ZGAE	Expenditure Accrual Encumbrance	Blanket	Department

Procurement Encumbrances

Doc Code	Doc Name	Type	Input By
DO	Delivery Order	Direct	Department
DORQ	Delivery Order RQN Reference	Direct	Department
PD	Decentralized Purchase Order	Direct	Department
PDRQ	Decentralized PO RQN Reference	Direct	Department
PO	Purchase Order	Direct	ISD/PCS
POTN	Purchase Order for Training Exp – Central	Direct	Department
POTR	Purchase Order for Training Exp	Direct	Department
PRDO	Central Purchasing Delivery Order	Direct	ISD/PCS

All Direct Encumbrances will be automatically brought forward as commitments at fiscal year-end based on the remaining balance of the accounting line. The remaining unexpended balance of Blanket Encumbrances (GAEBL) and DSO will be automatically cancelled at fiscal year-end and will not be carried forward as commitments.

4.1.6 Types of Encumbrances

4.1.6.1 Direct Encumbrances vs. Blanket Encumbrances

A Direct Encumbrance is a specific obligation as to the dollar amount, vendor and goods/service. A Blanket Encumbrance conveys a level of purchasing authority delegated to departments, usually on an annual basis, for placing orders "as needed" or reserves part of appropriations for future payments.

4.1.6.2 Purchase Orders

A Purchase Order (PO) is written authorization for a vendor to furnish specific goods or services to a County department indicating the types, quantities and agreed upon price(s) for such goods or services. Issuing a PO constitutes a legal offer by the County to purchase goods or services. Acceptance of the PO by a vendor forms a contractual arrangement between the County and the vendor. Subject to compliance with the applicable purchasing bid requirements, a County department may issue a PO for goods or services that are within its delegated purchasing authority or for the purchase of items under agreement, established by the Purchasing Division of the Internal Services Department, Purchasing & Contract Services (ISD/PCS). Any PO that is above the delegated purchasing authority of a County department will be issued by ISD/PCS. Any changes to an existing PO are to be made by the originating agency. The full amount of the original or supplemental PO must be encumbered in eCAPS by the funding organization.

All Direct Purchase Orders (GAED) will be automatically brought forward as commitments at fiscal year-end if the available balance is greater than $100. The remaining unexpended balance of Blanket Purchase Orders (GAEBL) will be automatically cancelled at fiscal year-end and will not be carried forward as commitments. ISD/PCS's Procurement Manual provides guidelines for purchasing of Capital Assets and Supplies using the above-mentioned purchasing documents.

4.1.6.3 Contracts

Contracts are agreements for services, approved by the Board of Supervisors or by Departments and supported by a specific contract document, that are encumbered against the department's appropriation. When established, a contract encumbrance is entered as a CNTR or GAED encumbrance. With very few exceptions, the full amount of the contract should be encumbered. See the "Multi-Year Encumbrance Policy" (see Multi-Year Encumbrance Policy, Section 4.1.7) for specific guidelines.

Any increase/decrease to a contract encumbrance must be supported by proper documentation, such as a contract amendment approved by the Board of Supervisors. Encumbrances cannot be changed unless required legal actions have taken place. The department processing these encumbrances must maintain all documentation for audit purposes.

4.1.6.4 Departmental Expenditures

Expenditures required because of State Statutes, Court Order, or Formal Action by the Board of Supervisors and not covered by a specific contract should be processed as Departmental Expenditures (DE) and encumbered against the department's appropriation. A DE may be a direct DE (for a specific vendor) or a blanket DE (for various vendors). When established, a direct DE is entered as a GAED encumbrance and a blanket DE is entered as a GAEBL encumbrance. Some examples of DEs are mandatory payments to other governmental agencies, graffiti removal per Board action, and promotional interview panels per County Code. The full amount of the DE should be encumbered.

4.1.6.5 Miscellaneous Charges

Certain types of expenditures should be encumbered against the Department's appropriation as a Miscellaneous Charge (MC). When established, a MC is entered as a GAEBL encumbrance. There are seventeen distinct types of expenditures (listed below) that are specifically defined as MCs. Inquiries as to the types of expenditures to be processed using a MC should be directed to the Auditor-Controller’s Disbursements Division’s General Claims Section.

A number of expenditures are processed using the eCAPS online reimbursement process (see below). Petty cash reimbursement and tuition reimbursements are examples of MCs. All MC encumbrances are considered blanket encumbrances.

- Revolving Fund (petty cash) Purchases.
- Travel Expenditures and Registration Fees.
- Tuition Reimbursements.
- Uniform Allowances.
- Notary Renewals.
- Educational Reimbursements – Sheriff’s.
- Expenditures - Superior Court Presiding Judge.
- Utility Charges (telephone, electricity, water, and natural gas).
- Disposal Services (provided by a public agency).
- Various Legal Expenditures (County Counsel, Public Defender, Sheriff’s, District Attorney) as covered by Sections 29601 and 29602 of the Government Code.

- Public Agency Permits, Taxes, and Regulatory Fees (as specifically mandated by local ordinance, State, or federal statute).

- District Attorney Revolving Fund - Superior Court Witness Fees and Expenditures.

- Legislative Expenditures - Chief Executive Office.

- Public Administrator expenditures for fees and charges where estates are insufficient.

- Relocation of public utility service connections (relocating power boxes, gas lines, etc.).

- Assessments on County or Special District property charged by private utility companies.

- Incidental Expenses.

4.1.6.6 Departmental Service Orders

A DSO is an agreement between County departments whereby one department (the requesting organization) agrees to reimburse a second department (the servicing organization) for services or goods to be provided. As an example, a DSO could be an arrangement for building maintenance or PC support services/operations provided by the Internal Services Department (ISD).

DSOs are generally established at the beginning of the fiscal year for anticipated services, and may be increased or decreased throughout the year based on actual services provided. All DSOs are processed centrally by the Auditor-Controller. When established, a DSO is entered into eCAPS as a DSO encumbrance. Initial DSO amounts and subsequent changes must be mutually agreed upon and approved by the organization receiving services as well as the service provider. Charges for services provided under terms of a DSO are processed on an Internal Transfer document (see Internal Transfer Documents, Section 4.5.14).

All DSOs expire at the end of the fiscal year and are centrally cancelled by the Auditor-Controller because they are internal to the County and do not represent legal commitments.

4.1.7 Multi-Year Encumbrance Policy

In certain instances, agreements (contracts or purchase orders) are made for services or products to be delivered over more than one fiscal year. The following guidelines describe the methods to be used in accounting for multi-year encumbrances:

- The amount to be encumbered is dependent upon the intent of the Board. If the Board budgets the full amount of the contract/purchase order in one year, then the full amount will be encumbered. When the Board's intent is to fund a contract/purchase order over several years based upon the amount owed to the contractor during the contract period, only the amount expected to be expended during a particular year will be budgeted and encumbered.

- The Board's intent to fund a contract/purchase order will be determined by the language in the document. When necessary, County Counsel will develop or approve contract/purchase order clauses that state that the County does not intend to fully fund in the year of the award, but to fund over the term of the obligation. If these clauses are not included, the full amount of the contract/purchase order will be encumbered regardless of any "escape" clauses. If the clauses are included, only the expected amount of expenditures, which would also be the amount budgeted during the year, will be encumbered.

- If only part of the obligation has been encumbered, and the amount actually expended is greater than the amount encumbered, the responsible department must increase the encumbrance before the expenditure can be recorded. In the case of capital projects, this normally will also require budget adjustments as the amount budgeted may be equal to the original amount encumbered. For services and supplies (S&S) items, a budget adjustment may or may not be required depending on the availability of a department’s S&S appropriation.

4.1.8 Internal Controls Over Encumbrances

Management must ensure that appropriate encumbrance controls are followed:

- No one person is authorized to submit and/or approve payments and submit, approve and/or process encumbrances. The Auditor-Controller may grant exceptions for certain small departments depending on the payment approval level of the transaction. Any exceptions must be properly justified and include a discussion of any compensating controls. The exceptions must be documented and authorized by the requesting department head or designee before they are submitted to the Auditor-Controller’s Enterprise Systems Support Division for review and approval.

- Two approvals are required to process most encumbrances. One approval should be at an Accounting Officer I position or higher. At least one of the approvals should be by an individual who does not have payment approval responsibilities. DSOs only require one level of approval.

- Remaining encumbrance balances are cancelled after goods/services are fully paid. Encumbrance balances will automatically be cancelled when payment documents are submitted marked final payment or when the agreement for goods/services has been terminated.

- Procedures should be in placed to address the following:

- Budget/Fiscal staff should have procedures for distribution, centralized filing, and retention.

- Budget/Fiscal staff should follow the distribution procedures for Purchase Orders as directed by ISD.

- Budget/Fiscal staff should reconcile the authorized encumbrances and purchase orders from the approved encumbrance package to the eCAPS encumbrance reports on a monthly basis.

- Budget/Fiscal staff should review the document catalog on a monthly basis to ensure that encumbrance documents are resolved in a timely manner.

4.2.0 ACCOUNTS PAYABLE (EXPENDITURE ACCRUALS)

4.2.1 Description

Expenditure accruals are important in obtaining true financial statement balances, obtaining accurate budgetary results and monitoring the cash flow and liquidity of an entity. Expenditure accruals represent those liabilities incurred in one fiscal year that are to be paid within the subsequent fiscal year or they are amounts due as of June 30th to persons or organizations for which goods or services were received as of June 30th.

In determining the amount of expenditure accruals for goods purchased near the end of a specific period, careful attention should be given to goods that might be in transit. The purchase and liability should be recorded when ownership passes. Frequently, goods or services are obtained during the last few days of the fiscal year. If no invoice or billing has been received, an estimate should be made for accruing expenditures for that fiscal year in which goods or services were received.

4.2.2 Objectives of Internal Controls Over Expenditure Accruals

The objectives of internal control over Expenditure Accruals are to ensure:

- Expenditure Accruals are properly recorded in the department's subsidiary ledgers.

- Year-end Expenditure Accruals are accurately reported for financial statement reporting purposes.

- The budgetary impact of accrued expenditures at year-end is accurately measured.

4.2.3 Internal Controls Over Expenditure Accruals

Department management must ensure appropriate controls are established:

- To ensure requests to establish Expenditure Accruals are initiated and approved by authorized individuals, in accordance with budgetary guidelines.

- To ensure that an organized unpaid invoice file is maintained.

- To ensure that Expenditure Accruals are recorded for all goods and services received.

- To ensure that Expenditure Accruals are not overstated by inappropriate transactions, e.g., reporting pending orders for undelivered goods or services, reporting the remaining balance of a blanket encumbrance without regard to receipt of actual goods or services, etc.

- To ensure departmental Expenditure Accruals are reconciled each month to eCAPS.

4.2.4 Year-End Reporting

At the end of each fiscal year, the Auditor-Controller's Accounting Division will distribute closing instructions, which include detailed guidelines related to determining and processing expenditure accruals.

4.2.4.1 ABS Expenditure Accruals Year-End Process

ABS Expenditure Accruals are recorded during the year-end process by creating a ZGAE in eCAPS. A ZGAE is used to re-classify a current encumbrance to an Expenditure Accrual encumbrance. The ZGAE must reference an encumbrance for the current fiscal year and be for goods or services received on or before June 30th. Goods or services received on or after July 1st must be paid in the new fiscal year as commitment expenditures. The amounts reported cannot exceed the remaining balance of the referenced encumbrance. Departments must take the necessary steps to ensure that the encumbrance has an adequate balance to cover the Expenditure Accrual. If the encumbrance balance is insufficient, a Supplemental Encumbrance must be authorized and processed.

4.2.4.2 Procurement Expenditure Accrual Year-End Process

Procurement Expenditure Accrual amounts are automatically generated by eCAPS during the year-end process and posted by a Procurement Accruals JV (ZCEA) document. This document will post the Expenditure Accrual accounting information, but will not re-classify a current encumbrance and create an Expenditure Accrual encumbrance.

Procurement Expenditure Accruals are calculated by looking for any unpaid receiver that has a received date on or before June 30th. If the calculated amount is over $100, an Expenditure Accrual is recorded. If the calculated amount is $100 or less or there is no open receiver for that procurement encumbrance, it becomes a commitment.

4.3.0 REPORT OF MONIES OWED TO THIRD PARTIES

4.3.1 Background

Annually, the Auditor-Controller and County Counsel are required to coordinate a Countywide report to the Board of Supervisors of monies owed to third parties. The primary objective of this report is to ensure that County liabilities beyond the day-to-day vendor payables are identified, properly recorded in the County's accounting records, and that appropriate actions have been taken to resolve the issue(s) that gave rise to the liabilities. Examples of such liabilities include:

- Deferred revenues (revenues which have been earned, but are not collectible within one year after June 30).
- Advances payable (monies advanced to the County which have not yet been earned).
- Amounts owed to third parties such as the State or federal government due to overbilling or disallowed claims.

The information is to be reported by responding to the five questions listed in Section 4.3.2 below. It is to be transmitted, in a letter signed by both the department head and the department's Chief Fiscal Officer, and addressed jointly to the Auditor-Controller and County Counsel. The Auditor-Controller will consolidate the information and coordinate with County Counsel to report the information to the Board of Supervisors.

4.3.2 Annual Report of Liabilities

Consistent with other year-end closing information, departments are required to provide this information as of June 30th each year. In July of each year, the Auditor-Controller will issue to all departments instructions and time frames for reporting on monies owed to third parties. Departments will be instructed to respond to each of the following questions in the format similar to that indicated below. (A brief explanation appears below each question. If a question is not applicable to a department, the department will be instructed to indicate this in its response).

1. **Has the department reported deferred revenues, advances payable, or third party liabilities which have been recorded on eCAPS as of June 30th (of the current fiscal year)? If yes, describe the nature and amount of each liability recorded (attach additional schedules as needed).**

   Several departments utilize these balance sheet accounts to establish liability provisions. The purpose of this question is to confirm these amounts and obtain additional details about them. Departments that use these accounts should describe the name of the program, the funding source, the amount(s) and each fiscal year that the liabilities pertain to, and the eCAPS fund and account numbers where the liability was posted.

For each program, provide a brief description of the issues that caused the liability, whether additional liabilities continue to be incurred, and any actions taken or proposed relative to payment of amounts owed.

2. **Were monies held in a trust fund or account as of June 30th (of the current fiscal year), as a result of potential liabilities to the State, federal government, or other third party? If yes, describe the nature and amount of each liability and indicate the trust fund or account number(s) that the funds were held in.**

   Most departments hold funds temporarily in trust until such time as they have earned the revenues and identified the operating accounts to be credited. The purpose of this question is to ascertain whether funds are being held in trust to provide for an unrecorded liability or potential liability. It is not necessary to report funds that are held in a trust fund or account for fiduciary purposes only. If there is uncertainty as to whether the amounts are operating or fiduciary in nature, all amounts should be reported and explained.

3. **Aside from the disclosures provided in items 1 and 2 above, are there any revenues that have been recognized in the fiscal year (just ended) or prior years' financial records that may be subject to repayment or refund? If yes, describe the nature and amounts of these items.**

   The purpose of this question is to identify liabilities that have not been funded. Departments may be aware of revenues that may be subject to repayment or refund, but have not taken actions to establish a liability. If there are uncertainties regarding the final outcome of the issue or the department is unable to reasonably estimate the amount of the liability, please provide as much information as possible.

4. **Have all earned revenues been cleared from trust accounts and recorded as part of the department's revenues for the fiscal year just ended?**

   This question is to ensure that trust accounts have been reviewed, that all earned revenues have been recorded in the proper time period, and that monies earned by the County have been cleared from trust and are not being deferred to provide for future unmet needs.

5. **Are there any other unrecorded liabilities that have not been recorded or disclosed?**

   Please explain any other liabilities that the department is aware of which have not been reflected on eCAPS or disclosed as part of the response to a previous question.

4.4.0 PROCUREMENT METHODS

Capital assets, supplies, and services can be procured by a variety of methods. These methods are discussed briefly below in Sections 4.4.1 and 4.4.2. Departments should refer to the ISD/PCS Procurement Manual for detailed guidelines and procedures on procuring items.

4.4.1 Procurement of Supplies and Capital Assets

Supplies can be procured through the issuance of a Direct or Blanket Purchase Order, or via a petty cash purchase, if within the limits established for petty cash purchases. Capital assets can be procured through the issuance of a Direct Purchase Order or a Blanket Purchase Order (BPO). **The Board of Supervisors' approval must be obtained for capital asset purchases with a unit cost of $250,000 or greater prior to submitting these requisitions to ISD/PCS.**

4.4.2 Guidelines for Requisitioning Goods and Services and Creating Purchase Orders

Services can be procured either through approval of a contract with a private sector vendor or a DSO with another County Department (See Section 4.1.6.6). Some services (and goods) may also be purchased via issuance of a suborder against a Blanket Purchase Order (e.g., paper and office supplies, photocopy services, garbage disposal services).

Departments are expected to have proper internal requisition approval procedures in place, and adhere to all County purchasing and fiscal policies, procedures, requirements, and the following internal control guidelines.

4.4.2.1 Departmental Requisitions

Departmental requisitions are normally requested by an individual who has the appropriate internal approval authority (and does not have any other purchasing or payment approval authority) to request goods and services. The requisitions must be signed, dated, and approved by the appropriate authority level within each department prior to initiating the procurement process. A hard-copy of the requisitions shall be maintained by the department's Procurement Section.

All requisitions require at least two approvals. The first level of approval must be at least at the Supervisor level, with an additional approval at the level of a Section Manager equivalent or higher, depending on the amount of the transaction. Second level approvals should be as follows:

REQUISITION AMOUNT	SECOND LEVEL APPROVALS
$ 5,000 and Less	Section Manager Equivalent Level or Higher
Greater than $ 5,000 to $25,000	Division Chief Equivalent Level or

	Higher
Greater than $25,000	Department Head , Chief Deputy, Executive Staff Manager or Equivalent Level

After the appropriate approvals are obtained, the requisitions are forwarded to the departmental Procurement Section staff for:

1. Solicitation and/or purchase under a department's delegated purchasing authority;

2. Purchase from a Countywide commodity agreement established by ISD, hereafter referred to as the County Purchasing Agent; or

3. Submission of an electronic requisition for a Purchase Order or Purchase Order Agreement to the County Purchasing Agent.

Departmental Procurement Section staff must review the requisitions for accuracy and appropriate approval signatures. If the requisition is within the department's delegated purchasing authority, the Purchase Order is created and sent to a supervisor for approval. If the requisition is above a department's delegated purchasing authority, it is electronically forwarded to the Internal Services Department's (ISD) Purchasing Agent. Whether processed internally or through the Purchasing Agent, purchases should not be initiated unless they are approved by the appropriate levels within the department.

4.4.2.2 Purchase Orders Issued by the Internal Services Department

Upon receipt of a properly approved requisition from a department, ISD's purchasing staff will conduct a solicitation and prepare a Purchase Order number for the acquisition. Individual departments are responsible for reviewing and approving the Purchase Orders and encumbering the funds.

Departments are expected to adhere to the following requirements:

- Under no circumstances shall a Purchase Order be requisitioned solely for the purpose of encumbering funds.

- For Purchase Orders and Purchase Order Agreements issued by the County Purchasing Agent, no department has the independent authority to negotiate existing or additional terms and conditions of the purchase, or to modify the requirements of the Purchase Order or Purchase Order Agreement on behalf of the Purchasing Agent.

- Any request or requirement for a change in scope, terms or conditions of a purchase under a Purchase Order or Purchase Order Agreement must be accomplished through and by the County Purchasing Agent.

Note: The Government Code provides that the Auditor-Controller may pay extraordinary (i.e., large dollar amounts) claims by wire transfer. However, departments must not negotiate contracts with provisions to pay the contractors by wire transfer unless the necessary pre-approvals from the Auditor-Controller and Treasurer and Tax Collector are obtained. For detailed procedures regarding the approval process, contact the Treasurer and Tax Collector's Cash Management Division.

4.4.2.3 Contracts

A number of County services are performed under contract with private sector vendors. The approved contract is the encumbering document which reserves funds to pay for the contracted service.

Note: Contracts can be Proposition A contracts or non-Proposition A contracts. Many of the requirements and procedures are the same for both types of contracting. For a more detailed discussion of Proposition A contracting, see Section 12.2.0 of the Fiscal Manual. For specific details related to non-Proposition A contracting, departments should refer to the Internal Services Department's Contracting Manual.

4.4.2.4 Limits

The authority for acquiring commodities and services in the County is found in various sections of the California State Codes and the Los Angeles Code. The Director of the Internal Services Department (ISD) is the Purchasing Agent for the County. Therefore, ISD is responsible for purchases of commodities (goods and products), as well as contracts for services under $100,000 for all County departments, with some exceptions. Each department has its own procurement unit that interfaces with ISD to purchase these commodities and services. Some individual departments have delegated authority to establish non-agreement purchases of up to $5,000 or $15,000 for commodities and services without involving ISD. The County of Los Angeles Board of Supervisors must award service contracts over $100,000.

Architect, engineer, and construction contracts over $75,000 require the Board of Supervisor's approval. Under that amount, ISD and Public Works have authority to award the contracts.

Cost-effective service privatization contracts over $25,000 (often referred to as Proposition A contracts) require the Board of Supervisor's approval. Contracts under $25,000 can be awarded by individual departments.

Type of Contract	Solicited by All County Departments	Solicited by Internal Services Dept.	Solicited Primarily by Dept. of Public Works	Solicited occasionally by Fire Department, Sheriff, and Parks & Recreation
Architects and Engineers	N/A*	X	X	X

Construction	N/A*	X	X	X
Services	1			
Commodities & services Under delegated authority Of $5,000 or $15,000	2	X		
Commodities & services over delegated authority Of $5,000 or $15,000	N/A*	X		

*Not Applicable

1. Proposition "A" Contracts - under $25,000 may be approved by department head. The Board of Supervisors must approve over $25,000. Non-Proposition "A" Contracts - under $100,000 may be approved by Purchasing Agent - Over $100,000 must be approved by Board of Supervisors.
2. Authority to approve commodities up to either $5,000 or $15,000 per transaction has been delegated to certain departments by the Purchasing Agent.

What methods are used to solicit for commodity purchases and service contracts?

The information below illustrates the general guidelines used based on the value of the commodity purchase or service contract for acquisitions not on agreement:

VALUE	GENERAL GUIDELINES FOR SOLICITATION
Up to $1,500	• One solicitation required sent to the best known source • Delegated Purchasing Authority • Not posted to County Bid Page • No email notification
$1,501 to $5,000	• Three solicitations required sent to the three best known sources • Maximum limit for departments with $5,000 of delegated purchasing authority • Not posted to County Bid Page • No email notification
$5,001 to $15,000	• Minimum of three solicitations sent to best known sources • Maximum limit for departments with $15,000 of delegated purchasing authority • Departments with $5,000 limit must send their requests to Internal Services Department, Purchasing Division for processing • **Solicitations by departments with increased delegated purchasing authority that make purchases of $10,000 or more are posted to the County Bid Page unless restricted due to special requirements. • *Email notifications are sent for solicitations posted to the County bid page for vendors that are registered with the County and have provided an email address

$15,001 to $100,000	• Non-agreement commodity purchases and service contracts are processed through Internal Services (County departments may request delegated authority due to special requirements) • **Solicitations are posted to the County Bid Page unless restricted due to special requirements • *Email notifications are sent for solicitations posted to the County bid page for vendors that are registered with the County and have provided an email address
Over $100,000	• **Solicitations are posted to the County Bid Page unless restricted due to special requirements • *Email notifications are sent for solicitations posted to the County bid page for vendors that are registered with the County and have provided an email address
Proposition A service contracts	• **Solicitations are posted to the County Bid Page unless restricted due to special requirements • *Email notifications are sent for solicitations posted to the County bid page for vendors that are registered with the County and have provided an email address

4.4.2.5 Purchase Orders Issued Under Delegated Authority by the Department

The Departments will use the following Purchase Orders for their Delegated Authority:

- Delivery Order Document (DO) – A Direct Encumbrance that must reference a Master Agreement (MA) with no dollar threshold.

- Decentralized Purchase Order Document (PD) – A Direct Encumbrance for Non-Agreement Goods or Services within the Department's Delegated Authority.

- Delivery Order RQN Reference Document (DORQ) – A Direct Encumbrance that must reference a Requisition (RQN) and a MA with no dollar threshold.

- Decentralized Purchase Order RQN Reference Document (PDRQ) – A Direct Encumbrance that must reference a RQN within the Department's Delegated Authority.

- Purchase Order for Training Document (POTR) – A Direct Encumbrance for Non-Agreement Training within the Department's Delegated Authority.

- Purchase Order for Training RQN Reference Document (POTN) – A Direct Encumbrance for Non-Agreement Training that must reference a RQN within the Department's Delegated Authority.

4.4.3 General Internal Controls Over Procurement

Management must ensure that appropriate procurement controls are followed:

- Proper forms of documentation are used (Requisitions, Purchase Orders, etc.).
- Department procurement personnel verify items are not covered by an existing purchase agreement when procuring items from non-agreement vendors.
- An appropriate supervisory review is performed on all purchases to ensure that purchases do not exceed dollar amounts established by ISD/PCS.
- Changes or modifications to prices, conditions, etc., of a Purchase Order or agreement are made only by the ISD/PCS Purchasing Agent by issuance of an official change notice or amendment. (Negotiations with a vendor by a department to modify the agreement are not permissible).
- In emergent situations, petty cash may be used for purchases in accordance with the fund's guidelines. The dollar value of the items to be purchased (for example, less than $25) should not be the determining factor when choosing the method of payment. When a department encumbers funds for expenses and later uses petty cash to make payments, Accounts Payable is overstated at the end of the fiscal year.
- Encumbrance balances can be supplemented (increased) only during the fiscal year of issuance. Encumbrances related to commitments and Accounts Payable cannot be supplemented.

4.4.4 Use of Credit Cards

The County primarily uses two credit card programs:

- State "Voyager" Fuel Credit Card Program – The purpose of the State "Voyager" Fuel Credit Card Program is to provide an alternative to County departments to fuel County vehicles and equipment at retail gasoline stations, if a County fueling site is not geographically or readily accessible. For further information, see County Purchasing Policy, P-2850, State "Voyager" Fuel Credit Cards.
- State "Cal-Card" Credit Card Program – The purpose of the State "Cal-Card" Credit Card (procurement card) Program is to provide an additional alternative within the existing procurement system to help support and/or expedite low-dollar-value operating requirements. The procurement card may be used as an alternative to small-dollar purchase orders and/or in lieu of petty cash purchases (see County Fiscal Manual Section 4.6.5 for restrictions on petty cash purchases).

Departments desiring to use the Procurement Card Program must develop policies and procedures to govern the use of the cards, including what types of items can and cannot be purchased, monthly and transaction/daily purchase limits, proposed users, approval authority/requirements, and any other restrictions that management requires. The policies and procedures must adhere to the requirements of Use of Credit Cards, Section 4.4.4, General Internal Controls Over Credit Cards, Section 4.4.5, and County Purchasing Policy P-2810, State "Cal-Card" Credit Cards.

The user department must also submit a signed letter by their department head (or designee, at the level of Administrative Deputy or higher) to the Auditor-Controller's Audit Division and to the Internal Services Department's (ISD) Purchasing Division Manager, certifying that they will comply with County Fiscal Manual Use of Credit Cards to Procure Services, Section 4.4.4, General Internal Controls Over Credit Cards, Section 4.4.5, and County Purchasing Policy P-2810, State "CalCard" Credit Cards. Once the signed letter is submitted, ISD will coordinate the issuance of the cards. The user department shall be responsible for the CalCard administration, review, and expenditures in accordance with the requirements indicated below and the department's internal policies/procedures. Also, the department must identify and notify the Auditor-Controller's Audit Division of any areas of non-compliance.

Note: Corporate credit cards used to pay for travel expenses are discussed in Corporate Credit Card, Section 13.11.1.

4.4.5 General Internal Controls Over Credit Cards

Cardholder Responsibilities

- Department credit cardholders must ensure their credit card is adequately secured by restricting access to it at all times, and must treat the use of the credit card with responsibility, care, and security.

- Department credit cardholders must ensure that all purchases comply with County purchasing policies and procedures governing bid and vendor selection processes, in addition to their respective department's policies and procedures.

- Department credit cardholders must not exceed approved credit card limits or split orders to circumvent the limits. In addition, cardholders must not purchase personal goods/services, prohibited items, or make purchases for other cardholders.

- Lost or stolen cards must be immediately reported to the credit card company, the cardholder's supervisor, and to the department's credit card program manager.

- Department credit card purchases must be properly documented with original invoices or receipts, indicating the name of the vendor, location, date, and dollar amount where possible/practical. The documentation must include the vehicle number for purchases associated with County vehicles.

- Department credit cardholders are responsible for reviewing in a timely manner their monthly credit card billing statements to ensure the information/charges are correct and/or identify and document discrepancies. Cardholders must immediately report any discrepancies to their supervisor.

<u>Department Responsibilities</u>

- Department management must have the credit cardholder sign an "Employee Acknowledgement Agreement", and the department must maintain the signed agreement forms on file (See County Purchasing Policy P-2810, State "CalCard" Credit Cards for an example of an agreement form).

- Department management must incorporate restrictions and limits on allowable purchases in their policies/procedures based on the purpose of the credit cards and proposed cardholders, and in conformance with County purchasing policies.

- Department management should work with the credit card issuer to establish electronic credit card transaction limits (where applicable) and allowable purchase categories.

- Department management must closely monitor credit card usage to ensure that credit cardholders do not use County issued credit cards for any personal business.

- Credit cards must be assigned to an individual and not to a vehicle or to multiple employees. County motor pool exception: Voyager cards may be issued to specific vehicles powered by alternative fuels when the alternative fuel is not available directly from County owned fuel sources. In this case, the responsible manager for the vehicle will be the responsible person for the card and shall ensure adherence to all other conditions of its use.

- Department management must immediately obtain credit cards from cardholders who do not comply with card limitations, use the card for unauthorized purchases (such as personal purchases), change jobs or assignments and no longer require card use, leave County service, or who are or plan to be on an extended leave. Departments should also take disciplinary action (where appropriate) for cardholders who violate purchase limits/rules.

- Department management must establish levels of approval authority, including who will approve staff to be issued a credit card, who will approve credit card purchases, etc.

- The cardholder's supervisor and/or at least one higher-level position must reconcile the monthly credit card billing statement's transaction detail with the purchase documentation and resolve any discrepancies. The reconciliation must be signed and dated by the reconciler indicating their review/approval.

- The Department must retain monthly billing statements with reconciler's signature, purchase receipts, and written purchase approvals for at least five years.

- The Department must separate duties so that the same person cannot approve purchases, reconcile credit card statements, approve reconciliations, or approve payments. Cardholders must not perform any of these duties.

- Department management must maintain a list of staff with credit cards, re-evaluate the need for each credit card at least annually, and cancel unused or unnecessary credit cards.

4.5.0 DISBURSEMENT PROCESS

Payment for goods and services received is generally tendered through eCAPS via warrant or Electronic Fund Transfer (EFT). Issuance of warrants and EFTs are initiated through the following payment documents:

4.5.1 Payment Documents

- Encumbered Payment Request (GAX) document – The GAX is used to enter payment requests referencing current fiscal year ABS encumbrances.

- Prior Fiscal Year Payment (PFY) document – The PFY is used to enter payment requests referencing ABS commitments and expenditure accruals. These encumbrances have a prior budget fiscal year.

- Matching Payment Request – Normal (PRM) document – The PRM is automatically generated for current fiscal year Procurement encumbrances when the 3-way matching criteria are met.

- Matching Payment Request – Prior Year (PRMPY) document – The PRMPY is automatically generated for Procurement commitments and Expenditure Accruals when the 3-way matching criteria are met.

- Special Warrant Request (SWR) document – The SWR is used to enter payment requests for non-encumbered expenses. The types of payments associated with a SWR document include foster care provider payments and other welfare payments.

- Trust Warrant Request (TWR) document – The TWR is used to enter payment requests that reference a Balance Sheet Account (BSA). The types of payments associated with a TWR include disbursements of court-ordered settlements, distribution of court fees and fines, property tax refunds, and agency payments. Refer to Trust Fund Deposits and Disbursements, Section 2.2.0 for more information on the use of TWRs.

- Petty cash disbursements are discussed in Revolving Fund Purchasing Authority, Section 4.6.0.

For payment processing timeframes and payment cycles visit (http://ecaps.co.la.ca.us/webapp/FINPSRV11/advantage/Advantage/Help/MainHelp/MainMenuProject.htm). In addition, questions relating to all disbursement types can be directed to the Auditor-Controller's Disbursements Division.

4.5.2 General Internal Controls Over Disbursements

- Departments must establish an ongoing follow-up process with vendors to ensure proper notification of overdue deliveries. This is especially important when the Purchase Order contains a liquidated damage provision. In such cases, immediate notification to vendors is a critical County action necessary to support resulting litigation should the vendor contest the payment of damages. The respective County Purchasing Agent at ISD/PCS must also be notified as soon as possible.

- Departments must ensure that prices invoiced are correct, in accordance with unit prices agreed upon, and that no substitutions of brands occur.

- Departments must ensure that commodities are received in good condition.

- Discounts must always be taken (see Internal Controls Over Vendor Payment Processing, Section 4.5.5).

- Original vendor invoices received (e.g., hard-copy, electronic copy) must be properly matched with a receiving report/shipping document before payment is processed. If the invoice is for services, a receiving report/shipping document will not be available. Such invoices must be marked in a manner that denotes the invoiced services were received. A supervisory signature must also be on the services invoice approving the transaction. Invoices should be stamped PAID to help ensure that duplicate payments are not made.

- Splitting of invoices to circumvent the assigned purchase/payment delegated limit is prohibited.

- Departments must ensure that unmatched receiving reports and vendor invoices are identified and properly resolved.

- Departments must cancel encumbrances established for goods/services that will not be ordered (i.e., if less than the encumbered amount is needed).

Departments should not wait until fiscal year-end to cancel encumbrances if they know that goods/services will not be ordered.

- Departments must reconcile expenditure documents to eCAPS reports and resolve differences promptly.

- Source documents (e.g., invoices, report of goods received, etc.) must be retained by the department initiating the payment for at least five years, in accordance with Government Code 26907.

For detailed instructions relating to the creation and approval of payment documents, refer to the eCAPS Accounts Payable Desk Manual at: [(http://ecaps.co.la.ca.us/webapp/FINPSRV11/advantage/Advantage/Help/MainHelp/MainMenuProject.htm)](http://ecaps.co.la.ca.us/webapp/FINPSRV11/advantage/Advantage/Help/MainHelp/MainMenuProject.htm).

4.5.3 eCAPS Online Vendor Payment Process

The eCAPS online vendor payment functionality allows departments to initiate vendor payments by entering required data online to the Auditor-Controller for warrant generation. Authorized departmental personnel input requests for and approve payments online (by means of electronic authorizations). Generally, each transaction requires at least two additional higher level electronic approvals depending on the dollar amount of the transactions.

4.5.4 Objectives of Vendor Payment Processing

The objectives of the Online Vendor Payment Processing are to:

- Provide a more efficient vendor payment processing system.

- Ensure the accurate and prompt payment of goods and services.

- Receive maximum benefit of vendor discounts through expeditious payment of approved claims.

4.5.5 Internal Controls Over Vendor Payment Processing

Following are the minimum procedures and controls departments must follow when entering payment transactions online into eCAPS:

- Department management must ensure that employees who initiate payments for goods and services do not have procurement responsibilities.

- Departmental personnel who actually authorize online payments must be at the level of Accountant II or higher and subsequent approvals should be applied by personnel that hold progressively higher positions of responsibility within the department. The approval of two separate personnel is required, at least one of which has no purchasing, receiving, or accounts payable duties. An additional approval is required for large disbursements.

- Department management must ensure that no two people, on their own, are able to encumber funds and approve payments.

- Department personnel responsible for preparing and approving SWR payments should be independent from monitoring account activity where funds are drawn.

- The following is a summary of the eCAPS approver assignment guidelines that departments will be expected to meet:

<u>Data Entry</u>:	Can be any employee without approver capabilities.
<u>Approver 1:</u>	Must be an Accountant II or higher.
<u>Approver 2</u>:	Must be an Accountant II or higher.
<u>Approver 3</u>:	Must be at least a Fiscal Officer, Head of Accounting, or equivalent.
<u>Approver 4</u>:	Must be Executive Management.

Note: Any exceptions to these requirements must be properly justified and include a discussion of any compensating controls. The exceptions must be documented and authorized by the requesting department head or designee before they are submitted to the Auditor-Controller's Enterprise Systems Support Division for review and approval.

- Two approvals are required for the disbursement cancellation action:

<u>Automated Disbursement (AD) and Electronic Funds Transfer (EFT):</u> Two online approvals are required to approve the cancellation action. The first approval will be provided in the department by an individual with approval level 1 or higher. The document will then be forwarded to the Auditor-Controller's Disbursements Division for the second approval.

<u>Manual Disbursement (MD):</u> Two approvals are required to approve the cancellation action, one by the Department and the other from the Auditor-Controller's Disbursements Division.

- Authorization to request additions or modifications to the Vendor Table must be restricted to a few individuals at the level of procurement supervisor or higher. Individuals with eCAPS payment approval capability should not be authorized to add or modify Vendor Table information.

- Departments must use the eCAPS "Scheduled Payment Date" field to identify the date the warrant is to be printed and mailed to the payee. Use of the "Handling

Code" field to have the warrant picked-up by the department will result in the warrant being available for pick-up one day after warrant printing.

- Departments must take a discount, when available. The "Discount" date (the date the discount period expires) must be substituted in eCAPS for the "Scheduled Payment Date."

- Departments must increase the original PO amount, if the final payment exceeds the original PO amount by 10% or $500, whichever is less.

- Departments are responsible for reviewing the "Non-Finalized Payment Document Request" report at least weekly to ensure their payment documents are processed or cleared from the eCAPS Document Catalog.

- Departments must always comply with all County procurement policies. In addition, Departments must comply with specific payment audit procedures provided by the Auditor-Controller's General Claims Section.

- For each encumbering document, departments must maintain files containing the requisition, Purchase Order or encumbrance request, the vendor invoice and the eCAPS payment transaction. The invoice must be approved by personnel who have direct knowledge that goods and services were received such as the receiving clerk.

- Departments are responsible for computing any use tax and entering this data into the system along with the payment authorization.

- Departments must enter invoice information into the system so that it appears on the warrant stub and minimize vendor inquires related to payments.

- Departments are responsible for handling vendor inquiries and ensuring vendors know which warrants pertain to which invoices.

- Departments are required to send copies of all capital asset payment voucher (GAX or PFY) and invoices to the Auditor-Controller's Accounting Division. See Chapter 6 (Capital Assets and Non-Capital Assets) for additional controls.

- Departments must notify the Auditor-Controller's General Claims Section, when a "Stop Payment" is needed.

- Departments must ensure that only authorized personnel have been assigned passwords. Internal controls over computer terminals can be found in Chapter 8 (Information System Controls) of this manual.

- For vendors who provide services, Departments must obtain the vendors tax information (Tax Identification Number and/or the Social Security number) needed for year-end 1099 preparation.

4.5.6 Field Warrant Requests and Manual Disbursements

eCAPS allows departments to initiate On-Demand payments at welfare offices by entering required data online. Two different documents are utilized in eCAPS to initiate and disburse On-Demand payments: The Field Office Welfare Payment Request (FWR) and the Field Office Welfare Manual Disbursement (MDFWR).

Authorized departmental personnel input requests and disburse payments by providing approvals online (by means of electronic authorizations). At least two individuals are required to issue a FWR On-Demand payment.

Source documents are retained by the department initiating the payment for at least five years, in accordance with Government Code 26907.

4.5.7 Internal Controls Over FWR and MDFWR Disbursements

The following are the minimum procedures and controls departments must follow when entering payment transactions online into eCAPS:

- All eCAPS On-Demand payment requests can be established by an individual with data entry access. However, On-Demand payment disbursements require an individual with data entry access and a separate individual with approval capabilities.

- On-Demand payments cannot be less than \$3.00 or greater than \$299.00 (or greater than \$999 for DPSS).

- The following are the assignment guidelines that departments will be expected to meet. Any exceptions must be properly justified and include a discussion of any compensating controls. The exceptions must be documented and authorized by the requesting department head or designee before they are submitted to the Auditor-Controller's Enterprise Systems Support Division for review and approval.

  FWR

  Data Entry: Clerk/Cashier

  MDFWR

  Data Entry: Clerk/Cashier

  Approver Level 1: Supervising Clerk/Cashier

- Two approvals are required to approve the cancellation action for MDFWR documents. There must be one approval from the department and the other from the Auditor-Controller's Disbursements Division.

4.5.8 1099 Reporting

The Auditor-Controller's Disbursements Division is responsible for issuing IRS mandated 1099-Miscellaneous Income (1099-Misc.) forms when payments to non-County workers (e.g., consultants, independent contractors, etc.) exceed $600 in a calendar year. Failure to issue a 1099-Misc. form or issuing an incorrect 1099-Misc. form may result in an IRS fine of $50 for each occurrence. These fines are charged back to the department that failed to report, or reported the information incorrectly. To ensure 1099-Misc reportable payments are correctly captured and reported to the IRS and payees, the following procedures apply.

- Payees that receive payments which are reportable on a 1099-Misc form must be registered as vendors in the eCAPS Vendor Table.

- Unless authorized by the Auditor-Controller's Accounting Division, only GAX and SWR payment documents can be used to generate 1099-Misc reportable payments.

- Departments must ensure appropriate object codes are used when issuing 1099-Misc-reportable payments. Object codes that are 1099-Misc reportable have a 1099 Income Code and an Income Type listed in the eCAPS Object Code Table.

If a department determines they failed to register a vendor in eCAPS, or that they issued the payment using an object code that was not flagged as 1099-Misc reportable, they must provide Disbursements Division staff with information about the payment as soon as possible, but not later than December 31st of the calendar year the payment was made. Questions regarding the reporting of payments should be directed to the Auditor-Controller's Disbursements Division.

4.5.9 eCAPS Vendor Codes

eCAPS utilizes a Vendor/Customer Table (VCUST) to store information about the County's customers and vendors to facilitate payment and reporting responsibilities. Each vendor/customer in VCUST is assigned a specific vendor/customer code, which becomes the primary key used to identify them. Information such as vendor/customer name, address, and TIN are all required to create a vendor/customer code in eCAPS (for more information regarding the required components and how to create or modify a vendor/customer code, refer to the Vendor Administration Desk Procedures). The following represent the types of vendors that require vendor codes to be established in eCAPS:

- Procurement Vendor

- Contract Vendor

- 1099-Misc. Reportable Vendor

- Direct Deposit (EFT) Vendor
- Travel Employee
- Vendor with a Levy

Procurement and contract vendors must be created and modified in WebVen (see WebVen Vendor Codes, Section 4.5.11 for an explanation of WebVen). All other vendor/customer codes can be created and modified directly in eCAPS.

The VCC1 document should be created when the department enters into a business relationship with the vendor/customer rather than when a payment is due. Even if a vendor/customer code is expected to be used only once, a vendor/customer code must be established.

4.5.10 Internal Controls Over eCAPS Vendor Customer Documents

The following are the minimum procedures and controls departments must follow when entering vendor/customer documents into eCAPS. Any exceptions must be properly justified and include a discussion of any compensating controls. The exceptions must be documented and authorized by the requesting department head or designee before they are submitted to the Auditor-Controller's Enterprise Systems Support Division for review and approval.

- All eCAPS vendor/customer documents require an individual with data entry access and a separate individual with approval capabilities. Any employee, who does not have payment or encumbrance approval capabilities, can have data entry capabilities.
- The approver of vendor/customer documents must also not have payment or encumbrance approval capabilities and must be at the level of Procurement Assistant II or higher. In addition, approval by the Auditor-Controller's Disbursements Division is required for all VCC1 and VCM1 documents.

4.5.11 WebVen Vendor Codes

As previously stated, County contract vendors and procurement vendors are required to have vendor codes established and modified through WebVen, which is a web-based system used to register vendors. WebVen sends nightly updates to eCAPS to add or modify vendor information. The following controls apply to vendor codes created through WebVen:

- The Vendor Table Update Request form can be completed by anyone in the department who is not an approver on the form and should be completed when the department enters into a business relationship with the vendor, rather than when a payment is due.

- The Vendor Table Update Request form must be approved by supervisory personnel within the department.

- Departmental approvers of Vendor Table Update Request forms must verify that the County has legitimate business with the vendor before approving the establishment of a vendor code.

- Departmental approvers of Vendor Table Update Request forms are required to review appropriate vendor documentation to confirm the vendor name, address, and TIN updated for the vendor are correct.

- Upon approval of the Vendor Table Update Request form, vendor information will be validated through the Internal Revenue Service online verification system.

- ISD personnel will confirm the remittance address through an independent source and validate the address before adding or modifying vendor information in WebVen.

WebVen will process nightly updates to eCAPS to add or modify vendor information in eCAPS.

4.5.12 Miscellaneous Vendor Codes

Non-repetitive payments to payees that do not meet any of the six criteria identified in Section 4.5.9 may be made through the use of a miscellaneous vendor code. Under the miscellaneous vendor code concept, data entry staff enters the vendor's mailing address each time a payment document is created. Additional care must be taken by payment document approvers to ensure the address where the payment is being mailed belongs to the vendor.

Miscellaneous vendor codes are established for specific purposes and should not be used for any other purpose. Following are examples of miscellaneous vendor codes and how they can be used:

- MISC-Refunds – Used to refund deposits and other overpayments collected from customers

- MISC-Bail Ref – Used to refund bail collected by the Sheriff

- MISC-FC – Used to pay Foster Care payments

Many of the miscellaneous vendor codes are restricted for use by certain departments. Departments should contact Auditor-Controller's Disbursements Division for approvals to create miscellaneous vendor codes for a specific purpose.

4.5.13 Vendor Payment Time Frame Requirements

The Board of Supervisors has an established policy that all vendor payments will be issued within 30 calendar days of receipt of the vendor's invoice. Successful implementation of the 30 day payment policy requires the understanding and full cooperation of all departments. If vendors offer discounts for earlier payment, departments must ensure the discounts are taken. Any problems or questions regarding this payment policy should be directed to the Auditor-Controller's Disbursements Division.

4.5.14 Internal Transfer Documents

An Internal Transfer is a billing document which records a departmental expenditure for services received from another department or for cost allocated from another budget unit. County policies regarding Internal Transfers are as follows:

- The department providing services must prepare the Internal Transaction Initiator (ITI) and the Internal Transaction Agreement (ITA) documents to bill the client department within 60 calendar days following the end of the month in which service was provided or within 60 days of receiving an invoice, whichever is later. The ITI/ITA must indicate the actual period that the charges are for.

- The following is a summary of the eCAPS approver assignment guidelines that departments are expected to meet. Any exceptions must be properly justified and include a discussion of any compensating controls. The exceptions must be documented and authorized by the requesting department head or designee before they are submitted to the Auditor-Controller's Enterprise Systems Support Division for review and approval.

  Data Entry: Can be any employee without approval capabilities.

  Servicer: Must be an Accounting Officer I level or higher.

  Requestor: Must be an Accounting Officer I level or higher.

Note: The ITA document rejection takes place outside of eCAPS via an email to the Auditor-Controller's Accounting Division. See below for additional procedures.

- The ITA should reference the encumbering Departmental Service Order (DSO).

- If the amount of the DSO is not sufficient to cover the charges billed, the client department should be notified and the DSO should be supplemented.

- The department providing the service must notify the client department of the ITA created for the bill and send supporting documentation.

- Client departments must accept or reject charges within 30 days of the ITA creation date by approving the ITA in eCAPS. If the ITA has not been approved within 30 calendar days, the Auditor-Controller will process the ITA.

- Billings rejected by the client department must be accompanied by a written explanation and signed off by the chief fiscal officer of the department. The explanation should be submitted to the Auditor-Controller's Accounting Division.

- If the two departments cannot resolve a dispute, the Auditor-Controller will submit the matter to an arbitration process, which will determine the final outcome of the matter (Board of Supervisors Policy Manual, Policy #4.010 – Administrative Policy on Interdepartmental Billing and Arbitration). This policy provides a billing process that is equitable and efficient for all County departments and will hold the department providing the service and the department receiving the service jointly responsible for ensuring that the appropriate amount is encumbered and adjusted, as necessary, during the fiscal year.

- The time frames for billing and rejecting charges are subject to change during the year-end closing. The Auditor-Controller's annual year-end closing instructions to departments should be reviewed to obtain the pertinent dates.

- Procedures should be in place to address the following:

  1. The department should review the document catalog on a monthly basis (frequency is dependent on transaction workload of the department) to ensure all billing transactions have been appropriately addressed.

  2. The department should reconcile the billing transactions to eCAPS on a monthly basis (frequency is dependent on transaction workload of the department).

  3. The department should have procedures for document distribution, centralized filing (if appropriate), and retention.

See the eCAPS training manuals for more information on the Internal Transfer documents (ITI / ITA).

4.6.0 REVOLVING FUND PURCHASING AUTHORITY

4.6.1 Revolving Fund Purchasing Authority Description

Departmental revolving fund purchasing authority is intended to supplement, not replace, various vendor and other Blanket Purchase Order procedures. Revolving funds may be used where emergencies exist, when prepayment is required, when immediate payment will result in a cost savings, or where a purchasing advantage can be achieved. In many cases, departments with eCAPS online payment authority can reduce their number of revolving fund transactions by making the eCAPS scheduled payment date the same as the current calendar date. This will enable the warrant to be printed and available for the department to pick up the afternoon of the next business day. See Section 4.6.7 for more details on Revolving Fund Purchasing Plans.

4.6.2 Guidelines for Revolving Fund Purchases and Payment Methods

The maximum amount for any single revolving fund transaction is $1,000. To ensure that revolving funds are properly used, departments must adhere to the following guidelines:

Amount	**Form of Payment**	**Departmental Approvals**
$1 - $100	Cash or Check	Supervisor
$101 - $500	Check (See Note)	Dual Transaction Approval (including one signature at management level)
$501-$1,000	Check	Dual Check Signatures (including one signature at management level)

Note: Departments may use cash for purchases of $101 to $500. In these situations, use of cash for payment must be pre-approved at the level of Administrative Deputy or higher for purchases of $101 to $250 and by the department head for purchases of $251 to $500. The department must document the pre-approval for audit follow-up purposes. Management level approval/signature is defined to be the office or work site manager and his/her assistant where a revolving fund or revolving fund sub-assignment is located.

4.6.3 Approvals

Following are minimum controls departments must follow when approving revolving fund purchases. Departments may establish stricter guidelines and require higher-level management approval as they determine necessary:

- Departments must ensure that an individual with procurement expertise is involved with the review or approval process.
- Departments must ensure that the goods or services purchased are actually received.

These guidelines and controls represent minimums and are designed so that they apply generally to all County departments, regardless of size or operational complexity. Department heads must analyze their own unique operations and determine to what degree the revolving fund purchasing authority will be delegated.

4.6.4 Limits

- Purchases cannot be fragmented to keep within the $100, $500 or $1,000 limits.

- Purchases of $25 and less may be paid using the revolving fund, or via sub-purchase orders.

- For purchases greater than $25 and up to the $1,000 limit, revolving fund monies may be used where emergencies exist, when prepayment is required, when immediate payment will result in a cost savings, or where a purchasing advantage can be achieved. In all other instances, various vendor sub-purchase orders must be used. Documentation should be on file to support the reason(s) for using the revolving fund to pay for the purchase in lieu of using the online vendor payment process.

- Departments may establish combined cash and checking account systems under revolving fund authority. Check stock must have two signature lines and the following statement printed below the second signature line: **"Amounts over $500 require two signatures."** Check stock must also have the following statement printed on the face of the check: **"Not good for over $1,000."**

4.6.5 Purchase Restrictions

The following restrictions apply to purchases using revolving funds:

- Revolving funds are not to be used to purchase items available on agreement blanket purchase orders unless absolutely necessary (e.g., agreement vendor is unable to reasonably meet an emergency need) and ISD/PCS approval is obtained.

- Only those goods or services that are a legal County charge may be purchased. The items purchased must be compatible with a department's mission, consistent with prudent cost conscious business practices, and must not be an inappropriate use of public monies. Department management must exercise reasonable business judgment when using revolving funds to purchase goods and services.

Management should contact ISD/PCS and/or the Auditor-Controller regarding questionable purchases or purchases that appear incompatible with the department's mission.

- The following items cannot be purchased using revolving funds:

    a. Capital projects

    b. Clothing *

    c. Capital assets

    d. Food *

    e. Holiday decorations *

f. Meals *

g. Protective apparel unless authorized by the Chief Executive Officer/County Office of Emergency Management

*Unless authorized by the Los Angeles County Code (i.e., Section 5.40.097) or the ordering department is charged with the care of patients, inmates or wards and the expenditures incurred would be for their direct benefit.

- Generally, Emergent Travel Advances (except transportation cost - airfare and cab fare) and parking fees should not be paid for using revolving funds because other standard payment methods already exist. However, in unusual situations, which the department must document for audit follow-up purposes, such expenditures can be paid using revolving funds. In these situations, use of revolving funds for payment must be approved at the level of Administrative Deputy or higher, regardless of the dollar amount of the purchase.

4.6.6 Delegation of Responsibility

Some departments may want to delegate revolving fund purchasing authority to each area, district or operational office up to the $1,000 limit or some lesser amount. Some departments may want a higher approval/signature level, such as deputy director or Chief Fiscal Officer. The degree of delegation, if any, rests with the department head, as the department head is ultimately responsible for these purchases.

In deciding on the level of delegation of the expanded purchasing authority, departments need to ensure a proper balance between operational efficiency and the risk of inappropriate purchases. It is management's responsibility to make a good faith effort to base its decision on meeting the department's operational needs and minimizing business risk.

4.6.7 Departmental Revolving Fund Purchasing Plans

Departments desiring to implement or increase revolving fund purchasing authority must prepare a written Revolving Fund Purchasing Plan (Plan) outlining how the department intends to implement the controls in Section 4.6.0 and Section 1.6.0. At a minimum, the Plan must contain information on the following areas:

- The degree to which the department plans to decentralize the revolving fund purchasing authority. Dollar limits to be imposed must be specified.

- The locations, names and payroll titles of management level personnel who will be authorizing disbursements. For each person listed, specify whether his/her responsibilities will include voucher/receipt approval and/or check signature.

- The need for additional checking accounts, preferred bank locations, and the names of authorized check signers. New and existing accounts must be limited to branches of the following banks:

a. Bank of America

b. Union Bank

c. Bank of the West

d. Wells Fargo

- A dollar estimate of additional revolving fund money required to implement the revolving fund purchasing authority. Please specify the dollar amount and location of any portion(s) of the revolving fund that will be maintained as cash on hand.

- A certification letter from the department head or designee indicating that the department has or will implement all control requirements of Section 4.6.0 and Section 1.6.0. The certification letter must be sent to the A-C's Audit Division.

- The name of an individual and his/her phone number who can be contacted about questions on the department's Plan.

The A-C's Audit Division will forward a copy of the certification letter for Plans requiring new or adjusted banking arrangements, to the Treasurer and Tax Collector for further action.

Note: Revolving Fund Purchasing Plans may need to be updated regularly due to changing conditions and turnover of personnel.

4.6.8 Fund Disbursements

When making disbursements from a revolving fund, the following controls must be adhered to:

- The fund custodian must obtain and review supporting documentation for all disbursements made from the revolving fund. At a minimum, vendors' receipts/invoices must be obtained documenting the date of the purchase, the amount expended, and the item purchased.

- Disbursements from a revolving fund (either a petty cash or a special purpose fund) must be pre-authorized by an individual independent of the fund custodianship to ensure that the item or service to be purchased is a necessary and legal charge. A petty cash voucher system may be used for this purpose (See example in Section 4.6.10).

- Whenever possible, a sales receipt/invoice must be obtained prior to disbursing funds. In situations where funds are disbursed before a receipt/invoice is obtained, some type of voucher similar to the petty cash voucher discussed above should be used to document the amount of funds disbursed, the item to be purchased, the estimated cost of the item, the actual cost and the amount to be returned. Both the individual authorizing the expenditure and the individual to whom the funds are disbursed should sign the voucher.

- Supporting documentation must be prepared (presented) in such a manner to make alterations difficult. For example, petty cash vouchers and vendor invoices must be written in ink so that documentation cannot be easily altered.

- Documentation supporting petty cash expenditures must be marked paid to prevent subsequent reuse (misuse) of the documents.

- Documents other than vouchers and receipts for disbursements should not be kept in the revolving fund box (drawer).

Note: Departments having revolving fund monies assigned to multiple locations should normally have each office forward the appropriate expenditure documentation to the department's business office. Upon verifying the appropriateness of the expenditures and supporting documentation, the business office should reimburse the individual locations from the business office's assigned fund. The business office should then request reimbursement of the fund in accordance with vendor payment guidelines.

4.6.9 Use of Checking Accounts for Disbursements

Disbursements from revolving fund(s) should be made by check whenever practical, since check disbursements provide greater protection against loss. Prior to establishing a new checking account or changing an existing account, a department must obtain Treasurer and Tax Collector approval (See Section 1.2.2). For specific controls over bank accounts, see Section 1.2.3. In addition, the following controls over checking accounts must be implemented.

- Checks must be serially pre-numbered. Spoiled checks must be voided and retained for subsequent inspection. All checks (used and unused) must be accounted for on a periodic basis (monthly at a minimum).

- In preparing checks, care must be taken so that alterations cannot be made. Checks must be prepared in ink (handwritten, not typed, unless the volume makes it impractical) and written figure amounts should be inserted far to the left in the prescribed spaces to avoid the possibility of a later insertion in front of the correct figure.

- Checks must be payable to the individual or organization receiving the funds. Checks must never be made payable to "cash" or "bearer."

- Checks must be mailed by the signer and not returned to the employee who prepares the checks. If a check is returned as undeliverable, it must not be returned to the employee who prepared it.

- Blank check stock must be secured in a locked safe or file cabinet.

- Strict control must be maintained over signature plates and facsimile stamps.

- Authorized signers must be officers or employees independent of the handling of incoming cash and accounting records, and independent of the fund custodianship.

- Checks must not be signed until they have been fully completed. Blank checks must not be pre-signed or pre-countersigned.

- The number of authorized check signers must be limited. Provision should be made for one or two additional employees to be signers in the event of absenteeism or emergencies. Two signatures are required for amounts over $500.

- A list of authorized signers should be maintained in the department's business office at all times. Changes (additions or deletions) in the authorized signers should immediately be posted to the list as they occur. Authorized signers leaving service or transferring to another area or department should be immediately deleted from the check signer list. Copies of all changes must also be provided to the bank where the checking account is maintained.

- When a mechanical check-signing machine (with a signature plate) is used, someone not involved in the processing of checks must safeguard the signature plate.

- Supporting documentation (vouchers, receipts, etc.) must be presented with the checks submitted for signature. The check signers must review the documentation for accuracy and appropriateness before signing the check.

- Monthly bank statements and paid checks must be received directly by the accounting office and a timely reconciliation performed by an individual with no deposit or check writing responsibilities.

- Interest earned on revolving fund bank accounts must be deposited quarterly with the County Treasurer and Tax Collector's office (departmental revenue account #8603 - Interest).

4.6.10 Sample Petty Cash Voucher

<u>Petty Cash Voucher</u>

Date ____________________

Vendor Name _________________________ Date Purchased ___________________

Item/Service Purchase ____

Purchase by (name) ____

Amount advanced (if applicable) $________________________

Amount expended (a receipt must be attached) $________________________

Amount returned $________________________

Reimbursement approved by ______________________ Date _______________

Fund Custodian ____

4.6.11 Wire Transfers

A wire transfer is the electronic transfer of funds from one bank account to another. The Treasurer and Tax Collector (TTC) and the Auditor-Controller (A-C) work together to ensure wire transfers are processed in accordance with departmental instructions. Due to the amount of coordination and manual intervention to process a wire transfer, only large dollar transfers are processed via wire transfer. Procedures adopted by the TTC and the A-C require that wire transfers may be utilized only in those instances where the County or other Treasury Pool participant will benefit. Considerations in assessing the County's benefits include legal requirements, cash management gains, favorable purchasing incentives, and cost effective processing. The TTC and A-C approval must be obtained before any commitment is made to disburse funds via wire transfer.

4.7.0 CELLULAR TELEPHONE AND OTHER WIRELESS DATA DEVICES USAGE POLICY

4.7.1 Description of Cellular Telephone and Other Wireless Data Devices Usage Policy

The usage policy for the County's cellular telephones and other wireless data devices addresses: who may have a County cellular telephone or other wireless data device; when it may be used; management responsibilities to monitor and check usage and cost; and reimbursement for personal usage. This policy applies to handheld portable and vehicle installed cellular telephones, as well as other wireless data devices.

Cellular telephones and other wireless data devices (such as pagers, mobile hot spots, air cards, etc.) issued and paid for by the County must be assigned based on operational need and not employee level. The department head or his/her designee must limit assignment of such devices to circumstances in which the employee's use of a non-cellular telephone or other form of communication is inadequate to meet departmental needs. Examples of such circumstances include a frequent, urgent need to contact the employee, a finding that employees can more efficiently and productively complete their duties by using a cellular telephone or other wireless data device, or circumstances where an employee's personal safety may be at risk if the employee does not have a cellular telephone. The use of County-issued cellular telephones and other wireless data devices is to be minimized, and conventional communication means are to be used when practical and more cost effective. Department management must control County-issued cellular telephones and other wireless data devices usage and cost through monthly bill reviews and annual needs evaluation. Personal usage made by employees from County-issued cellular telephones or other wireless data devices may require reimbursement as referenced below in Section 4.7.3.

4.7.2 Internal Controls Over Cellular Telephones and Other Wireless Data Devices

The County standard for departmental internal controls over the use of County-issued cellular telephones and other wireless data devices is as follows:

4.7.2.1 Selection and Approval

- Costs for cellular telephones and other wireless data devices are to be monitored and controlled as part of each department's operating budget.

- Services for cellular telephones and other wireless data devices are to be acquired at rates available through County master agreements negotiated by the Internal Services Department.

- Departments should choose the most cost-effective pricing plan for the employee. Unnecessary cost features (such as international calling, and downloads of recreational programs) should be disabled to prevent accidental charges.

- Assignments for cellular telephones and other wireless data devices are to be individually justified and approved by an appropriate level of departmental management.

- Pricing plan selection should be determined solely based on anticipated minutes/data usage for business purpose and assume zero personal use by employee.
- Multiple use or pool phones must be controlled by a specific individual assigned responsibility for controlling use of each pool phone, through a) logging use by each individual with access to the phone and/or b) utilization of electronic coding of caller and calls such as in "Call Accounting" programs, when available from the service provider.

4.7.2.2 Monitoring and Reporting

- The department head or his/her designee must, at least annually, re-evaluate individual cellular telephone and other wireless data device assignments to certify continued need. This evaluation should also include a review of the pricing plan to ensure the most cost-effective plan continues to be used. For example, the department should not be paying for a plan that offers 2,000 anytime minutes a month if the employee does not use more than 500 minutes a month on County business, and vice versa.

- A detailed departmental inventory of cellular telephones and other wireless data devices must be maintained at all times for each device which includes at a minimum: identification code (e.g., serial number), state of activation, service provider, plan type, account number, user assignment, user identification number, and assignment location.

- Cellular telephone and other wireless data device bills and usage must be reviewed by administrative staff, or distributed through immediate supervisors to users within one month of receipt.

- Any bill that exceeds plan rates must be reviewed by individual users to verify that the charges are correct and identify any personal usage/calls. Using the guidelines in Section 4.7.3 below, employees must reimburse the County for the cost of all reimbursable personal usage/calls within 30 days of bill receipt. Recurring patterns of excessive personal usage should be documented and may result in disciplinary action.

- Department management must review verified bills to ensure that usage is appropriate and the cost of personal usage is being reimbursed, if required under Section 4.7.3. The appropriate level of management must review all cellular telephone and other wireless data device bills over a normal usage amount as determined by the department head.

- Inappropriate call patterns that may indicate misuse of the device by unauthorized individuals ("cloning" or stolen numbers) must be reported to the service provider.

- Security measures available through service providers must be considered as a means of additional protection. For example, electronic coding of devices to prevent use unless a personal identification number (PIN) is entered by the user.

- Departments must establish internal controls to ensure that departmental/County policies for use of cellular telephones and other wireless data devices are followed.

- Departments must maintain documentation of cellular telephone and other wireless data device expenditures consistent with Auditor-Controller expenditure control guidelines contained in Section 4.1.3.

- Departments may maintain a reasonable number of unassigned activated cellular telephones for use only in emergencies with appropriate security controls to prevent misuse.

4.7.3 Reimbursement Policy

County-issued cellular telephones and other wireless data devices should primarily be used for County business purposes. If an employee does use his/her County-issued device(s) for personal purposes, and that usage results in additional charges to the County, the employee must reimburse the department for the actual cost incurred over the base plan.

- Flat Rate Plans - Flat rate plans charge a specified per-minute rate for all calls made from a cellular telephone. Per minute charges begin with the first minute used. Employees will reimburse the County for each personal call at the per-minute rate specified in the cellular telephone service agreement.

- Anytime Minutes Plans - Anytime Minutes Plans provide cellular telephone users with a specified number of minutes for a fixed monthly fee. The cellular telephone service provider bills each minute used above the specific number of minutes in the Plan at a predetermined, per-minute rate. Under this Plan, employees are required to reimburse the County for personal calls only if the employee used more than the specified number of minutes in the Plan. If the employee used more than the specified number of minutes in the Plan, the employee must reimburse the County for the lesser of 1) all personal calls or 2) all additional minutes.

- Shared/Pooled Plans - For departments using shared/pooled minute plans, usage must be routinely analyzed to determine the appropriate number of minutes for each department's plan. The nature of these plans makes it difficult to establish equitable reimbursement guidelines for excess usage. Therefore, departments must ensure they actively monitor individual usage under these plans.

- Data Plans - Data plans provide users with a specified amount of data for a fixed monthly fee. The data service provider bills usage above the specific amount of data in the Plan at a predetermined, per-byte rate. Under this Plan, employees are required to reimburse the County for personal use only if the employee used more than the specified amount of data in the Plan due to personal use.

Note: If a Plan includes roaming charges, they are generally in addition to the base rate. Departments must ensure that all roaming charges related to a user's personal calls are identified and reimbursed by the employee.

The following is an example of reimbursement under an Anytime Minutes Plan:

Facts: Based on an analysis of the employee's cellular telephone needs, Department A assigned a cellular telephone with a 500 Anytime Minutes Plan to the employee. The fixed monthly fee is $45 and the provider bills each additional minute used at 30 cents per minute.	
Minutes Used	**Reimbursable Amount**

The employee utilized 450 minutes in a monthly period.	No reimbursement is necessary because the number of minutes used (450) is less than the number of minutes in the plan.
The employee utilized 550 minutes in a monthly period. As the employee used 50 more minutes than included in the plan, the Department requires the employee to review the bill and identify personal calls. The employee reviewed the bill and identified 80 minutes of personal calls and 470 minutes of County-business calls.	The employee utilized 50 more minutes than were in the plan, which is less than the 80 minutes of personal calls he or she identified. Therefore, the employee reimburses the lesser amount of 50 minutes, at 30 cents per minute, or $15.
The employee utilized 550 minutes in a monthly period. As the employee used 50 more minutes than included in the plan, the Department requires the employee to review the bills and identify personal calls. The employee reviewed the bill and identified 40 minutes of personal calls and 510 minutes of County-business calls.	The employee utilized 50 more minutes than were in the plan, which is greater than the 40 minutes of personal calls he or she identified. Therefore, the employee reimburses the lesser amount of 40 minutes, at 30 cents per minute, or $12.

Departments should consider assignment of a County cellular telephone or other wireless data device to an employee only when expected usage warrants. If usage is expected to be low, employees may use personal cell phones and receive reimbursement from their departments at a pre-determined rate.

4.8.0 POSTAGE METERS AND POSTAGE

4.8.1 Internal Controls Over Postage Meters

Postage meters assigned to County offices should be utilized to the maximum extent possible. Use of postage stamps should be eliminated except for emergent use or where postage meters are unavailable. In sub-offices where the assignment of a postage meter machine is not justified, the department's main office should be contacted regarding mailing needs and schedules.
The following controls over postage meters must be followed:

- Postage meters must be properly safeguarded at all times against unauthorized use or theft.
- Meters with key operated switches should be in "off" position except when in actual use.
- Meters without key operated switches should be locked up when unattended.

- A log should be maintained showing the date, the beginning ascending meter amount, the ending ascending meter amount, total dollar amount of meter run, and the number of pieces mailed (calculated using the beginning and ending ascending numbers). The operator's signature should be entered on the log certifying that the total dollar amount is correct (i.e., pieces mailed times first class rate).

- All metered mail must be sorted so envelopes face the same direction and are separated to meet postage requirements (i.e., one ounce and under requires first class postage).

- Meters must be checked daily to ensure that the correct date is showing and checked as to the last log date and ascending meter amount on the log.

- Each batch of envelopes requiring a different postage amount must be metered and sealed separately. Follow the instructions in the operator's manual supplied with the postage meter.

- An entry in the meter log must be made each time a batch of mail is metered requiring a different postage amount. The number of pieces run must be recorded by subtracting the beginning number from the ending number on the meter. Also, the dollar amount of the run must be recorded. The total amount of meter run must be verified by multiplying number of pieces by the postage requirement. If the results do not agree, determine which envelopes were metered incorrectly and replace them with new envelopes. Sign the log if the totals agree or after the corrections have been made.

- Incorrectly metered envelopes should be submitted to the Post Office for credit. The Post Office will prepare a check for the total of the incorrect amounts. The department should deposit the check in accordance with departmental depositing procedures.

- Only under strict supervision should envelopes be pre-metered for late afternoon or after hours use. Unused metered envelopes can be re-metered with the current date and a $.00 amount. These envelopes should be placed in the machine upside down so the stamp appears on the lower left corner of the envelope.

4.8.2 Internal Controls Over Postage Stamps

Postage stamps should not be used where large volumes of mail are produced daily. Using postage stamps for large quantities of mail is much more time consuming than that of a postage meter. Postage stamps should only be utilized in emergencies, where there is limited use and the cost of a postage meter is not justified.

For those County offices utilizing postage stamps, the following procedures and controls should be established:

- For central units and all outlying sub-offices, a postage stamp issuance log which provides for the stamp value/type, date, quantity issued, purpose, signature of person receiving or responsible for usage and the ongoing inventory shall be maintained for each type of stamp on hand.

- Postage stamp inventories should be maintained at a level to meet the department's needs and to minimize over/under stocking.

- All unused stamps that are no longer needed should be returned to the central office and logged in on the appropriate log.

- All stamps should be maintained under lock and key.

- A person independent of the unit controlling stamps should inventory stamps at least twice a year.

- Any inventory shortage or loss in excess of $100 should be reported in accordance with Section 14.1.2 (Note: although such losses must be reported, as stated in Section 14.3.0, departments will not be reimbursed for losses of S&S items of this nature.)

- The department should investigate inventory losses up to $100. Corrective action should be taken to ensure that future losses do not occur (Losses of postage stamps are not reimbursable).

4.9.0 INCIDENTAL EXPENSES

4.9.1 Authority and Limits

Section 5.40.097 of the County Code permits departments to purchase food and beverages for official functions and meetings authorized by the department head up to $500 per occasion with a maximum of $5,000 per year. Any expenditure of more than $500 per occurrence must be approved in advance by the Chairperson of the Board of Supervisors. Expenditures exceeding the $5,000 annual limit must be approved in advance by the Board as an agenda item.

4.9.2 Types of Authorized Expenses

Food and beverages may **not** be purchased for birthdays, retirements, or holiday parties. The funds appropriated for incidental expenses may be used for breakfast, luncheon, and dinner meetings, conferences and events, and other necessary expenses incidental to the conduct of County government, subject to the limits in CFM Section 4.9.1.

Authorized expenses include:

- Coffee, other liquid refreshments, and food items for departmental meetings;

meetings with individual Board members and/or their representatives, and/or other County officials; and meetings of Board-appointed advisory commissions and committees;

- Refreshments or meals when meeting with County business clients, including individuals or organizations which directly or indirectly benefit the community and/or the main mission of the department; and,

- Reasonable other expenses incurred by a department head or their authorized County designate associated with County business, including special recognition events, matters of protocol, staff training, and management planning sessions conducted to improve the quality of service provided to the public.

Each department head is responsible for establishing procedures and overseeing expenditures to ensure the monies are used in accordance with these guidelines. The department head or his/her designee must pre-approve all incidental expenses.

4.9.3 Accounting and Record Keeping

Departments incurring incidental expenses should establish a Miscellaneous Charge encumbrance against their Services and Supplies appropriations and to object "Incidental Expense" #4677. The payee should be the department head, his or her authorized designee, or the appropriate vendor.

Departments should establish a log to track incidental expenses. The log should show the itemized payments, including the date, reason, amount spent, remaining balance, and authorizing signature. Departments should keep receipts with the log, or note that a receipt could not be obtained. These documents should be retained by the department for at least five years for possible review by the Auditor-Controller.

4.9.4 Required Approvals

As noted in Paragraph 4.9.1, departments must obtain and document approval of incidental expenses as follows:

- Up to $500 per occurrence/event, and the department’s total incidental expenses during the fiscal year do not exceed $5,000 – **approval of the department head or designee.**

- From $500 to $5,000 for a single occurrence/event, and the department’s total incidental expenses during the fiscal year do not exceed $5,000 – **approval by the Chairperson of the Board of Supervisors.**

- More than $5,000 for a single occurrence/event, or whenever total incidental expenses during the fiscal year exceed $5,000 – **approval of a Board agenda item by the Board of Supervisors.**

An “occurrence/event” is defined as any event where incidental expenses are to be paid for by the department. Departments may not structure or split incidental expenses, for a single occurrence/event, to stay below approval thresholds. The total of all incidental expenditures for each occurrence/event should be used to determine the required level of approval. The approval limits also apply even if the department will recover some or all of the expenses from other sources (e.g., admission fees, other revenue, etc.).

4.10.0 RENTAL OR LEASE OF SELF – STORAGE UNITS OR OTHER REAL PROPERTY

Any rental, lease, or amendment to an existing lease of self-storage units, or other real property for use by County departments, must be made through the Real Estate Division of the Chief Executive Office.

Chapter 5 – Supplies

5.1.0 SUPPLIES

5.1.1 Supply Acquisitions

Departmental managers are responsible for establishing controls to ensure that all supply acquisitions are properly authorized and in accordance with County guidelines. Two types of reviews must be performed to ensure that the acquisition of supplies is appropriate.

5.1.2 Supervisory Review (Appropriateness of the Item)

- Each department must establish a system whereby proposed acquisitions are reviewed and approved by appropriate supervisory personnel prior to the point at which items are ordered from vendors or requisitioned through Internal Services Department Purchasing and Central Services (ISD/PCS).

- Low value materials used on a daily basis (e.g., craft parts, etc.) should have a post approval review of monthly billings to identify potentially inappropriate purchases because patterns and volumes of items purchased are more easily highlighted.

- Persons performing the review of proposed acquisitions should be independent of the documentation preparation function and the review should focus on ensuring that:

  a. Items to be ordered are needed to conduct departmental operations and will be used exclusively for County related activities.

  b. The appropriate purchase methods (e.g., Direct POs, etc.) will be used to procure the items.

  c. The proposed purchases will be made in accordance with all established ISD/PCS and County purchasing guidelines.

  d. Sufficient funds are encumbered in the department's budget to pay for items.

In addition, the department should ensure that the review process described above is adequately documented via approval signature on purchase request documents by appropriate supervisory personnel.

5.1.3 Procurement Review (Appropriateness of the Purchasing Method)

- Departments must not negotiate with vendors in an attempt to modify the agreement. Only the products specifically covered by a purchase agreement may be ordered by County departments.

- Changes or modifications to prices, specifications, or conditions, etc., of a purchase order or agreement can be made only by the Purchasing Agent by issuance of an official change notice or amendment.

- Departments must ensure that prices invoiced are correct in accordance with the unit price and that no substitutions of brands or billing for one product and delivering another occurs.

- Procurement staff should confirm with budget/fiscal staff that sufficient funds are available before ordering items.

- Departments are responsible for establishing adequate internal controls to safeguard against making contractual commitments without proper authority.

5.2.0 SUPPLIES INVENTORY

5.2.1 Description of Supplies

Inventories consist of materials and supplies held for consumption. For budgetary purposes, supply inventory costs are recorded as expenditures when items are purchased. Reported year-end inventories are offset with a corresponding reservation of fund balance because these amounts are not available for appropriation and spending.

Note: On the LA County Intranet site under Links or Featured Links is the County Purchasing and Contracting link which includes ISD's Procurement practices. Departments should refer to this link as it establishes overall policies and provides a general reference for the acquisition of supplies, services and equipment.

5.2.2 Objective of Internal Control Over Supplies

Departments must establish procedures and controls to ensure that supply inventories are safeguarded from theft or personal use. The degree of control exercised over the actual supply inventories should be commensurate with the size and/or dollar value of inventories maintained. Departmental managers in all departments must review their operations and establish appropriate controls such that supplies inventories are not over or under/controlled. In establishing the level of control required for supply inventories, management would consider such things as the dollar value, obsolescence factors, inventory turn-over, and existence of consumer useable items.

Sections 5.2.3 through 5.2.6 and 5.3.2 describe controls identified with the various inventory processes.

5.2.3 General Controls

Management must ensure that the following general internal controls are followed by departments ordering and maintaining inventories.

- Inventory items are only ordered when needed and with proper authorization.
- The functions of ordering, authorizing, receiving, conducting physical inventories, and recording transactions are adequately separated to: (1) ensure that inventory transactions are proper, and (2) minimize the potential for inventory related defalcations.
- All proposed purchases are authorized prior to actually ordering items, within budget limits, and made in accordance with applicable laws, regulations, agreements, and County purchasing guidelines (See Section 5.1.1, Supply Acquisitions). See ISD's Purchasing and Contracts - Purchasing Policies for further details concerning purchasing policies, procedures, standards, bulletins, and miscellaneous procedures.
- The County pays lowest prices commensurate with quality, service, delivery and reliability. Departments requiring additional information should contact ISD/PCS.
- Receipts, issuances, transfers, retirements, and losses are reported and accounted for timely.
- Signing of blank requisitions is prohibited.
- Authorized signatures for requisitions are filed with the ISD/PCS.
- Appropriate documentation is maintained by departments for a minimum of five (5) years.

5.2.4 Receiving

Management must ensure that the following internal controls over receiving are followed:

- Inventory items received are inspected, counted or weighed and appropriate receiving documents matched with requisitions and Purchase Orders.
- Receipts of inventory items are recorded timely and accurately in the inventory records.

- Receipts of merchandise documents are routed to the Accounts Payable section for matching with the requisition or purchase order and the invoice for prompt payment and cancellation.

5.2.5 Stockroom Maintenance

Management must ensure that the following internal controls over stockroom maintenance are followed:

- Responsibility for storage and quantity control of inventory is fixed and, where practical, central storerooms used.

- Storerooms are strategically located and enclosed so that access to inventory is restricted to authorized persons.

- Pantry stockrooms are safeguarded, stock usage monitored, and secured against unauthorized access.

- Materials held in different locations as sub-assignments are separately controlled, secured and verified a least annually by physical counts.

- High unit cost items and items easily convertible to personal use are stored in higher security storage areas.

- Issuances or removal of stock are only made upon presentation of properly approved requisitions.

- Issues, transfers, retirements, and losses are reported and accounted for timely. Losses must be referred to management and investigated.

- Any items returned to stock are reentered on the perpetual inventory records.

- Annual physical inventories are conducted by persons with no other supply, procurement, or stockroom operation responsibilities in order to verify the existence and condition of recorded supply items. Capital assets staff could be crossed trained to perform cycle inventories under management supervision. However, the employee who operates the stockroom must not inventory it.

- Significant differences between the physical counts and perpetual inventory records are investigated by supervisory personnel (to determine the cause of the difference) and reported to management. Large differences must be reported to the Auditor-Controller's Office of County Investigations.

5.2.6 Inventory Recordkeeping

Management must ensure that the following internal controls over inventory recordkeeping are followed:

- Perpetual inventory controls are established for large inventories to the greatest extent practicable. Additions and deletions of inventory items are recorded as they occur. Perpetual inventory records are most commonly in the form of manual or computerized ledger pages showing all changes in each item in inventory. At a minimum, these records should include a beginning balance (number of items), additions, deletions, ending balance, and dates of all transactions.

- The inventory records are reviewed periodically to identify slow moving, obsolete, and/or overstocked items. Items so identified are reported to appropriate management staff for corrective action.

- Detailed subsidiary records of inventory received, issued and on hand are maintained for significant categories of inventory. The inventories are periodically reconciled to subsidiary records.

- Procedures are established requiring appropriate management approval for all write offs and/or adjustments to inventory records.

5.3.0 ANNUAL PHYSICAL INVENTORY

5.3.1 General

For Departments having year-end inventory values of $50,000 or greater, a physical inventory must be taken of each location. The results of the inventory must be reported to the Auditor-Controller's Accounting Division as of June 30th.

For departments carrying a large amount of items in stock, inventories can be scheduled such that partial inventories are taken throughout the year with only certain items being counted at any one time. If partial inventory counts are taken, controls must be established to ensure that all inventory items are counted by the end of the fiscal year. Inventory records should be adjusted (upon proper approval) to reflect the results of the physical inventory counts. When partial inventories are taken throughout the year, additional care must be taken to ensure that all inventory changes occurring between the physical inventory and the fiscal year end are accurately recorded in the perpetual records to ensure that year-end inventory values are accurate.

5.3.2 Internal Controls Over Annual Physical Inventories

Departmental management must ensure that the following procedures and controls are adhered to when performing the year-end physical inventory:

- The warehouse is closed during inventory. Supplies should only be issued in emergency situations (with appropriate management approval) while the physical inventory is being completed. For partial inventories, the portion of the warehouse being inventoried should be closed.

- Items being delivered during the inventory are segregated from the items being counted. These items should be counted after inventory of the shelf items has been completed.

- Physical counts are compared to perpetual records by employees independent of the storekeeper and those responsible for maintaining perpetual records. Significant differences between counts and the perpetual records are to be reported to the Auditor-Controller's Office of County Investigations.

- Two-person count teams are utilized.

- Tally sheets are used to record all physical counts.

- The following are checked for accuracy:

  a. Total quantity counted

  b. Unit conversions (gallons to quarts, cases to individual items, etc.)

  c. Prices per unit

  d. Extensions (i.e., computations related to above)

- Perpetual inventory records are adjusted (after discrepancies are investigated and with proper management written approval) to reflect counts per the physical inventory.

- If count tags are used, they are pre-numbered and all tags issued are accounted for.

- If tags are not used, all inventory items counted are clearly marked with colored dots or some other identification to preclude double counting.

- All damaged and obsolete items are reported to the appropriate management level. Management should ensure that these items are properly dispositioned, written off, and not included in final inventory counts.

- Any necessary additions or deletions of inventory before the end of the last working day in June are marked on the count ticket or tally sheet to ensure proper year-end figures.

- Tally sheets are signed and dated by the count team and the supervisor.

- On the last day of inventory, a supervisor tours the facilities verifying that the entire inventory was counted and recorded.

Chapter 6 – Capital Assets and Non-Capital Assets

6.1.0 CAPITAL ASSETS

6.1.1 Definition of Capital Assets

Capital assets include land, easements, buildings, building improvements, equipment, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

Capital assets are defined as:

- Land, which includes the investment in real property, other than buildings and improvements, and land acquired for street and road purposes, including easements. All land acquisitions are capitalized, regardless of cost, with the exception of land improvements which are capitalized, when the land improvement is $100,000 or more.

- Easements, which include a certain right to use land belonging to another for a specific purpose, such as a right-of-way that provides access or pathway across pieces of property. Easements are normally acquired by the Department of Public Works, and are capitalized when the acquisition cost is $25,000 or more.

- Buildings and improvements, which include the acquisition cost of permanent structures and the improvements thereon. Buildings and improvements are capitalized when the acquisition cost or the cost of improvements is $100,000 or more.

- Infrastructure, which includes long-lived capital assets that can normally be preserved for a significantly greater number of years than most capital assets and that are normally stationary in nature. For example, costs related to infrastructure preservations, improvements, or additions to network systems such as Aviation, Flood, Road, Sewer, and Water should be capitalized. Infrastructure assets are capitalized when new infrastructure costs are $25,000 or greater, and improvement costs are $5,000 or more.

- Equipment, which includes major movable capital assets (e.g., vehicles, machinery, computer hardware, furniture, etc.) having an expected useful life over one year. Equipment is currently capitalized when the acquisition cost of an individual item is $5,000 or more.

- Computer software, which includes off-the-shelf software with a unit cost of $1,000,000 or more, or an internally-generated software system with application development costs totaling $1,000,000 or more. Refer to the Government Accounting Standards Board (GASB) Statement No. 51 guidelines available from the Auditor-Controller's Accounting Division Capital Assets Unit.

6.1.2 Objectives of Internal Control Over Capital Assets

Controls over capital assets are necessary to:

- Safeguard County investments.
- Establish responsibility for the custody of each asset.
- Provide data for financial reporting.
- Provide documentation and accountability for reimbursement of depreciation under grants and proprietary service programs.
- Provide information for insurance purposes.
- Ensure compliance with the eCAPS Capital Asset System Internal Control Plan, County Code and other Government requirements.

6.1.3 General Internal Controls

- All expenditures for capital assets must be made under budgetary control. Control should be maintained over the actual costs in relation to the amounts authorized. When additional appropriations are required during a fiscal year, an approved budget adjustment must be obtained.
- Procedures should be in effect requiring the department management to maintain accurate listings of all capital assets assigned to a specific unit/location, as well as each asset's assigned custodian.
- Responsibility for capital assets should be assigned to a department custodian, independent of the purchasing function. The custodian could be a supervisor or manager over the unit/location and independent of the purchasing function.
- Departments must complete an inventory of capital asset equipment at least biennially with reports of missing items filed with the Capital Assets Unit of the Auditor-Controller by December 31 of each year (County Code Section 5.02.030). See Section 6.9.0 – Reporting Equipment Losses (Stolen, Missing or Destroyed items) for additional information.
- Departments must maintain a record of acquisitions and dispositions of capital assets by using the eCAPS Capital Asset System.

Note: Departments not opting to use the Capital Asset System to track their non-capital assets (formerly known as portables) should maintain records for non-capital assets which are susceptible to theft, (e.g., equipment items costing less than $5,000 such as personal computers, fax machines, firearms, etc.).

6.2.0 CAPITAL ASSET ACQUISITIONS

6.2.1 Capital Asset Equipment Acquisition Guidelines

Each department must adhere to the following guidelines when purchasing capital asset equipment:

- Submit requisitions for capital asset equipment using the guidelines specified in the Internal Services Department's (ISD) Purchasing and Contracts - Purchasing Policies.

- Use the Board-approved classification categories for budgetary disclosures for all proposed capital asset equipment acquisitions, regardless of the source of funds used to purchase or finance the capital asset equipment.

- Obtain Board of Supervisors approval to purchase or finance capital asset equipment with a unit cost or a capital asset system with an aggregate total cost of $250,000 or more before submitting requisitions to Internal Services Department's Purchasing & Central Services (ISD/PCS). The aggregate total cost of a capital asset system purchase should include all individual components that would not operate independently, regardless of individual component unit costs.

- Ensure requisitions are uniquely numbered and contain proper specifications and reference information (e.g., descriptive literature, vendor reference, etc.). Do not combine capital asset equipment and services and supplies on the same requisition. Check the eCAPS Commodity-Object (COMMOB) table to ensure the commodity code and the eCAPS object code combination are valid on the COMMOB table. If applicable, check the eCAPS object and department object are correct for the asset.

- Encumber all amounts needed for approved purchases. Encumbrances for capital asset equipment should not be processed until the Board of Supervisors has approved the Final Budget (Government Code Section 29124). The budget process is discussed in the Board of Supervisors Policy Manual, Policy #4.030, Budget Policies and Priorities.

- When capital asset equipment is received, match the vendor's invoice to the "Report of Goods Received" and ensure that they agree (e.g., equipment is the make and has the specifications ordered, etc.). Vendor payments must be made in accordance with online vendor payment guidelines.

- Attach a property tag (County identification number) to each capital asset equipment as it is received. The Auditor-Controller's Accounting Division Capital Assets Unit distributes blocks of property tag numbers to authorized personnel in each department. Additional tags can be obtained by contacting the Auditor-Controller's Accounting Division Capital Assets Unit at (213) 974-8393.

- Complete an FA Acquisition document (Event Type: FA01), online for each capital asset equipment received within 30 days after the invoice is paid to ensure processing timeliness. When multiple similar capital asset pieces of equipment (e.g., four photocopy machines) are purchased at the same time (from one vendor with one payment voucher, etc.), complete an FA Acquisition document for **each** capital asset piece of equipment.

- Completed FA Acquisition documents for capital asset equipment, which have been approved by the department, will workflow to the Auditor-Controller's Accounting Division Capital Assets Unit for final approval and submission. Departments must scan and attach or send all pertinent supporting documents to the Auditor-Controller's Accounting Division Capital Assets Unit. Alternatively, departments may scan and attach supporting documents to the FA Acquisition document. Non-compliance will require the Auditor-Controller to contact the department for copies of the supporting documentation (e.g., hard-copy invoice, receiving report and purchase order/requisition, etc.) resulting in processing delays. The payment voucher and invoice copies **must** be included.

- For capital equipment acquired via a lease/purchase agreement, refer to County Leased Equipment, Section 6.4.0. Refer to LAC-CAL Capital Asset Equipment Acquisitions, Section 6.5.0 for Los Angeles County Capital Asset Leasing Corporation (LAC-CAL) Equipment Acquisitions. Other than LAC-CAL, a leased piece of equipment should not be entered in the Capital Asset System until the purchase option is exercised.

- For an addition or a betterment to existing capital asset equipment, complete online an FA Acquisition document (Event Type: FA02) which is a betterment, scan and attach or send copies of the payment voucher and invoice to the Auditor-Controller's Accounting Division Capital Assets Unit. Completed documents that have been approved by the department will workflow to the Auditor-Controller's Accounting Division Capital Assets Unit for final approval and submission.

- To make accounting adjustments (increases or decreases) in the cost of an existing capital asset equipment item (e.g., due to a vendor refund, overpayment, additional expenditures, etc.), complete an FI Increase/Decrease document (Event Type: FA07). Completed FI Increase/Decrease documents which have been approved by the department will workflow to the Auditor-Controller's Accounting Division Capital Assets Unit for final approval and submission. If there is a question regarding the appropriate document to use, contact the Auditor-Controller's Accounting Division Capital Assets Unit.

- To correct non-accounting type errors (e.g., changing the tag number, description, serial number, etc.) to existing capital asset equipment, complete the FM Modification document (Event Type: FA05). Completed FM Modification documents which have been approved by the department will workflow to the Auditor-Controller's Capital Assets Unit for final approval and submission.

- Journal Vouchers affecting a capital assets account should reference the capital asset FA Number and document type, such as FA, FI, FM, etc., and be forwarded to the Auditor-Controller's Accounting Division Capital Assets Unit.

Note: Departments using the eCAPS Capital Assets System to track their non-capital asset equipment should enter their non-capital asset equipment on the FA Acquisition documents as a Memo Asset with 'memo' selected as the Fixed Asset Classification to ensure the accounting is handled properly. Supporting documentation should be attached or stored for audit purposes. However, these supporting documents should not be forwarded to the Auditor-Controller's Accounting Division Capital Assets Unit. The FA Acquisition documents for non-capital assets must be submitted directly into the Capital Asset System by the department without Auditor-Controller's approval.

6.2.2 Location Table

- The Location Table serves a dual purpose: to identify where the asset is physically located within the department as well as the location for Financial Accounting purposes which generally identifies who paid for the asset. The Location field is a **required field** in the Capital Asset System.

- Any requests for changes or updates to the Location Table should be sent to the Auditor-Controller's Accounting Division at: ChartofAccounts@auditor.lacounty.gov.

6.3.0 DONATED EQUIPMENT

Donated capital asset equipment items valued at $5,000 or more must be entered in the Capital Asset System using an FA Acquisition document with 'contributed' selected as the Fixed Asset Classification. Any supporting documents related to the donation must be provided to the Auditor-Controller's Accounting Division Capital Assets Unit. The following are controls for processing donated equipment:

- The potential donor must submit the offer of donated equipment in writing, including the equipment to be donated, the fair market value of each piece of equipment (or of the group of equipment if the donation consists of interrelated items, such as a computer system), and the department to which the donation will be made (donation to a specific individual is prohibited). The fair market value specified by the donor on the written offer of donation must be used for both acceptance and inventory purposes. Before making the written offer of donation to the County, the donor should refer to the Internal Revenue Service Publication 561, "Determining the Value of Donated Property."

- If the value of the donation is over $10,000, the receiving department must obtain approval of the proposed donation from ISD/PCS that the acceptance of the donated equipment will not create a sole source/monopoly situation for necessary consumables, supplies, etc. Approval will not be given to accept donated equipment which creates such a situation unless it is in the best interest of the County.

- Any donation that exceeds $10,000 must be approved by the Board of Supervisors. See Donation Reporting Requirements, Section 2.4.2 for more information and for department head reporting requirements.

- If the value of the donation is $10,000 or less, the department accepting the donation must prepare and retain a file copy of the documentation supporting the donation. Departments must explain how the fair market value of the donated equipment was established, which program the donation is for, and when the donation was made. This documentation must also be included as an attachment to the FA Acquisition document for capital asset donations submitted to the Auditor-Controller. If the supporting documents are not attached, they must be sent to the Auditor-Controller's Accounting Division Capital Assets Unit.

- All capital asset equipment donated with a value of $5,000 or greater must be tagged with a County property tag.

- Donated non-capital asset equipment with a value of less than $5,000 must be tagged (i.e., departmental inventory tag) if they meet the definition of a non-capital equipment item (see Definition, Section 6.8.1 for a definition of non-capital asset equipment).

Note: For departments using the Capital Asset System to track their non-capital asset equipment, donated non-capital asset equipment valued at less than $5,000 must be entered on an FA Acquisition document as a Memo Asset with 'memo' selected as the Fixed Asset Classification to ensure the accounting is handled correctly. Supporting documentation should be attached or stored for audit purposes. However, these supporting documents should not be forwarded to the Auditor-Controller. Documents for non-capital assets will be submitted directly into the Capital Asset System by the department without Auditor-Controller approval.

6.4.0 COUNTY LEASED EQUIPMENT

Capital assets may be acquired by direct purchase, lease agreements or lease/purchase agreements.

- Departments must evaluate the terms of the lease agreement to determine if the capital asset qualifies as a capital lease.

- To qualify as a capital lease, one of the following criteria (established by Financial Accounting Standards Board Statement 13) must be met for the lease to be considered a capital lease:

  a. The lease transfers ownership of the property to the lessee (the County) by the end of the lease term.

b. The lease contains an option to purchase the leased property at a bargain price.

c. The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.

d. The present value of rental and other minimum lease payments equals or exceeds 90 percent of the fair value of the leased property.

The last two criteria above are not applicable when the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property.

The Auditor-Controller will capitalize and recognize a leased asset as County property if the leased asset qualifies as a capital lease.

Note: A capital lease must be non-cancelable or cancelable only on a remote contingency (i.e., non-appropriation of the annual lease payment in the budget).

- All building and land leases must be approved by the department's CEO Budget Analyst. The CEO Budget Analyst will determine if the capital asset is to be acquired through a lease or lease purchase agreement. If the capital asset is to be acquired through an operating lease agreement (i.e., none of the above criteria is met) the cost of the capital asset will not be capitalized and the cost will be charged to a rents and leases eCAPS object within Services and Supplies.

- Capital lease payments should be budgeted as "Other Charges", if not acquired through LAC-CAL. For LAC-CAL acquisitions, see Section 6.5.0-LAC-CAL Capital Asset Equipment Acquisitions.

- If the County/department has exercised the option to purchase at the end of a lease, the department must complete a FA Acquisition document in accordance with Section 6.2.1-Capital Asset Acquisitions of this manual as soon as the ownership of the capital asset equipment is obtained by the user department. Lease/purchased equipment will be reported and recorded at the lower of the fair market value of the equipment or the total amount of principal (no interest) to be paid over the life of the lease in the Capital Asset System.

6.5.0 LAC-CAL CAPITAL ASSET EQUIPMENT ACQUISITIONS

6.5.1 Description of LAC-CAL

The County formed the Los Angeles County Capital Asset Leasing Corporation (LAC-CAL) to finance capital asset equipment purchases with the proceeds from short-term financing. LAC-CAL acquires capital asset equipment on behalf of the County using these funds. LAC-CAL, as lessor, leases the capital asset equipment to the County (lessee). The County receives the capital asset equipment and makes lease payments to LAC-CAL. When all lease payments for the capital asset equipment item have been completed, title to the capital asset equipment transfers from LAC-CAL to the County.

County departmental employees perform all LAC-CAL related work. For example, ISD/PCS is the purchasing agent for LAC-CAL and the Chief Executive Office is responsible for approving all LAC-CAL purchases. The Auditor-Controller is responsible for encumbering and for making vendor payments on behalf of LAC-CAL and maintaining LAC-CAL accounting records. Established purchasing and accounting procedures and existing forms are used with only minor variations.

The County is obligated to pay LAC-CAL semiannually for all leased capital asset equipment. A Lease Supplement is completed by ISD/PCS and the Auditor-Controller for all LAC-CAL purchases. The Lease Supplement provides a description of the leased capital asset equipment, its useful life, the lease period, and the amount of rent payable semiannually to LAC-CAL. This amount will be calculated by the Auditor-Controller and will be sufficient to cover the purchase price of the leased capital asset equipment plus financing charges. The amount will remain fixed throughout the lease period.

In addition to the rental payments, there will be an additional charge assessed for insurance costs on the leased capital asset equipment. The insurance will be applied as a percentage of the base rental and is subject to change throughout the lease period.

The County will charge each department on a monthly basis for LAC-CAL equipment lease payments. The amount of the monthly charge will be $1/6^{th}$ of the semiannual rental amount specified in each Lease Supplement plus insurance costs. LAC-CAL lease charges will be expensed in eCAPS to "Other Charges." The Auditor-Controller distributes detailed billing reports each month to support LAC-CAL charges posted to eCAPS.

6.5.2 Internal Controls

- Departments are responsible for entering requisitions for capital asset equipment purchased through LAC-CAL. The Department must enter a valid commodity code/object combination from the COMMOB table. The object used must be a Capital Asset object (under object class 60D).

- Departments must obtain Board of Supervisors approval to finance capital asset equipment with a unit cost or a capital asset system with an aggregate total cost of $250,000 or more before submitting requisitions to ISD/PCS. The aggregate total cost of a capital asset system purchase should include all individual components that would not operate independently, regardless of individual component unit costs.

- Departments must classify the capital asset equipment to be purchased through LAC-CAL into one of two useful life periods: (1) 3-years, or (2) 5-years. The useful life classification should approximate, as closely as possible, the expected useful life of the capital asset equipment item. Departments requisitioning capital asset equipment to be purchased through LAC-CAL should work with the CEO to determine its expected useful life.

- The appropriate LAC-CAL fund and organization information on the Requisition will copy forward to the Purchase Orders. The purchase price of the capital asset equipment will be charged to LAC-CAL.

- Departments should enter LAC-CAL purchased capital asset equipment into the Capital Asset System as soon as it is received. Departments should follow the Auditor-Controller's Capital Asset System data entry instructions for LAC-CAL equipment.

- LAC-CAL leases will be executed over a period of three or five years based on the useful life estimate of the capital asset equipment.

- The date the capital asset equipment is received will determine the commencement date of the lease.

- The individual assigned to requisition LAC-CAL purchases should not have access to payment records.

- All capital asset equipment purchased through LAC-CAL must be marked using red equipment stickers or red metal tags designed for LAC-CAL equipment. Tags and stickers are distributed by the Auditor-Controller's Accounting Division Capital Assets Unit. These tags should be placed in locations that are clearly visible on the LAC-CAL equipment. An effort should be made to tag equipment of like kind in the same relative position (the use of metal tags is optional and metal tags require specific mounting). When new equipment is composed of several pieces, tag each piece separately if:

  a. It functions independently of the other pieces

  b. It is transferable to another location

  c. It may be used to augment currently owned equipment

- If all components of a system are required for the equipment to operate, only one tag number should be assigned to the system regardless of the number of individual pieces. In this instance, the number of pieces and a description of the components should be documented for inventory purposes.

- Capital asset equipment purchased through LAC-CAL should be transferred to the County when title has transferred. The Auditor-Controller's Accounting Division Capital Assets Unit will create an FD Disposition document (Event Type: FA09) to dispose of the existing LAC-CAL purchased equipment and copy forward a FA Internal Acquisition document (Event Type: FA27) to the new owner department for completion. If the asset was a betterment to an existing asset, the copy forward FA Acquisition document would use Event Type: FA28. In addition, the Auditor-Controller's Accounting Division Capital Assets Unit will send the department a list of the expired LAC-CAL purchased equipment as a reminder that, within 30 days, they need to replace the LAC-CAL property tag with a County property tag, except for vehicles, and complete the copy forwarded FA Internal Acquisition document, including entering the County property tag number. For vehicles purchased through LAC-CAL, please contact the Capital Assets Unit for special instructions.

- Capital asset equipment purchased through LAC-CAL cannot be sold, traded-in, or otherwise disposed of during its lease term because LAC-CAL is the owner of the capital asset equipment.

- An annual physical inventory of LAC-CAL purchased capital asset equipment must be performed. During the third quarter of each calendar year, the Auditor-Controller's Accounting Division Capital Assets Unit will provide each department with a current listing of its LAC-CAL purchased capital asset equipment. An inventory must be completed and a corrected listing must be returned to the Auditor-Controller's Accounting Division Capital Assets Unit by December 31st of the year it was received by the department. Inventory instructions will be included with the listings distributed to each department impacted.

Any questions regarding LAC-CAL purchased capital asset equipment, including types of classifications, should be directed to the Auditor-Controller's Accounting Division Capital Assets Unit.

6.6.0 INTER/INTRA-DEPARTMENTAL CAPITAL ASSET EQUIPMENT TRANSFERS AND RETIREMENTS

At times, Departments may need to transfer and/or retire capital asset equipment. The following guidelines must be followed when transferring or retiring equipment.

- Equipment transferred/sold to another department: Departments must notify the Auditor-Controller's Capital Assets Unit by completing a CAS 09 – Internal Sales and Transfers form. The department **transferring** or selling the equipment should submit an FD Disposition document (Event Type: FA09). The Auditor-Controller will process an FA Acquisition document for the new-owner department. The department receiving the equipment should promptly respond to the Auditor-Controller's email inquiry to obtain non-accounting information, such as the new Tag Number, Location Code, etc., so the FA document can be completed timely.

  Equipment sold for cash to another department: The buyer (requestor department) should establish a Departmental Service Order (DSO) to cover the sales price of the equipment. If the sales amount is $5,000 or more, use the Capital Asset eCAPS object, **603C**. If the sales amount is less than $5,000, use the Services and Supplies eCAPS object, **3189**. Review and process the IFTA or ITARV as applicable.

The seller (servicer department) should process an internal billing to charge against the buying department's DSO. If the buyer (requestor department) is within the same fund (e.g., A01 to A01), the seller should complete an IFTI document and use Intrafund Transfers eCAPS object, **6999**, to record the receipt. If the buying department is in a different fund from the seller (e.g., A01 to MN1), the seller should complete an ITIRV document and post the receipt to eCAPS revenue code, **9917**.

- Departments must complete an FD Disposition document (Event Type: FA04) to dispose of capital assets which have been lost, stolen, destroyed, auctioned, etc., by selecting the appropriate disposal method. Departments must provide a CAS 04 – Sales and Disposition Document and any supporting documentation related to the disposed equipment (e.g., local city police reports, signed Sales Award document, etc.) to the Auditor-Controller's Capital Assets Unit. If an item of equipment cannot be accounted for as a result of loss or theft, see Section 6.9.0.

- Departments must complete an FT Transfer document (Event Type: FA06) when capital assets are transferred from one unit to another unit within the same department.

Departments must comply with the Board of Supervisors Security Incident Reporting Policy (6.109) and the Secure Disposition of Computing Devices Policy (6.112), if applicable.

6.7.0 REFURBISHMENTS AND CAPITAL PROJECTS

6.7.1 Definitions

Refurbishments are defined as periodic renovations of existing space that cost in excess of $100,000. Examples are modular furniture; rewiring for computers; and upgrading of heating, ventilation, air conditioning or lighting systems. Refurbishments are characterized by an overall enhancement in the space decor, functional design, configuration, etc., for the purpose of improving aesthetic image, operational efficiency or staff productivity.

Capital projects are defined as new structures or additions of square footage to structures that cost in excess of $100,000.

Note: These definitions, along with policies and procedures for budgeting and accounting for refurbishments, as well as revisions for capital projects are included in the Chief Executive Officer's annual budget instructions.

6.7.2 Internal Controls

- Department management must obtain Board approval for refurbishments and capital projects. Approval may be obtained during the annual budget process or during the fiscal year by budget adjustment.

- Departments must account for refurbishment and capital project costs by individual project.

- Departments must submit status reports to the Board at set intervals, but not less than once each fiscal year.

- Department management must ensure that appropriations are not shifted from one capital project to another, even if they are within the same budget unit, without a Board approved budget adjustment.

- Departments submitting capital projects after the budget process must provide the appropriate architectural plans, description of financing plans, needs assessment and budget adjustment approval documents for Board approval.

- If a new capital project requires the demolition of an existing County-owned building to be replaced by another, the department must notify the Auditor-Controller's Capital Assets Unit, and the Unit will complete an FD Disposition document (Event Type: FA04) to dispose of the demolished building.

- The Auditor-Controller will complete an FX Change in Status document (Event Type: FA08) to change the status of an existing capital project to a County-owned facility which indicates that the capital project has been completed and depreciation can commence based on the in-service date.

6.8.0 NON-CAPITAL ASSET EQUIPMENT

6.8.1 Definition

Non-capital asset equipment (formally known as portables) is defined as equipment that can be easily carried or moved, especially by hand. Non-capital asset equipment with a unit cost less than $5,000 will not appear on the County's Capital Asset Inventory Listing and must be controlled and accounted for separately by the department.

Non-capital asset equipment should not be assigned a County property tag number. Instead, the department must use a separate department-issued non-capital asset tag number for tracking and usage purposes.

Non-capital asset equipment, such as personal computers, related peripherals, firearms, typewriters, calculators, fax machines and other portable assets must be tracked and inventoried annually.

6.8.2 Internal Controls

The following internal controls must be established to maintain adequate control over non-capital asset equipment.

- Control of all non-capital asset equipment should be assigned to a manager or supervisor at each location. The assignment of non-capital asset equipment is vested in the manager or supervisor.

- Control of the system of tracking and inventory of non-capital asset equipment should be assigned to the capital assets personnel in each department.

- A department-wide list should be maintained identifying the name of the individual responsible for non-capital asset equipment at each location.

- If non-capital asset equipment (e.g., a desktop PC, etc.) is permanently assigned to an individual, the person to whom it is assigned should be identified.

- If non-capital asset equipment is unassigned and kept to loan out to various employees, the person who controls and issues the non-capital asset equipment should be identified. The person responsible for controlling the non-capital equipment should secure it when it is not on loan.

- A current listing of all non-capital asset equipment should be maintained by the assigned manager/supervisor at each location. The listing should include a description of the item, the FA number, the County identification (property tag) number (and/or manufacturers serial number), and the name of the individual to whom the item is assigned (for permanently assigned non-capital asset equipment). Unassigned non-capital asset equipment should be so identified.

- All unassigned non-capital asset equipment should be maintained in a secured area.

- A "sign-out/sign-in" log should be maintained at each location to control usage of non-capital asset equipment not assigned to individuals on a permanent basis. The log should include the following information:
  a. Description of the non-capital asset equipment
  b. Manufacturer's serial number or department property tag number
  c. The FA number (only if the department is using the Capital Asset System to track non-capital asset equipment)
  d. Name of user
  e. Date and time checked out and returned
  f. Signature of user (both out and in)
  g. Issuers initials (both out and in)

- A physical inventory of all non-capital assets must be taken at least once each year. The results of the physical inventory should be reconciled to the department's master listing of non-capital asset equipment.

- Records, logs, and other documents must be retained by the Department for review by the Auditor-Controller during regularly scheduled audits or specially requested reviews.

- County surplus personal property shall be disposed of by each department. The disposal of County surplus personal property shall be authorized in writing by the employee(s) designated by the disposing department head. Departments should contact ISD/PCS regarding the appropriate procedure to follow when disposing of surplus property. Refer to ISD/PCS' Los Angeles County Surplus Property Disposal Handbook for additional guidelines. Departments must comply with the Board of Supervisors Secure Disposition of Computing Devices Policy (6.112).

6.9.0 REPORTING EQUIPMENT LOSSES (STOLEN, MISSING OR DESTROYED)

6.9.1 Stolen Equipment

Whenever a theft of any County-owned or LAC-CAL owned equipment with a value of $950 or more or a theft of a firearm or motor vehicle of any value is discovered, departments must immediately notify by telephone, the Sheriff or the local police department, depending on which agency has jurisdiction.

Upon receipt of the police report number, the department must immediately send a memo, with the attached police report, to the Auditor-Controller's Capital Assets Unit. A copy of the memo and the police report must also be sent to the Sheriff's Office of County Services (500 West Temple Street, Room 375, Los Angeles, CA 90012).

The memo must include:

a. The police report number and a copy of the report.
b. The property tag number and/or the manufacturer's serial number of the equipment.
c. Type of equipment stolen (e.g., computer, firearm, etc.).
d. A full description of the equipment, including brand name, model, size, color, etc.

If LAC-CAL equipment was stolen, a copy of the memo and police report must be sent to the Chief Executive Office, Risk Management.

For equipment on the County Capital Asset listing, the department must complete a CAS 04 – Sales and Disposition Document (Event Type: FA04) with 'Stolen' selected as the disposition method, and attach a copy of the memo and police report to the FD document.

Note: Those departments using the Capital Asset System to track their non-capital asset equipment should complete an FD Disposition document (Event Type: FA04) and attach a copy of the memo and local city police report to the FD document. Documents for non-capital assets will be submitted directly into the Capital Asset System by the department and will not require Auditor-Controller approval.

Departments must comply with the Board of Supervisors Security Incident Reporting Policy (6.109) and the Secure Disposition of Computing Devices Policy (6.112), if applicable.

6.9.2 Missing or Destroyed Equipment

Missing or destroyed capital asset equipment, which are on the County Capital Asset Inventory Listing, must be reported annually pursuant to Section 5.02.030 of the Los Angeles County Code. Departments are not required to report missing or destroyed non-capital asset equipment to the Auditor-Controller. However, departments should maintain records of the incident for audit purposes.

Departments should annually file a Report of Equipment Loss form with the Auditor-Controller's Capital Asset Unit, each Supervisor, and the Executive Officer of the Board. The Report of Equipment Loss form must include all equipment reported stolen or determined to be missing or destroyed during the fiscal year. If no equipment was stolen or discovered missing or destroyed during the fiscal year, a statement to that effect must be made on the Report of Equipment Loss form. The Report of Equipment Loss form for the preceding fiscal year must be received by the Auditor-Controller's Capital Asset Unit no later than December 31.

For equipment determined by the department to be missing, an FD Disposition document (Event Type: FA04) must be completed with 'Lost' as the disposition method selected.

For equipment determined by the department to be destroyed, an FD Disposition document (Event Type: FA04) must be completed with 'Destroyed' as the disposition method selected.

Equipment reported on the Report of Equipment Loss form should have been entered into the Capital Asset System by the department using the FD Disposition document. This will ensure the disposal is properly reflected in the department's equipment inventory and reporting. In addition, a CAS 04 – Sales and Disposition Document must be provided to the Auditor-Controller's Capital Assets Unit. If equipment that had been listed as disposed of, is subsequently recovered, or is located by the reporting department, the department must enter a new FA Acquisition document (Event Type: FA01) for the recovered equipment. Departments can search the database to find the disposed asset and obtain the data needed for the new FA Acquisition document (e.g., eCAPS FARCOMP table). The recovered equipment will have a new FA number and the department should retag it with a different tag number. Retagging will avoid the issue of having duplicate tag numbers in the system.

Note: Questions regarding the reporting of loss or damage of LAC-CAL equipment should be directed to the Chief Executive Office, Risk Management Operations.

Departments must comply with the Board of Supervisors Security Incident Reporting Policy (6.109) and the Secure Disposition of Computing Devices Policy (6.112), if applicable, regardless of value.

6.10.0 SALES, TRANSFERS AND RETIREMENTS OF CAPITAL ASSETS

6.10.1 Definition

"Surplus personal property" is any supplies and equipment a department no longer needs. The property could be scrap, surplus, broken, obsolete, or abandoned that can either be sold, transferred (if other County departments would like the items), or retired.

County surplus personal property shall be disposed of by each department. The disposal of County surplus personal property shall be authorized in writing by the employee(s) designated by the disposing department head. Departments should contact ISD/PCS regarding the appropriate procedure to follow when disposing of surplus property. Refer to ISD/PCS Los Angeles County Surplus Property Disposal Handbook for additional guidelines.

6.10.2 Internal Controls

- Surplus property should be separated from other equipment/capital assets and adequately safeguarded prior to forwarding to the Purchasing Agent.

- A listing of equipment to be disposed of should be prepared for review and approval by an appropriate level of management within the Department.

- The manager or supervisor approving the surplus equipment listing should not have any purchasing or capital asset responsibility. Capital Asset staff should participate in the identification and disposition of the list of surplus equipment. It would, however, be appropriate for someone other than the supervisor or manager to whom an asset is assigned to authorize its disposal (to make sure it exists and is not a substitute for a loss report for missing or stolen equipment).

- Surplus equipment on-hand should be reviewed periodically to ensure that large amounts are not accumulated.

- Capital asset inventories should be corrected as soon as possible to properly reflect the disposition of surplus property.

6.10.3 Equipment - Sold, Traded-In, Transferred, or Disposed

- For disposed equipment, departments must complete an FD Disposition document (Event Type: FA04), to change the status of the equipment to be disposed. For example, if and equipment item was sold, an FD Disposition document (Event Type: FA04) must be completed with 'Sold' as the disposition method selected. Equipment that was traded-in must be reported with 'Traded in' as the disposition method.

- The following supporting documents must be attached to the FD Disposition document:

  a) Sales Award

  b) Application for Authority to Dispose of Surplus Property (Form 635) or an Inventory of Surplus Property Submitted for Auction form or a self-prepared Itemized list of items sent to the auction (with County Property Number identified).

  c) For capital asset equipment sold in "Lots," the department should attach a list or statement that identifies which "Lots" the specific equipment is located in and the number of equipment within that "Lot."

  d) Auction results (Itemized list of Net Proceeds from the auction).

  e) CAS 04 – Sales and Disposition Document for capital asset equipment sold, traded-in or disposed.

- If capital assets have been sold to another department, promptly notify the Auditor-Controller by completing a CAS 09 – Internal Sales and Transfers form. Refer to Section 6.6.0 for additional instructions.

- Departments must complete an FT Transfer document (Event Type: FA06) when capital assets are transferred from one unit to another unit within the same department.

- If supporting documents are not attached to the FD Disposition document, or otherwise provided, departments must send copies of the supporting documentation to the Auditor-Controller's Capital Assets Unit.

- The department should post to the appropriate sales of fixed asset revenue class 96A when recording the net proceeds received.

Departments must comply with the Board of Supervisors Secure Disposition of Computing Devices Policy (6.112), when computer equipment is sold, traded-in, transferred or disposed.

6.10.4 Buildings – Sold or Destroyed

For buildings sold, transferred or destroyed, the Department should notify the Auditor-Controller's Capital Assets Unit and provide supporting documentation (e.g., signed quitclaim deed, letters, relevant legal documents, etc.).

6.11.0 CAPITAL ASSET INVENTORY LISTINGS

The Auditor-Controller's Capital Assets Unit generates capital asset equipment listings once every two years for all County departments. To comply with Government Code Section 24051 and County Code Section 5.02.020, each department must verify the correctness of its capital assets inventory of all its County property by the close of business on the preceding June 30th. The Capital Assets listings are due by December 31 of the year the listings were received. The Auditor-Controller will provide the physical inventory listing and an Inventory Certification form for each department by email.

Upon completion of the capital asset inventory, the Inventory Certification form must be signed by the department head, or the CEO of a health facility, along with a report of any changes, and returned to the Auditor-Controller's Capital Assets Unit by the due date.

Departments are responsible for entering their changes, additions and deletions online (including all the proper supporting documentation) for Auditor-Controller final approval and submission. If supporting documents are not attached to the document, or otherwise provided, departments must send copies of the supporting documentation to the Auditor-Controller's Capital Assets Unit.

6.11.1 Completion of the Physical Inventory

In certifying the accuracy of the capital asset inventory listing, departments must conduct a complete physical inventory of all assets at all departmental locations (including any assets in storage). The specific method of inventorying the capital assets will be left up to individual departments. However, all assets on the capital asset listing must be accounted for, or determined to be missing by an actual physical inventory.

To complete the capital asset inventory and correct the Capital Asset database, departments should adhere to the following procedures:

- If equipment is found in a different location, annotate on the capital asset listing and complete online, an FM Modification document (Event Type: FA05) to update the location. If the custodian is different due to the change in location, the custodian should also be updated on the same document. The various eCAPS codes, such as location and custodian codes, if no longer used, may be made inactive, but should never be deleted from eCAPS.

- If equipment has been traded-in, complete a CAS 04 – Sales and Disposition Document (Event Type: FA04) and attach a copy of supporting documentation. Refer to Section 6.10.3 – Equipment – Sold, Traded-In, Transferred, Stolen or Disposed.

- If capital assets have been transferred or sold to another department, promptly notify the Auditor-Controller's Capital Assets Unit by completing a CAS 09 –

Internal Sales and Transfers form. Refer to Section 6.6.0 for additional instructions.

- If equipment has been cannibalized, destroyed, missing, or stolen, ensure that the item is included on the annual Report of Equipment Loss form. Also, complete a CAS 04 – Sales and Disposition Document. Refer to Section 6.10.3. – Equipment – Sold, Traded-In, Transferred, or Disposed.

- Prepare a (separate) supplemental listing of assets on hand at the close of business June 30, 20XX that do not appear on the capital asset inventory listing, and complete an FA Acquisition document (Event Type: FA01) online to add equipment. Do not list equipment acquired or transferred on or after July 1. Include any missing equipment that was acquired as a result of a lease with option to purchase agreement or donation prior to July 1.

- Retain the duplicate copy of the capital assets inventory listing for your records and return the original copy and supplemental listing, if applicable, to the Auditor-Controller's Capital Assets Unit. If the Report of Equipment Loss forms are not attached to the document, or otherwise provided, departments must also include copies.

Departments must comply with the Board of Supervisors Security Incident Reporting Policy (6.109) and the Secure Disposition of Computing Devices Policy (6.112), if applicable.

The Inventory Certification form must be signed by the department head and be returned on or before December 31 of the year it was received to:

Auditor-Controller
Accounting Division - Capital Assets Unit
Kenneth Hahn Hall of Administration, Room 603
500 West Temple Street
Los Angeles, CA 90012

If departments have any questions or need forms, etc., contact the Auditor-Controller's Capital Assets Unit at CapitalAssets@auditor.lacounty.gov.

6.12.0 ASBESTOS NOTIFICATION REQUIREMENTS

A department that is a building proprietor must comply with the following minimum notification requirements:

- Occupants are to be notified within 15 days after information becomes available that the building contains asbestos;

- Occupants are to be annually notified of asbestos conditions; and

- New occupants and employees are to be notified of asbestos conditions within 15 days after occupying the building.

Chapter 7 – Journal Vouchers

7.1.0 JOURNAL VOUCHERS

7.1.1 Journal Vouchers (JVs)

eCAPS allows departments to record changes to general ledger accounts through the use of general purpose accounting documents known as Journal Vouchers (JVs). A significant number of JVs are system-generated and interfaced to eCAPS to record accounting events that are initiated in external systems within the County (e.g., payroll processing, accounting transactions recorded in stand-alone financial systems managed by individual departments, etc.)

Authorized departmental personnel input and approve JVs online (by means of electronic authorizations). Each transaction requires at least two departmental approvals. In addition, final approval by the Auditor-Controller's Accounting Division is required for all Journal Voucher Cash Transfer (JVCT) documents and all Advanced Journal Voucher (JVA) documents.

Specifically, Departmental Journal Vouchers may be used to:

- Change unit codes.
- Reclassify expenditures from one object to another within the same object category.
- Reclassify or distribute earned collected revenue within a budget unit.
- Change location, activity, function, reporting code or task within the same object category.
- Change project elements within the same object category.

Departmental Journal Vouchers may NOT be used to change:

- Object category.
- Balance sheet account entries.
- Capital asset entries.
- Expenditure distribution entries.
- Encumbrance entries.
- Budget entries.

- Control levels.
- Accrued revenue codes or amounts.

Please email JournalVouchers@auditor.lacounty.gov for any questions.

7.1.2 Journal Voucher Documents

- **Departmental JVs**

  a. **Expenditure Voucher – Salaries and Employee Benefits (EVSEB):** This document is used to reclassify, correct or distribute objects, units, departmental or project elements within the Salary and Employee Benefits object category. These must be non-cash transactions.

  b. **Expenditure Voucher – Services and Supplies (EVSVS):** This document is used to reclassify, correct or distribute objects, units, departmental or project elements within the Services and Supplies object category. These must be non-cash transactions.

  c. **Expenditure Voucher – Other Charges (EVOC):** This document is used to reclassify, correct or distribute objects, units, departmental or project elements within the Other Charges object category. These must be non-cash transactions.

  d. **Revenue Voucher (RV):** This document is used to reclassify, correct or distribute earned and collected revenue codes, units, departmental or project elements. These must be non-cash transactions.

- **Cash Transfer JVs**

  Journal Voucher – Cash Transfer (JVCT): This document allows departments to transfer cash from trust funds or other funds, to operating or other trust funds under the department's control. In addition to the two departmental approvals, JVCT documents require central approval from the Auditor-Controller's Accounting Division.

- **Advanced JVs**

  Journal Voucher – Advanced (JVA): This document allows the Auditor-Controller to process transactions that cannot be facilitated by one of the aforementioned JVs. Departments create the JVAs and must apply two departmental approvals. It is then work flowed to the Auditor-Controller's Accounting Division for central approval and processing.

- **Specialty JVs**

  Documents in this category are created from central system interfaces (e.g., payroll, etc.), special departmental processing (e.g., paid warrants, etc.), or are system generated. Departments should be aware that although these JVs are initiated centrally, they impact departmental accounts and will appear in departmental account activity reports. Refer to the eCAPS Policies and Desk Procedures for Journal Vouchers for more information.

7.1.3 Internal Controls Over Journal Vouchers

The following are the minimum procedures and controls departments must follow when entering journal voucher transactions into eCAPS. Any exceptions to these requirements must be properly justified and include a discussion of any compensating controls. The exceptions must be documented and authorized by the requesting department head or designee before they are submitted to the Auditor-Controller's Enterprise Systems Support Division for review and approval.

- All eCAPS JV documents, except for specialty JVs, require at least two departmental approvals with each approval initiated by a different person. No approver can be assigned multiple approver capabilities. In addition, approval by the Auditor-Controller's Accounting Division is required for all Cash Transfer JVs (JVCTs) and Advanced JVs (JVAs).

- Any employee who does not have approval capabilities can have data entry capabilities. However, the first approver must be at least at the level of Accountant II or higher and the second approver must be at least at the level of Accounting Officer I or higher for EVs and RVs, and at least at the level of Fiscal Officer I or higher for JVCTs and JVAs.

- Departments should have internal procedures/guidelines for budget/fiscal staff to:

  - Review the document catalog on a monthly basis (frequency is dependent on transaction workload of the department) to ensure all billing transactions have been appropriately addressed.

  - Reconcile the billing transactions to eCAPS on a monthly basis (frequency is dependent on transaction workload of the department).

  - Ensure proper document distribution, centralized filing (if appropriate), and retention.

Chapter 8 – Information Technology Controls

8.1.0 INFORMATION TECHNOLOGY CONTROLS

Information technology (IT) controls include management, operational, and technical safeguards and countermeasures to protect IT resources/services, including the confidentiality, integrity, and availability of systems and their information. Ineffective IT controls can result in significant risks to operations and assets.

Each department should ensure that its IT equipment and data are properly safeguarded and controlled through the use of both general and application controls. General controls are concerned with the environment in which computer systems operate. They are global (general) in nature and include organizational, access, general operations, and disaster recovery controls. Application controls are narrower than general controls and relate to a particular application/program. The three primary categories of application controls include input, processing, and output.

The following discussion of general and application controls should <u>not</u> be considered all-inclusive, but it can serve as a basic core of controls to help improve the security and integrity of each department's IT operations. County employees and contractors, where applicable, must also comply with the Board of Supervisors Information Technology (IT) and Security Policies (Board Policy Manual Chapter 6). These policies address issues such as protection of information on portable computing devices, antivirus, computer security threat response, e-mail and internet usage, etc. The Board of Supervisors' Policy Manual is available online at

http://countypolicy.co.la.ca.us/

The Board periodically updates/adds policies. Therefore, departments must regularly review Chapter 6 of the Board Policy Manual. There are also many additional controls that can be implemented depending on the particular IT environment. Departments are encouraged to implement a more stringent control set, if cost effective.

8.2.0 GENERAL CONTROLS

8.2.1 Definition

General controls are concerned with the environment in which computer systems operate. They are interdependent IT controls, which apply to all areas of the organization. General controls can be classified into the following control groups:

- Operations Standards and Procedures
- Organization and Personnel Issues
- System Development Methodology

- Change Controls
- Information Assets and Security Management
- Disaster Recovery and Contingency Planning

8.3.0 OPERATIONS STANDARDS AND PROCEDURES

The following internal controls over operations standards and procedures must be followed:

- Departments should have standards and procedures adequate to guide supervisors and staff in the performance of their duties. These standards and procedures should align with applicable County IT standards, procedures and guidelines and **not** be so comprehensive as to disclose confidential system information.

- Standards and procedures should originate at the top management level to ensure uniformity among users/managers and IT technical teams. The standards and procedures should be clear and concise to better enable compliance and enforcement.

- Standards and procedures should incorporate a clearly defined security administration policy reflecting the department's philosophy. A good policy would address such issues as security management, separation of duties, use of system functions, access to system data, authorization of transactions, exception/error resolution, and tracking/implementation of recommendations for improvement.

- Standards and procedures should complement the control environment. For example, they should dictate separation of duties and describe how the process is performed.

- Standards and procedures must ensure adequate documentation and that an audit trail of key events exists.

- Personnel must be familiar with the standards and procedures and dedicated to following them. Also, all employees with access to County computer data should sign an acknowledgement that they have read and understand their responsibilities under policies and standards the department has implemented.

- Standards and procedures must be documented and continually evaluated and updated to remain compatible with the current processing environment.

- Management should develop and aggressively enforce a formal, written security violation policy.

8.3.1 Training

- Training should be formalized, conducted periodically and documented/logged to support the training personnel have received.

- Departments must develop a training plan to ensure personnel are adequately trained for their assigned function and that back-up personnel are trained in their backup functions.

- Security awareness training should be given to all personnel that use County IT resources (e.g., email, internet, departmental applications, etc.). Departments should train employees at the time they are hired and periodically thereafter, especially when a new security issue is introduced or when there are major changes to the training material or security policy.

- Employee performance should be evaluated regularly, and additional training and correction should be supplied where needed.

8.4.0 ORGANIZATION AND PERSONNEL ISSUES

The following internal controls over organization and personnel issues must be followed:

- An individual should be assigned the responsibilities of Departmental Security Coordinator (DSC) or Departmental Information Security Officer (DISO). DSC's/DISO's are responsible for risk evaluation (including threat and vulnerability mitigation); development and implementation of security procedures and ensuring users' compliance; and back-up/recovery planning. The DSC/DISO would normally facilitate a continuing program of staff security training and awareness through the acquisition and circulation of security guidelines and relevant publications in the field of computer security.

- An individual or group of individuals at each department should be assigned the responsibility of eCAPS Security Coordinator(s). The coordinator(s) should maintain security forms signed by each employee who uses eCAPS, documenting the access requested and management's approval, as well as certifying the employee understands they must not share their eCAPS passwords with anyone. See Section 8.7.4.1 for controls over users with higher-level access, such as coordinators.

- Help desk personnel should identify, coordinate, monitor, and log the appropriate response(s) for each issue raised, including user complaints as they usually indicate system control problems. They must also ensure all hardware and software problems are fully documented and escalated based on the priorities established by procedures.

8.4.1 Separation of Duties

Sufficient checks and balances should exist to ensure compliance with established procedures and controls. An appropriate separation of duties is a key control in this regard, as it helps minimize the risk of fraudulent activity and user error. Departments can achieve this control objective by dividing work among two or more people so that no one person is able to control all the key aspects of a transaction or event, and the functions performed by one person may be checked by the functions performed by the other.

The following internal controls must be followed:

- Individuals should not have complete control over incompatible transaction/document processing functions. Specifically, the following combination of functions must not performed by a single individual:

    a. Data entry and verification of data (i.e., data entry and approver).

    b. Data entry and its reconciliation to output.

    c. Adding/changing information in vendor tables and processing vendor invoices.

- The jobs of end user, software programmer/developer and help desk/support should be separated. In addition, programmers/developers should not have access to the production environment.

- Departments with limited resources to separate duties must have compensating controls in place.

8.5.0 SYSTEMS DEVELOPMENT METHODOLOGY

Systems Development Methodology (SDM) refers to the steps undertaken to create, modify, or maintain an organization's IT. These steps include several distinct phases used to guide the development of an IT. Management can more effectively control development projects by establishing, enforcing, and reviewing adherence to an SDM.

Although a wide variety of SDM's exist, they all include essentially the same phases during the development life cycle.

The following phases comprise a model of good current practice:

- **Project Definition Study**: During this phase, the user/management evaluates the feasibility and viability of the proposed system before any substantial amounts of resources are committed.

- **System (User) Requirements Analysis**: During this phase, the user/management determines the business or functional requirements to be supported by the proposed system.

- **System Specification**: The System Specification expands on the user requirements and outline design documented in the System Requirements Analysis to produce a detailed specification of the system.

  At this point, management may decide to acquire rather than develop the system/software. See System/Software Acquisition (Section 8.5.1). See the System/Software Acquisition section below.

- **Technical Design**: The Technical Design describes how the proposed system is to be built, continuing from the System Specification, which describes how the system will "look" to the user/manager.

- **Technical Procedure Development**: The program code is created and tested.

- **User Procedure Development**: Procedures and instructions for system users are developed and user staff is trained in those procedures.

- **System Acceptance Testing**: The goal of this phase is to perform a comprehensive test of the entire system, covering both automated and manual procedures, including data conversion.

- **Transition**: The Transition phase deals with the conversion of data and installation of the new system in the production environment.

- **Post-implementation Evaluation**: After the system has been in operation for a predetermined time, its performance is studied. Conclusions and recommendations are presented to management on both system efficiency and effectiveness and on the development process.

Department’s SDM should also include:

- A decision process for selecting a cutover/migration approach that balances the merit and cost of alternative migration approaches with the risks and costs associated with migration problems. For example, for cost reasons, departments may consider shutting down the old system/environment with an immediate, full commitment to having all processing done in the replacement environment. However, this is a high-risk approach that is not usually warranted if there are significant doubts or uncertainties about either environment, and should be avoided for critical system replacements or migrations having these attributes. Instead, departments should consider running the new system in parallel with the old system long enough to validate its integrity.

- A requirement for at least a one-month moratorium on system changes prior to the migration unless specifically authorized by departmental executive management. This requirement should also be incorporated into any contract for the migration of all or part of a system.

- A methodology for conducting a cost-benefit analysis for a systems project of significant size. This will allow departments to determine which of several projects to implement, decide if the project benefits are worth the cost, evaluate the utility of a project over time, and calculate the interaction of cost levels and benefits in a project, (i.e., does the investment of more resources produce proportionate increases in benefits).

8.5.1 System/Software Acquisition

Departments may decide to purchase, rather than develop a system or software application. This could include purchasing software and hardware such as servers and personal computers (laptops/desktops). System/Software acquisitions should occur after the requirements definitions phase (See System (User) Requirements Analysis in SDM Section 8.5.0).

The following are the minimum internal controls over acquisitions:

- Acquisition requests should be supported by cost-benefit analyses, as mentioned in the SDM section 8.5.0.

- New acquisitions should involve hardware/computers that are compatible with the computing resources being used.

- Acquisitions should be made in compliance with County IT purchasing standards, such as the CIO's Consolidated Computer Purchase Program.

- Vendors expressing an interest in providing a new or replacement system/module, or in enhancing an existing system in any significant way should be carefully examined. This includes critically evaluating their SDM against the department's SDM, and using the results as a principal determinant in signing a contract. When possible, departments should also consider contacting current users of the vendor's product to determine the level of customer satisfaction.

- Support agreements should be established with critical vendors and should be well-balanced, of sufficient scope and priority, and serve as control instruments.

Departments should consult the County's CIO as required by Board Policy Manual 6.020 for major IT acquisitions, and review the ISD purchasing manual or contact their ISD purchasing agent for more information on the purchasing process.

8.5.2 Documentation

Documentation provides detailed information about the function performed by the system, the program and other interfacing activities. Documentation should be complete and kept current for all changes so that someone other than the original designer of the system or program can understand, review and maintain them. Documentation should provide a description of the system, a record of the data processing activity and the relationships existing within subsystems. Sensitive system documentation should be protected from unauthorized access. The user/manager group that "owns" a computer system is ultimately responsible for ensuring the system is properly documented.

8.5.2.1 System Documentation

The following components should exist for an appropriately documented system:

- System name and general overview of the system that explains its purpose and describes the various subsystems and their functions.
- A high level systems flowchart or data flow diagram that illustrates all system interfaces, including files obtained from sources outside the system, files produced for other systems and any reports produced for or obtained from other systems.
- Job execution sequence.
- Database structure/definition.
- A description of the system hardware and any special or unique hardware components, including network hardware.
- A description of the software used, the Data Base Management System (DBMS), and pertinent operating system and communications software.
- The total number of workstations and printers connected to the system, any pertinent processing volumes and system availability requirements.
- System documentation should be reviewed and updated on a semi-annual basis.

8.5.2.2 Program Documentation

Program documentation will include for each program:

- An overview of the program that explains its purpose and describes how it operates.
- Data flow diagrams and entity relationship models. They produce conceptual diagrams or data models of a system (usually a relational database) and its requirements, and can be used as requirements analysis tools to obtain an understanding of the data a system needs to capture and manage.
- An index of the program's inputs and outputs (including all screens and schema names) with an explanation of each one.

- A data dictionary, including record layouts and field descriptions, such as name, length, type and format (alpha, numeric, or alphanumeric).

8.5.2.3 Change Control Documentation

Program changes should be properly documented and maintained for future reference. Documentation should be detailed (with dates) and include, but not be limited to:

- Change requests with proper descriptions and justifications.
- Management review and pre-authorization to develop program changes.
- Description of tests performed and results noted.
- Management review of test results and pre-approval to move the change into the production system.

All forms associated with a system's change control process should be saved for a minimum of four years. At the end of the retention period, management shall evaluate whether there is a need to retain the documentation.

8.5.2.4 User Documentation

Documentation to be maintained by user/manager staff includes:

- Training Manuals
- Procedure Manuals
    a. Table Maintenance (including code definitions)
    b. Security
    c. Error Detection and Correction (audit trails, error messages)
    d. Input Data Preparation
    e. Change Control
    f. Report Distribution Requirements
    g. Manual Maintenance and Distribution
    h. User Manual/Instructions
    i. Input and Output Samples (forms, reports, screens).

8.6.0 CHANGE CONTROLS

Change controls ensure that all program maintenance and enhancements to application systems, including network software are properly authorized, tested and approved for implementation.

- Departments must have formal change control policies and procedures that:

  a. Standardize program change requests and address issues, such as separation of duties, authorizations and responsibilities, system security requirements, change analysis, testing and documentation.

  b. Discuss emergency change procedures, including steps for authorizing, documenting, and subjecting emergency changes to post-implementation review.

  c. Include testing standards to help control the quality of testing, ensure consistency in testing techniques throughout all application systems and provide specific instructions for all analysts and programmers to follow.

- User/manager involvement in the change control process is essential to ensure their computing needs are met. For example, users/line managers should be knowledgeable about the systems/programs supporting their operations and should be involved in tailoring the functionality of each system/program by participating during the problem definition phase, providing support during the requirements analysis phase, and testing and providing feedback before the change is moved to production.

- Management should pre-authorize all program changes for development. This includes performing a cost-benefit analysis and prioritizing change requests.

- All program changes should be thoroughly tested for proper operation and test results reviewed and approved before enhancements/modifications are moved to production. Testing documentation should be maintained as tools for the next programmer who needs to make a change, determine a program's function, or learn the results of prior testing.

- For critical systems, departments should use regression testing, which consists of retesting modules previously tested to ensure that new/additional changes have not introduced new errors. The data used in these tests must be the same data used in the original test. This technique eventually results in a comprehensive testing tool.

- Management should communicate program changes to the affected end users, and periodically update operations and procedure manuals, including manuals kept offsite for disaster recovery purposes, to reflect the changes.

- If technologically feasible, departments should log all program changes electronically. Management should also periodically review system changes to ensure they comply with change control policies and procedures.

8.6.1 Failure Reporting and Maintenance

- Records should be kept on the reliability of hardware, communication lines, and all other devices needed to maintain an operational system. This type of information can help supervisors anticipate and correct problems.

- Maintenance should be scheduled and performed regularly to help detect and prevent system problems.

- System/computer device clocks should be set to an agreed upon standard to ensure the accuracy of audit logs.

- Supervisory personnel should continually check the status of their systems and periodically review maintenance log(s) to identify trends.

- System capacity demands should be monitored and future requirements projected to ensure the availability of adequate processing power and storage.

8.7.0 INFORMATION ASSETS AND SECURITY MANAGEMENT

8.7.1 Data Management

Information is an asset derived from data resources. Departmental managers shall ensure that County computer data in the department's custody is managed to provide the most beneficial support of County services. For example:

- Data administration techniques including inventory, definition and standardization should be employed to maximize use and reduce duplication of data across systems.

- Departments should ensure that planning for and implementation of projects and programs to automate the acquisition, storage, retrieval and use of data consider and accommodate the needs of other departments.

- Departments are required to develop a strategic plan that forecasts needs for the next five (5) years and addresses the coordination of data requirements with other systems.

8.7.2 Information Security

Users of County IT assets/resources, including County and contract employees, should be aware of their role and specific responsibilities in protecting County IT assets/resources. For example:

- County IT assets/resources including tools, such as e-mail and the Internet should be used solely for County business purposes.

- IT assets/resources should be protected through the use of proper physical and access controls. This includes using firewalls, antivirus and encryption software, and receiving proper authorization to take data, software or equipment offsite.

- Computing devices (e.g., servers, desktops, laptops, copiers/scanners, usb drives, etc.) should be safely and securely disposed of. This includes rendering the software and information in these devices unreadable and unrecoverable.

- Security incidents should be properly communicated and resolved.

As mentioned, County employees and contractors, where applicable, must comply with the Board of Supervisors Information Technology and Security Policies (Board Policy Manual Chapter 6). The Board of Supervisors' Policy Manual is available online at http://countypolicy.co.la.ca.us/

The security of information should also be maintained when data/information is exchanged between organizations or even when the responsibility for the processing has been outsourced to another organization (e.g., customer departments and ISD). Security requirements should be addressed in the contract/MOU when data/information is exchanged and when the management or control of information systems, networks, desktop environments or related facilities are outsourced. For example, where applicable, the contract/MOU should address:

- The legal requirements and how they are to be met.

- The security of the organization's assets, including logical and physical security and how it will be maintained and tested.

- The right of audit.

- Disaster recovery and how the availability of the services are to be maintained.

8.7.3 Data Classification and Protection

Managers of each department should define and prepare, in written form, the protection requirements for data that they own in each of the following categories: confidentiality, data integrity, availability, accountability and appropriate use. For example, sensitive/confidential patient information such as name, address, date of birth and social security number should be protected as required by the Health Insurance Portability and Accountability Act of 1996 (HIPAA).

Each department having custody of or using County computer data should implement and maintain data security measures commensurate with the protection requirements of the data owner and applicable rules/regulations. The controls must be complete, uniform and consistently applied. They must prevent an accumulation of responsibility and functions by any one individual that could facilitate undetected malicious, negligent or fraudulent acts. Department managers are required to inform other departments using their data of the protection requirements for their data.

8.7.4 Access Controls

The key control objective is to limit access on a need-to-know basis so individuals receive **only** the access or information that is necessary to perform their assigned functions.

8.7.4.1 User Access Rights

Data owners should determine the degree of protection required for their data and determine who may have custody or access to data that they own. Access to County computer data and associated processing privileges should be granted **only** as required to perform the tasks and responsibilities currently assigned to an individual, or to an operating unit. Individuals with custodial access to data owned by another department should protect the data as required by the data owner.

- Access should be limited to individuals with a valid business purpose and matched to the individual's job responsibilities. Individuals should not be given an access authorization level that is higher than needed to perform his/her duties. Higher-level access (e.g., super user access, network or email administrator access, and the use of system utility programs capable of overriding system/application controls) should be limited to key individuals, and their activity should be logged and closely monitored.

- Programmer access to the production environment for any critical system should be restricted, to the degree feasible. Full access capabilities can allow programmers the ability to implement unauthorized system fixes and increases the risk that programmers could make unauthorized changes and conceal improprieties. If there is **no** reasonable alternative but to allow programmer access to the production system, controls need to be installed that will create a detailed log of this activity and provide management with effective oversight capability.

- Everyone, including employees that are permanent, temporary, part-time, contract, etc., is individually responsible for the integrity and protection of all County information, data and IT resources to which he or she has access.

- Networks must have logical access security to prevent unauthorized users from connecting to the network or gaining access to applications and network resources through a physical connection.

8.7.4.2 User Access Management

- Access control policies should define user access roles/profiles and their rights to help management grant appropriate access.

- Departments should review, and update if necessary, user access rights at least quarterly, and whenever a user's job assignment and/or responsibilities change, to ensure access capabilities are consistent with users' job duties. Unnecessary access and default/guest user accounts should be removed/disabled or otherwise secured.

- Records of all access authorizations that security staff process should be maintained to facilitate continuous evaluation. Access authorizations should identify and justify the access granted.

- Changes to access rights should be automatically logged and periodically reviewed by management independent of the security function. Any unusual activity should be investigated.

- Adequate provisions should be incorporated to ensure access controls such as passwords maintain their effectiveness.

- Inactive users including terminated employees/contractors should be disabled/ removed timely. Procedures should clearly describe the process for communicating terminations/transfers to security administrators and for removing or reviewing the appropriateness of the user's system access.

- Supervisory personnel should receive regular reports on suspicious/irregular activity (e.g., invalid login attempts, unauthorized access to data/information, etc.). By analyzing these activity reports, they may be able to anticipate and prevent problems.

8.7.4.3 Logon IDs and Passwords

- Logon ID's should be unique to each user to establish accountability and provide an audit trail over user activity. This applies to all users including operators, system administrators, and other technical staff.

- Logon ID's should be automatically suspended after a predetermined number of invalid logon attempts to help prevent unauthorized access through password guessing.

- Passwords should be unique, at least six characters and include lower case, upper case and numeric characters, making them difficult to guess.
- Passwords should **not** be easily associated with an individual such as first name, last name, nickname, etc.

- Passwords should **not** be "shared" with anyone or written on workstations, keyboards, tabletops, post-it notes, etc., as a memory aid.

- Initial or "first-time" passwords should be created by the user, when feasible. If a default password must be assigned, the System should require the user to change the password immediately at log-in. Default passwords should also expire if not used timely, based on the type of information and access granted.

- Passwords should be changed at least every three months to limit the unauthorized use of a compromised password. Users should not be able to reuse their past three passwords and only the user should have the ability to change his/her own password.

- Passwords should not be displayed on the screen and should be stored in encrypted form.

8.7.4.4 Remote Access

Departments should have adequate electronic safeguards in place to prevent unauthorized remote access to networks, data, computers and other IT resources. Misuse of remote access software can lead to network vulnerability. Departments should also use County-approved access methodologies for external connections as required by County IT standards.

Virtual Private Networks (VPNs) allow users to remotely connect to a private network by way of a public network, such as the internet. VPNs utilize various security parameters to secure the connection.

The following are major elements of VPN control:

- Departments should require signed authorization from an authorized manager/supervisor, and/or the Departmental Information Security Officer (DISO) to grant VPN privileges to employees, contract staff, etc.

- The VPN access methodology used should be the most secured option available for the user to accomplish their task.

- VPN users should not be connected to any non-County network while connected to a County network by VPN (also known as split-tunneling).

- VPN users must be aware of their responsibility to ensure that unauthorized users are not allowed access to County internal networks.

- All computers used to connect to County internal networks via VPN (or any other technology) must use the most up-to-date County approved anti-virus software.

The following are additional remote access controls:

- Access should be controlled using effective authentication. The selection of authentication methods (e.g., passwords, tokens, biometrics, key cards, PKI certificates, or a combination therein) should be based on risk.

- Authenticators should be adequately controlled by the assigned user and not be easily guessed, shared, duplicated or subject to disclosure.

- Effective procedures should be implemented to handle lost, compromised, or damaged authenticators.

- A report should be generated that identifies attempted illegal access. Each incident should be investigated and appropriate corrective action taken.

8.7.5 Program Library Controls

- Application programs should be properly loaded in a system library and program listings should be documented.

- Procedures should be in place to provide protection for the program library and should include the following:

  a. A specific person should be designated as a program librarian to record the removal and return of application programs.

  b. Measures should be implemented to protect application programs against unauthorized copying or modifying.

  c. The program librarian should be responsible for ascertaining that **no** unauthorized software modification or copying has occurred.

  d. Application program changes should be documented and approved by the appropriate user groups and authorized managers.

8.7.6 Physical and Environmental Security

The following internal controls over physical security must be followed to assist in safeguarding IT resources, including portable IT resources, from accidental loss, damage or theft:

- Employees' access to IT resources should be limited to **only** what is needed to perform their duties.

- Physical security controls should include the use of badges, locks, security guards and assorted physical barriers, and should incorporate environmental controls, fire/water protection, and off-premises storage of back-up data.

- IT resources including servers, mainframes, workstations and other network devices should be located in secure areas, and limited to authorized personnel based on recognized information needs. Outside personnel should be escorted or monitored when working in these areas. Violations and attempted violations must be reported to the appropriate authorities.

- Unattended portable IT resources, such as laptops, smartphones, tablets, etc., should be physically secured with locks, such as security cables, locked offices or cabinets, etc.

- Management should maintain an up-to-date inventory listing of key IT resources and their location(s).

- Proper management review and approval should be required to add workstations, LAN stations, applications and other resources to the network. Changes to the network should also be recorded so that unauthorized changes can be easily detected.

- Wherever possible, workstations should be located where activities can be observed.

- The system should have a time-out capability to prevent unauthorized access to unattended workstations. This function should be operative within a reasonable period of inactivity.

- Workstations should **not** be left unattended when logged-on to a system.

- Management should restrict employees/contractors from accessing IT facilities when terminated or transferred. This includes taking possession of the individuals' keys, identification cards, badges, etc.

8.8.0 DISASTER RECOVERY AND BUSINESS CONTINGENCY PLANNING

A Disaster Recovery/Contingency Plan (Plan) should exist for all systems critical to a department's operations and should be periodically tested. The key control objective of a Plan is to ensure appropriate measures are taken to maintain and recover processing services and mitigate the impact of disruptions. Types of disasters that could disable a department's operations include earthquake, vandalism, fire, and sabotage.

The Plan should:

- Identify critical system files and programs.

- Detail the duties, responsibilities and tasks to be undertaken by key personnel.

- Establish specific procedures to ensure the proper creation and maintenance of data files (e.g., back-ups, storage, etc.).

- Establish offsite backup and retention requirements and rotation procedures to ensure offsite files and software remain sufficiently current to support reconstruction, if needed.

- Identify the level of services to be provided in the event of disruption.

- Identify alternate processing resources and, where applicable, an alternate facility required to maintain services in case of disruption.

For more information on departmental Plans, contact the department's Business Continuity Planning Coordinator.

Note: If the system(s) is supported by the Internal Services Department's (ISD) data center, the department should not assume coverage by the ISD's data center's Plan. Although ISD's Plan takes into consideration information provided by the County department that owns the system, it assigns priority based on the system's impact on County operations. According to the CEO's Office of Emergency Management, departments are responsible for developing their own disaster recovery policies.

8.8.1 Recovery and Restart

Recovery/restart controls have two objectives. The first is **not** to lose data and the second is to remain operational, if possible, or to become operational again as soon as possible.

The following controls should be in place for system recovery and restart:

- Procedures should be established to determine what data was in transit when the system went down. This may be a combination of logging controls and workstation procedures. When the system restarts, a verification process should be conducted to ensure data was not lost.

- Provisions should be made so that when workstation demands exceed system capacity, the system does **not** crash or lose its ability to recover the overload work when slack time becomes available.

- Recovery/restart procedures should be adequately documented and tested.

8.8.2 Risk Management

Departments must periodically conduct a risk assessment of their critical IT services, which are mission-critical programs, operations, processes/procedures, or systems (includes but are not limited to, applications, associated servers or mainframes, networks, workstations and facilities). The purpose of a risk assessment is to evaluate the technical and procedural controls that are in place to protect owned and custodial IT resources/data. The analysis should be documented and kept on file with the departmental systems manager. For more information on risk assessments, see Policy 6.107 Information Technology Risk Assessment in the Board of Supervisor's Policy Manual.

8.9.0 APPLICATION CONTROLS

Application controls are narrower than general controls and relate to a particular application/program. The three primary categories of application controls include input, processing, and output.

8.9.1 Input Controls

The key control objectives regarding input are that all authorized material is processed completely and accurately without duplication, and that unauthorized input be prevented. The processes of initiating, authorizing, and reviewing input transactions should be properly separated with **no** individual performing more than one function.

The following are some general internal controls over input:

- Controls (e.g., batch controls, sequential numbering, etc.) should be established to maintain accountability over all transactions submitted for processing.

- There should be sufficient deterrents to prevent the entrance of unauthorized transactions or ensure their timely detection and exclusion. This includes using key verification, visual review where appropriate, and system software edits wherever practical. For example, software edits may include control and/or hash totals, reasonableness tests, validity checks and limit tests.

- Procedures should be established to maintain accountability over items rejected due to errors and ensure they are properly corrected, resubmitted and processed timely.

- When users change input records to correct input errors the system should record and archive both the original and correcting transactions. This may occur if the workstation operator discovers an error during data entry, or the customer changes his mind about the transaction.

- Departments should develop schedules and procedures to ensure that all necessary input is received prior to the start of processing and report generation.

- Interactive system prompts should be used to the extent that the application allows. For example, if the operator forgets a step when entering a transaction, the computer application prevents continuation until the needed piece of information is properly recorded.

- Input transactions should be properly documented and independently reviewed and approved.

- Adequate user, data entry and data control documentation and training should exist to ensure personnel perform their assigned functions correctly.

- Written input procedures should be provided to employees who handle input transactions.

8.9.1.1 Authorization

Authorization controls include the following:

- Source origination and approval policies and procedures should be implemented and monitored for compliance.

- Source documents should be reviewed for reasonableness and proper authorization prior to entering the information. The information entered in the system should also be reviewed and authorized before it is submitted for processing.

- Access to forms (such as receipts) should be restricted and pre-numbered forms should be accounted for.

- Authorization rules should normally **not** be violated in the interest of expediting a transaction. Where exceptions to a general authorization rule must be allowed as a practicality, the process must be incorporated in a formal authorization policy and involve written management approval for each allowed exception.

- All key input documents/transactions should be standardized, identified with a unique identifying number, and be sequence controlled.

- If data is entered in a batch mode, the batch transmittal should include:

  a. Batch number

  b. Date

  c. Control totals (control totals should be reconciled after input)

  d. Document count

- Where manual documents are used, each document should be "cancelled" to prevent resubmission.

- There should be manual or automated control listings or totals used for rejected items to ensure they are successfully re-processed.

- There should be adequate separation of duties between the employees who manually process and enter the data. Individuals responsible for the input of transactions should **not** also be involved in the initiation, authorization, or review of these transactions.

8.9.2 Processing Controls

Processing controls assist in ensuring the accuracy of input data by subjecting the data to a comprehensive series of tests performed by the computer system. Programmed procedures in a system should edit all input information and pass **only** valid data to other programmed procedures, files and output reports.

Processing controls include controls over data transferred/interfaced between systems/applications. The key control objective regarding processing is that appropriate programs and files be used in such a way that updates are properly performed and resulting information and reports are complete and correct.

Departments should implement internal controls over processing that accomplish the following:

- Procedures must be in place to ensure data transmissions between points are timely, complete and accurate, and that errors are identified and corrected timely.

- Provide detailed written procedures to employees that review processing results, and ensure that they understand the procedures, are capable of reviewing results, and can substantiate that processing was performed correctly.

- Ensure that proper files and tables are used during processing. The software should access the correct files for updates and inquiries.

- Ensure that files are updated completely and accurately to reflect both input and generated transaction activity. For example, input should be reconciled with output to verify the correctness of processing within the computer. This may include verifying that control totals agree between the source and target systems.

- Ensure that files are properly maintained between processing periods and that file integrity is not compromised. For example, access to a file and its data should be limited to authorized personnel and changes should only occur through an authorized process or routine.

- Incorporate provisions to deter the duplication of processing operations and file updates. For example, when one system sends information to another, the receiving system should be able to detect whether the information was previously transmitted/uploaded.

- Incorporate error reporting in situations in which transactions cannot be posted or have not been completely processed. For example, suspense accounts can be used and monitored regularly to ensure timely correction. Items in suspense should be dated and after a specified period of time (e.g., seven days, etc.) they should be listed on exception reports that are given to a supervisor to investigate and clear timely. Departments should retain error reports and periodically review the results to determine if the errors can be prevented in the future.

8.9.3 Output Controls

Output may consist of paper printouts, digital information or electronic data. Controls over output must be established to ensure that:

- All process activities are correctly reflected in output provided to users.
- Output is adequately protected and distributed on a need-to-know basis.

Controls that should be implemented to help achieve the above objectives include:

- End users must be involved in the design and maintenance of output to ensure that all information needed is provided and in the appropriate format.
- Procedures should be implemented to ensure that output reflects all transaction activity accurately, including corrections and adjustment transactions.
- A complete audit trail demonstrating how critical output information was derived should be available.
- Report headings with processing dates and other pertinent information clearly identifying the processing period should be designed to prevent erroneous conclusions and misuse by users. Each report page should include: title of the report, date, report period covered, report number (if available), page number, and a "Sensitive" or "Confidential" marking, if appropriate. Care must be taken to distinguish standard/production reports from reports designed and generated by users employing a report generator. Often these generated reports are **not** adequately tested during the generation process.
- Sufficient documentation and training to ensure data control personnel and users perform their functions correctly.
- Procedures need to be implemented to ensure all sensitive output is properly secured from unauthorized access and/or modification. This includes properly securing output, such as data files that will be used as input in another system/application.
- All pre-numbered output forms, such as warrants or licenses, should be accounted for.
- When special output forms are used, forms used in printer setup procedures should be voided. An adequate supply of special output forms should be maintained, and access to the forms should be restricted to authorized personnel.
- Destruction of outdated sensitive or confidential reports should be controlled using shredders or secure recycling containers.

8.10.0 AUDIT TRAIL

Having an audit trail means providing sufficient information to trace the entire automated process, including identifying the individual who performed each transaction. The trail is needed to support subsequent review, verification and follow-up activities, sometimes long after processing has taken place, and must be retained for a reasonable period of time. As a general statement, transaction references need to be traceable to source documents, final totals need to be traceable to component transactions, and transactions need to be traceable to a final total or report.

8.11.0 INPUT/OUTPUT RETENTION

Retention requirements must be specifically defined for all significant input/output to meet regulatory requirements, permit their restoration in the event of a disaster, and satisfy subsequent user information needs.

In some circumstances, the recording of a transaction on a workstation is the only documentation for the system because there may be **no** traditional audit trail of hard-copy documents. In such circumstances, proof that the transaction occurred is the data contained within the system; therefore, that data must be sufficiently complete to detail the transaction.

8.12.0 MISCELLANEOUS

8.12.1 Copyrights

It is a federal crime to pirate or copy software in violation of the software's licensing agreement. To protect against copyright infringements, departments should establish, and communicate to employees, policies and procedures that guard against unauthorized usage or copying of software.

Employees may create or develop, on their own time and with their own resources, any copyrightable material unrelated to the business or interests of the County. However, the County is entitled to the benefit of an employee's work related to developments undertaken or sponsored by the County during his/her employment by the County. All work that may be developed or conceived by an employee while in the employ of the County, whether alone or with others, during or after working hours, and with or without the use of County resources, shall be considered made for hire by the employee for the County and prepared within the course and scope of the employee's employment. Such ideas, processes and materials specifically include all inventions, discoveries, improvements, enhancements, computer materials, written materials, and developments relating to projects, programs or other work proposed, financed, under consideration, or owned by the County, or for which the County has any significant interest.

An employee **must** disclose and **make** available to the County any work papers, models, portable computing and storage devices or other tangible incidents of the employee's work. All copyrightable materials generated or developed during an employee's employment by the County shall be considered work made for hire under the U.S. copyright law and all such materials shall, upon creation, be owned exclusively by the County. The County should be entitled to register and hold in its own name all copyrights in respect of such materials. County employees must perform upon request of the County any acts that may be necessary or desirable to transfer or establish original ownership of all such work on the part of the employee, to the fullest extent possible.

8.12.2 Batch Interface Files Processed in eCAPS

When Departments or agencies request to have batch interface files processed in eCAPS, the Auditor-Controller will need to verify that certain security and volume criteria are met. Additionally, the files must conform to eCAPS layout specifications before being certified for production processing. For questions regarding eCAPS interface files requirements, departments or agencies should email the eCAPS Support Team at: SYSTEMS.eCAPS.Departmental.Support@auditor.lacounty.gov

Chapter 9 – Revenue

9.1.0 REVENUE

9.1.1 Definition of Revenue

Revenues are increases in the net assets of an organization during a period that result from activities such as levying and collecting taxes, complying with federal and State mandates, and providing services to the public. In accounting for revenue, the County, like many other governmental agencies, utilizes the modified accrual basis of accounting. Under this method, revenue is recognized during the period it becomes measurable and available. "Available" means that the revenue is expected to be received within one year of the end of the fiscal year in which it is earned.

The County General Fund (County) receives revenue from a variety of sources. Revenues are classified into one of the following categories:

- Taxes
- Licenses, Permits and Franchises (business licenses, construction permits, zoning permits, etc.)
- Fines and Forfeitures, and Penalties
- Revenue From Use of Money and Property:
    a. Interest revenue
    b. Rents and Concessions
    c. Royalties
- Inter-governmental Revenues
    a. Federal
    b. State
    c. Other governmental agencies
- Charges for Services
- Miscellaneous Revenue

In addition to revenues, funding may be received in the form of operating transfers from other funds, proceeds of long-term debt, and residual equity transfers from other funds.

Statutory authority for types of revenue sources can be found in Title 4 of the County Code. Other sources for references covering revenue can be found in Deering's California Code and the Revenue and Taxation Code.

9.1.2 Objectives of Internal Control Over Revenue

The objectives of internal control over revenue are to ensure that revenue is:

- Maximized.
- Deposited into a County account at the earliest feasible point in time.
- Appropriately classified for financial statement reporting and grant recognition purposes.
- Properly accounted for and safeguarded.

(Also, see Sections 1.3.3 and 1.3.5.2 of this manual for internal controls over receipting and depositing of collections.)

9.1.3 Internal Controls Over Revenue

Departments must ensure that:

- Fees charged for departmental services are authorized by the Board of Supervisors, the County Code, State Statutes or the State Constitution.

- Departmental operations are continually evaluated to identify areas where new fees may be appropriate.

- Fees charged are reviewed annually and recommendations for adjustments are made when fees no longer recoup the costs of the services provided or when statutes have changed providing a different fee amount.

- Billing rates charged are the most current rates developed (i.e., at least annually) and, if required by statute or policy, approved by the Board.

- Overhead rates are developed and used that are appropriate for the agency being billed. Overhead rates to be used differ depending on the entity to be billed (e.g., another County department, an outside agency, a grant program, etc.). Departments should consult with the Auditor-Controller's Accounting Division's Cost Section as to which overhead rate is applicable.

- Billings or fees to third parties are prepared and collected as soon as allowable to maximize cash flow.

- Revenue sources are closely tracked to ensure timely receipt from third parties. For instance, anticipated revenue (budgeted or not) should be aggressively pursued.

- Advances from third party revenue sources (including advance provisions in contracts with third parties) are requested to maximize cash flow.

9.1.4 Revenue Collection Processes

Departments shall obtain the approval of the Treasurer and Tax Collector prior to implementing a collection process or program, irrespective of the intended payment method (e.g., Automated Clearing House (ACH) credits and debits, credit and debit cards, eCheck, etc.) The Treasurer and Tax Collector has developed revenue collection processes to accelerate billing/invoicing and to maximize revenue to the County. These processes include:

- **Scannable Billing Service:** This is a process used to standardize billing/invoice formats, accelerate the billing and collection process, deposit all payments as quickly as possible and enhance cash handling controls, thus increasing available cash for meeting County obligations and/or investments. The Treasurer and Tax Collector uses a scannable bill for posting annual taxes and the department's billings or invoices. This process is extended to delinquent bills for the acceleration of payment posting of property taxes that are in arrears.

  Departments preparing or using an outside agency to prepare bills or invoices (either manual or automated) for departmental services rendered should have the documents evaluated by the Treasurer and Tax Collector for possible conversion to scannable line billings and/or the use of a lockbox system (See discussion on lockbox system below). Any questions concerning scannable billing service should be directed to the Treasurer and Tax Collector's Cash Management Division.

- **Fed Wire Payments:** These payments provide the quickest way to transfer money from a non-County account to the Treasurer and Tax Collector's bank account. If a department is arranging for an electronic fund transfer, the department **must** call the Treasurer and Tax Collector's Cash Management Division at least three days prior to the date the funds will be wired.

  Upon receiving the department's request (e.g., telephone call) to electronically wire funds into the County, the Cash Management Division will contact the agency wiring the funds and arrange for wire instructions and coordinate the wire transfer with the agency. The Treasurer and Tax Collector's Cash Management Division needs the following information for processing a Fed Wire Payment.:

  a. Name of the agency wiring the funds,

  b. Contact person and telephone number of agency wiring the funds,

  c. Amount and frequency of payment(s) to the County,

  d. The eCAPS fund and account numbers into which the deposits are to be made, and

e. The names, email addresses, and telephone numbers of up to two contact individuals at the beneficiary bank.

If the department plans to arrange for incoming wire transfers on a recurring basis, the department must also complete a "Deposit and Withdrawal Authorization Form" (The Treasurer and Tax Collector will provide this form) and submit the completed form to the Treasurer and Tax Collector's Cash Management Division along with the following information:

a. A payment schedule listing the type(s) and estimated amount(s) of revenues,

b. The eCAPS fund and account number into which the deposits are to be made, and

c. The dates the funds will be received.

- **A Lockbox System:** This is a collection and processing service where a department's mail remittance payments are directed by the Treasurer and Tax Collector through the use of a post office box. Any department that receives mail remittance payments from revenue sources listed below and cannot arrange for the payment transmittal through Electronic Funds Transfer (EFT) should contact the Treasurer and Tax Collector's Banking and Remittance Processing Division and arrange for a lockbox application:

  a. Grant funds from federal, State or local governments or private sources.

  Note: All State of California warrants must be directed to the Treasurer and Tax Collector's Sacramento lockbox.

  b. Revenue contract payments from a private contractor or non-County governmental agency, such as from a general service agreement or contract city payment, major leasehold, management lease payment, or concessionaire payment.

  c. Other applicable revenue payments from those listed in Section 9.1.1.

  As with EFT deposits, if a department arranges for collection handling through the lockbox system, the department must also submit to the Treasurer and Tax Collector's Cash Management Division a projected collection schedule listing the type(s) and estimated amount(s) of revenue, the eCAPS fund and account numbers, and a projected schedule of dates the funds will be received.

- **Automated Clearing House (ACH):** These payments are electronic payments made through the Automated Clearing House network versus the Federal Reserve wire system. To accept ACH payments, the department must contact the Treasurer and Tax Collector's Cash Management Division to establish the appropriate authorization, proper file, formats, and adequate account control procedures. No department may authorize a payer to direct ACH credits or debits to any County bank account without first obtaining written authorization from the Treasurer and Tax Collector.

9.1.5 Revenue Classifications

The County's accounting system recognizes revenue at three levels of detail:

- Revenue category.
- Revenue class.
- Revenue source (account #).

Revenue transactions must be recorded at the source level by entering the eCAPS revenue account number. The Auditor-Controller's Accounting Division maintains listings of all revenue account numbers for departmental use. Departments may request new revenue accounts as the need arises. Requests for new revenue accounts should be in writing and directed to the Auditor-Controller's Accounting Division.

Revenue transactions are also classified as either "current year" or "prior year." Generally, revenues that have been earned in the current year, including year-end accruals, are recorded in current year accounts. Prior year accounts are used to account for reversals of prior year accruals, collections of prior year accruals, and other revenue recognized in the current fiscal year that was earned in a prior year.

9.1.6 Accounting for Revenue

Only those receipts which have been earned are considered revenue and should be posted to eCAPS revenue accounts. Occasionally, departments receive monies prior to incurring the expenditures for which the funds are to be used. These monies are unearned until such expenditures have been incurred. All such monies should be deposited into a trust account or a deferred revenue account and transferred to revenue accounts via a journal voucher transaction as the expenditures are incurred and the revenue is earned. This should be done throughout the year and also at year-end prior to closing. Postponing the transfer or accrual of revenue for budgeting or other purposes is not appropriate.

County departments may also receive monies that cannot be readily identified with a specific revenue source. All such monies should be deposited into a trust account pending proper identification. As in the case of advanced/deferred revenues, monies held in trust should be transferred to revenue accounts via a journal voucher transaction as the funds are identified. This transfer should not be postponed and held for transfer in subsequent fiscal year(s) for budgetary purposes.

Since the County is on a modified accrual basis of accounting, it recognizes as revenue those funds earned during a fiscal year, but for which cash payment has not yet been received. In these cases, an Accounts Receivable must be established. Such revenue should be accrued only if it is earned, measurable, and expected to be received within twelve months of the end of the current fiscal year. Postponement of accrual for budgetary purposes is not appropriate. Compliance with revenue measurement requirements is extremely important. If there is any uncertainty in applying these guidelines to specific departmental program revenues, the Auditor-Controller's Accounting Division should be consulted.

All revenue source documents must be retained for a minimum of five (5) years, or until audited by the appropriate agency, absent specific authority. These source documents will include remittance advices, copies of checks where applicable, etc. In addition, detailed expenditure documentation must be maintained for the same periods to support claimed revenues.

eCAPS reports must be reconciled monthly to departmental records to ensure the proper posting of revenue to the eCAPS accounting system.

9.2.0 GRANTS

9.2.1 Definition

A grant is an award of funds from a governmental unit or private entity. The award is usually made in response to an application for a specified project, but can occasionally be made for general purposes. All grants, whether received from federal, State, local governments or private sources, must be recorded in the appropriate fund and revenue account code. The Board of Supervisors Policy Manual, Policy# 4.070, Full Utilization Of Grant Funds, requires a proper review of grant expenditures to determine whether funds need to be reallocated to provide the services for which they were intended before the end of the grant period. The County receives grant monies in two basic ways:

- **Advance Method:** Federal and State agencies will provide advances for their programs that are operated by the County. In some cases, funds are received in accordance with a pre-established schedule; others are received upon submission of an estimate of future costs.

- **Claim Reimbursement Method:** For many grants, grantors will reimburse the County after the County has submitted claims. In these cases, the County incurs the expenditure and is then reimbursed.

9.2.2 Internal Controls

Departments must establish and continually monitor appropriate procedures and controls to ensure that:

Grant revenue is maximized.

- All potential grant sources are continually explored to ensure maximum grantor funding of County operated programs.

- All grant applications, Board letters, etc., are coordinated with the Chief Executive Office and cleared with County Counsel.

- Contracts with grantors contain the best possible provisions to:

    a. Maximize cost reimbursement including all overheads (section, division, branch, departmental, Countywide).

    b. Expedite receipt of grant monies. Advances are preferable to cost reimbursement provisions. Electronic fund transfers (EFT) are preferable to mailed checks. If an EFT cannot be arranged, a lockbox (P.O. Box) system must be implemented. See Section 9.1.4 for additional discussion on how to arrange for an EFT and implement a lockbox.

Grant revenues are received timely.

- Grant receipts must be closely tracked to ensure timely receipt in accordance with contract terms

- Drawdowns, whether for advances or claims submitted, should be timely.

- Departments, especially subvened departments, should request timely billings from other County departments to ensure timely reimbursements.

Grant funds are properly accounted for.

- Only those grant monies which are earned are considered revenue and should be posted to eCAPS revenue accounts.

- Unearned grant monies received must be deposited in a liability account (e.g., Advances Payable, Deferred Revenue, Estimated Third Party Payer Liability) or in an appropriate trust account until earned. The funds must be transferred timely when earned.

- Departments should review grant agreements and, if necessary, request that interest be allocated to the trust account and used in accordance with the requirements of the grantor. Normally, interest earned on grant advances would be an offset to County costs or used as additional program funding.

See Section 9.1.6 for an additional discussion of accounting for earned and unearned revenue and Section 9.2.8 for a discussion of revenue accruals at year end and the establishment of accounts receivable.

Grant funds (receipts and disbursements) are properly reconciled.

To ensure proper accounting for grant funds, departments need to perform the following monthly:

- Reconcile total grant receipts by program by fiscal year to eCAPS accounting records and to departmental subsidiary ledgers.

- Reconcile total grant funds by program by fiscal year to amounts determined to be earned revenue, amounts claimed for which reimbursement has not been received and unearned revenue held in trust.

- Reconcile department records of monies allocated to other agencies (subcontractors) with total grant monies.

The above reconciliations should provide departmental management with information to account for grant utilization and, therefore, maximize the use of grant monies each year.

Overhead should be properly calculated and recovery is maximized to the extent allowable.

- Most grant programs allow for the recovery of a portion or all direct and indirect (overhead) costs associated with the administration of the particular grant program. Direct costs are generally easily identified. Identification of overhead costs is more difficult.

- To provide a uniform approach for identifying allowable overhead costs an indirect cost proposal (ICP) must be developed in accordance with federal guidelines. Through the use of rates developed in the ICP, the County is reimbursed for indirect costs applicable to federal and State reimbursable activities.

- The Auditor-Controller has issued a Departmental Indirect Cost Proposal Preparation Guide to assist departments in the preparation of the ICP. This guide is included in Chapter 11 (Cost Accounting) of this Manual.

9.2.3 Departmental Grant Accounting Records

Departments must retain, in an orderly manner by program and grant period, for the time period established by the grantor or until audited, the following types of records for all grant programs:

- Grant revenue ledgers, by type of grant, segregating grant periods. Amounts posted should be referenced to supporting documentation such as remittance advices, drawdown requests, reimbursement claims, etc.

- Grant expenditure ledgers by program and grant period referenced to supporting documentation such as summary time records for direct labor distributions, invoices for direct expenditures, fixed asset invoices, etc.

- Appropriate subsidiary ledgers for subcontracted portions of grants.

- Timekeeping records (timecards, or other such records) to support actual labor hours charged to all programs. Time record reconciliations should be built into the system to ensure a total accounting of departmental labor hours.

- A grantor approved method for allocating administrative and other indirect costs to grant programs. Allocations should be supported by distribution schedules referenced to supporting documentation such as time records, invoices for direct expenditures, departmental billings, Countywide indirect cost allocations, etc.

- Grantor claim forms where all entries are referenced to departmental accounting records and related documentation.

- The federal grant by Catalog Federal Domestic Assistance (CFDA) number to ensure that expenditures are spent in compliance with OMB Circular A-133 guidelines.

- Written procedures for all aspects of the grant accounting system.

9.2.4 Reports

Departments should establish a system to ensure timely reports to:

- Meet all grantor requirements.

- Monitor total grant revenue and expense by grant period, etc.

- Monitor subcontractor expenditures by contract period.

- Ensure timely requests for expenditure reimbursement.

9.2.5 Carryover Receipts

Carryover receipts are unearned grant revenues that have been received. All such funds should be placed in a liability account or deposited in trust accounts, as applicable (See Section 9.1.6). Departments should follow grantor guidelines as to disposition of these monies. The options generally include using the funds for the program in the subsequent year, using the funds in another program with grantor approval, or returning the funds to the funding agency.

9.2.6 Compliance Requirements

Departments should determine compliance requirements for each grant program and provide for a system to monitor adherence to the requirements. Appropriate written waivers should be obtained whenever departments cannot or do not want to adhere to compliance requirements.

9.2.7 Audits

Audits of federal grants are performed annually by an independent accounting firm hired by the Auditor-Controller. This "Single Audit" is coordinated by the Auditor-Controller as lead agency. In accordance with instructions from the Auditor-Controller, departments report actual grant expenditures subject to the Single Audit Act annually to the Auditor-Controller's Accounting Division.

Audits of grant programs must be performed in accordance with grant requirements. Departments that require audits for State grants not covered by the Single Audit or that require audits of subcontractors should contact the Auditor-Controller's Administrative Services Division. The Administrative Services Division will arrange for the audit under the Master Agreement for audit services.

9.2.8 Year-End Closing

The Auditor-Controller's Accounting Division distributes annual fiscal year closing instructions. These instructions include accounts receivable/revenue accrual guidelines and dates for their completion. When accounts receivable are collected, they must be deposited to the revenue sub-accounts for the applicable prior fiscal year (See Accounts Receivable, Section 10.1.0).

Chapter 10 – Accounts Receivable

10.1.0 ACCOUNTS RECEIVABLE

10.1.1 Definition

Accounts receivable are amounts due the County for services provided for which payment has not been received. Accounts receivable generally represent the County's claims for monies, goods, and services from other entities. Receivables generally represent amounts due from customers or clients arising from normal operations. There are also a variety of other receivables which may be encountered from time to time.

Prior to July 1, 2005, accounts receivable were normally only recorded at the end of each fiscal year. Amounts accrued as accounts receivable as of June 30th are those amounts which have been earned and are realistically expected to be received during the subsequent fiscal year. In certain isolated instances they were recorded throughout the year (i.e., property taxes, welfare programs, etc.). Effective July 1, 2005, eCAPS provided the ability for departments to routinely record accounts receivable during the year as they are earned. eCAPS specific policies and procedures begin in Section 10.3.0.

Departments not recording receivables in eCAPS are to maintain their own internal accounts receivable subsidiary records. Departments must report receivables to the Auditor-Controller at year-end in accordance with annual instructions provided by the Auditor-Controller. Receivables and related revenues are recorded in eCAPS by the Auditor-Controller. Section 10.2.0 covers procedures regarding the Referral of Uncollectible Accounts to the Treasurer and Tax Collector.

10.1.2 Objectives of Internal Control Over Accounts Receivable

The objectives of internal control over accounts receivable are to ensure:

- Accounts receivable balances are properly recorded in departments' subsidiary ledger accounts.
- Appropriate follow-up action is taken to collect all accounts receivable due the County.
- Year-end accounts receivable balances are accurately reported for budgetary and financial statement reporting purposes.

10.1.3 Internal Controls

Department management must ensure that the following internal controls are followed when establishing and maintaining accounts receivable.

- Records must be maintained such that revenue received can be properly identified with the year in which it was earned (i.e., current year revenue or prior year revenue).

- Departmental accounting records documenting accounts receivable should be in the form of control accounts with subsidiary ledgers detailing specific amounts due from entities or individuals. These records should be referenced to documentation supporting amounts billed.

- Subsidiary ledgers should be periodically (at least annually) reconciled to the control totals and discrepancies investigated. Irreconcilable differences should be reported in accordance with Chapter 14 of this manual.

- Subsidiary ledgers should be updated as services are performed and as payments are received.

- Accounts receivable should be aged:

    a. To identify those receivables outstanding for over 30, 60, and 90 days,

    b. To initiate follow-up procedures, and

    c. To ensure future services are not rendered (except emergency medical services, services mandated by legal authority, etc.) until past due amounts are paid. This includes cancellation/voiding of any license, permit, etc., not paid for.

- Each department must establish follow-up procedures for delinquent accounts.

- Uncollected accounts should be referred to the Treasurer and Tax Collector after appropriate collection efforts have been made (See Section 10.2.0).

- The functions of (1) receiving payments, (2) updating individual accounts, and (3) performing follow-up procedures on delinquent accounts should be separated to ensure an effective system of checks and balances. A separation of these functions is important to minimize the risk of fraud or abuse, such as the inappropriate collection and then write-off of valid receivables. Internal Controls for the Referral of Uncollectible Accounts are discussed in Section 10.2.0.

10.1.4 Year-End Reporting

At the end of each fiscal year, the Auditor-Controller's Accounting Division (Accounting Division) distributes closing instructions that explain the procedures used in reporting year-end receivables. The following must be reported to the Accounting Division at fiscal year-end:

- The total amount of the department's supportable outstanding (manually reported) accounts receivable that accrued during the current fiscal year. These receivables must be measurable and expected to be fully collected during the next fiscal year (See Section 9.1.6).

- The total of all other accounts receivable which accrued during other prior fiscal years and are still outstanding and expected to be fully collected in the next fiscal year.

The above information should be reported in a letter or memo signed by the chief fiscal officer certifying the accuracy of the accounts receivable accruals and the collectability of the accrued receivables during the next fiscal year. In addition to the documents requested, departments are now required to complete an Excel spreadsheet (provided by the Auditor-Controller) to report their manual (non-eCAPS) revenue accruals at year end.

If more than one fund and account is to be credited with the revenue from any of the outstanding receivables reported, the total of each fund and account to be credited should also be shown. If a department or special district has no accounts receivable, the Accounting Division must be informed in writing of this situation.

The policy for accruing revenue for capital projects differs from the policy for other accruals. The difference is that additional revenue accruals are allowed when they will offset the amount of outstanding encumbrances/commitments that will be funded by an outside entity (State and federal grants). An accrual cannot be set up for the amount of the encumbrance/commitment that will be financed by the County.

The Accounting Division will prepare journal vouchers (JVAs) to record receivables reported for each department/budget unit. Departments shall verify that all eCAPS coding (e.g., Unit number, Revenue code, Function code, etc.) provided to the Auditor-Controller is valid. eCAPS online tables and ad hoc reports should be reviewed during the year-end closing period to verify that all amounts have been accurately recorded.

Note: Departments are required to have detailed records that support their accounts receivable balances and prior and current year-end accruals.

10.1.5 Collection of Prior Year Receivables

The Accounting Division will prepare a JVA to record the accounts receivable for the current fiscal year and the reversing journal entries posted in the following fiscal year. Both fiscal year transactions will be processed on the same JVA. The reversing entries are made to the "prior year" revenue account that corresponds with the revenue that was accrued. A listing of the prior year accounts appears in the Accounting Division's year-end closing instructions.

10.2.0 REFERRAL OF UNCOLLECTIBLE ACCOUNTS

10.2.1 Background

The Treasurer and Tax Collector is responsible for collection of delinquent accounts for billable services including those resulting from the receipt of dishonored negotiable paper. After a department has exhausted its collection efforts, (i.e., made at least three attempts to contact the payee by mail and phone over a 45-day period) the account should be referred to the Treasurer and Tax Collector.

10.2.2 Accounts to Refer for Collection

The following accounts should be referred to the Treasurer and Tax Collector.

- Delinquent accounts:

  a. that have an accumulated balance due of $50 or more, and

  b. that have been delinquent for a period of 60 days from the accrual date, and

  c. for which the department has determined the responsible party, and

  d. that the department or its contracted agent has made a reasonable attempt to collect.

  Note: Accounts with charges of less than $50 should be pursued by the individual department, if cost effective. If account balances do not warrant further collection activity, they should be referred to the Treasurer and Tax Collector for write-off in accordance with County Code Section 2.52.040(k).

- All dishonored negotiable paper (i.e., "Not Sufficient Funds" checks), regardless of amount, that the department has made a reasonable attempt to collect.

The Treasurer Tax-Collector will obtain the legal authority to invoke treble damages at a minimum of $100 and a maximum amount of $1,500. (See Section 1.5.0 of this manual for Not Sufficient Fund Check handling procedures).

10.2.3 Exceptions to Collection Account Referrals

The following are exceptions to collection account referrals:

- Claims against other governmental agencies will continue to be handled by the involved departments. Delinquent accounts for services rendered to cities or special districts are to be handled as outlined in Section 10.2.12, "Procedures for Collection of Services Performed for Cities and Special Districts."

- Claims involving salary overpayments should be submitted to the Auditor-Controller's Special Claims Section.

- Specialized collection systems (including collection agencies) operating among the Treasurer and Tax Collector and the Superior Courts, Auditor-Controller, Department of Health Services, DPSS, Probation, Children and Family Services and the Child Support Services Department will continue to function according to existing procedures.

  Note: Items referred to the Treasurer and Tax Collector should <u>not</u> be included in the referring department's Miscellaneous Accounts Receivable Report submitted to the Auditor-Controller.

10.2.4 Internal Controls

Departments must ensure that the following internal controls are followed when establishing procedures to handle delinquent accounts receivable:

- An individual's "Ability to Pay" and/or "Responsible Party", if applicable, are assessed as soon as possible so that collection efforts are not expended on accounts that are determined to be "No Ability to Pay" and/or "No Responsible Party".

- Third-party payers are billed timely to effect payment within the established/required time constraints.

- Delinquent accounts are promptly followed-up to ensure the maximum collectable amount.

- Delinquent accounts are promptly referred to the Treasurer and Tax Collector for action.

  Note: The authority to adjust or write off uncollectible accounts rests only with the Treasurer and Tax Collector. Departments must ensure that delinquent accounts are referred to the Treasurer intact.

10.2.5 Referral Process

Referring departments should prepare a "Collection Referral/Credit Memo" form in duplicate. A "Collection Referral/Credit Memo" form should be completed for each delinquent account or dishonored check. The original of the completed form should be sent to the Treasurer and Tax Collector, and one copy should be retained by the referring department. The Treasurer and Tax Collector also accepts referrals in an automated format. Interested Departments should contact the Treasurer and Tax Collector's Collections Accounting Unit for information.

A copy of all pertinent correspondence and other available documentation (e.g., dishonored negotiable paper, contracts, invoices, etc.) on file should be sent with the referral form. Completed referrals should be listed on a "Collection Referral Transmittal." The transmittal should be sent in duplicate with the corresponding "Collection Referral/Credit Memo" form and documents attached.

This package should be sent to:

Treasurer and Tax Collector
Collections Accounting
Account Intake - Room 461
222 N. Grand Ave.
Los Angeles, CA 90012

The Treasurer and Tax Collector provides written acknowledgement of the number of accounts received and the total dollar amount by sending a copy of the verified transmittals and/or a report of the new accounts to the referring department on a monthly basis. If the referral is rated unacceptable by the Treasurer and Tax Collector's Account Intake Unit, it will be returned to the referring department with a letter explaining the reason the referral is rejected. Verbal or written questions or complaints that pertain to the validity or basis of the charge or amount due and which the Treasurer and Tax Collector is unable to resolve, will be referred back to the originating department for direct resolution with the client. Copies of any resulting correspondence should be forwarded to the Treasurer and Tax Collector with an explanation. Any pertinent information that becomes available after a referral has been made should be forwarded to the Treasurer and Tax Collector with a memo describing the information. The eCAPS specific policies and procedures begin in Section 10.3.0.

10.2.6 Adjustments to Referrals

Adjustments to previously referred accounts result from corrections to the original amount referred or payments received on the account by the referring department.

- Corrections to the amount originally referred.

  The referring department should prepare a "Collection Referral/Credit Memo" form to adjust/correct an amount previously referred. If the Treasurer and Tax Collector account number is known, always include it on the form. If the Treasurer and Tax Collector account number is not known, make sure the description includes "TO ADJUST/CORRECT AMOUNT PREVIOUSLY REFERRED ON (DATE)." All supporting documentation such as invoice copies, correspondence, etc., should be attached.

- Payments received by the referring department.

  The referring department must notify the Treasurer and Tax Collector promptly by the referring department when the referring department receives any monies for accounts previously referred to TTC. Referring departments should prepare a "Collection Referral/Credit Memo" form for amounts paid on each account referred to Treasurer and Tax Collector. The referring department should forward an original and one copy of each referral/credit memo form for corrections and/or credit memo. The Treasurer and Tax Collector will return one copy of the form to the department to acknowledge receipt and processing of the correction and/or credit memo.

Corrections/Credit memo forms and documents should be sent to:

Treasurer and Tax Collector
Collections Accounting
Account Adjustment Unit - Room 461
222 N. Grand Ave.
Los Angeles, CA 90012

eCAPS specific policies and procedures begin below in Section 10.3.0.

10.2.7 Dispositions of Accounts Referred

At the time an account is referred to the Treasurer and Tax Collector, the referring department should indicate to what extent the Treasurer and Tax Collector should pursue collection on the account. The Treasurer and Tax Collector must be advised of any legal limitations, as far as referring an account to an outside collection agency or writing off an account. The Treasurer and Tax Collector writes off accounts monthly, as some accounts do not warrant further collection efforts. For further details see "Write-off/Return to Referring Department."

10.2.8 Payments Received by the Treasurer and Tax Collector

Net collections (i.e., collections less Treasurer and Tax Collector or Outside Collection Agency charges) received against referred accounts will be credited to the fund designated by the department by way of a monthly Journal Voucher submitted to the Auditor-Controller. The Treasurer and Tax Collector will send the referring department a copy of the Journal Voucher effecting the collection and a report detailing the amounts collected by account number.

10.2.9 Suspension of Collection

If it becomes necessary to temporarily suspend collection activity for less than 60 days, the referring department must notify the Treasurer and Tax Collector in writing and state the reason(s) collection activities are to be suspended. If the suspension is to exceed 60 days, the referral must be cancelled and resubmitted as a new referral if the department wishes to reinstate collection activity at a later date.

10.2.10 Outside Collection Agency Referrals

When the Treasurer and Tax Collector determines (i.e., using an established criteria for determining the cost of collection efforts compared to the cost of writing off the account) that it would be more cost effective to refer an account to a collection agency, an account will be referred to an outside collection agency unless the Treasurer and Tax Collector has been notified in advance that such a referral should not be made.

10.2.11 Write-Off/Return to Referring Department

If full collection on an account cannot be made, it can either be written off or returned to the referring department. The referring department must notify the TTC of types of accounts that are to be returned to the department and not be written off. The following are guidelines used by the Treasurer and Tax Collector in halting collection efforts and/or writing off delinquent accounts.

The following are examples of accounts that are considered not cost effective to pursue.

- Accounts where the collection effort was previously suspended for a continuous period of five years.
- Accounts referred to and returned by an outside collection agency for which no collection has been made.
- Accounts where balances do not warrant further collection activity.
- Accounts high in volume but low in individual amounts, such as outpatient and emergency aid program receivables.
- Accounts where it has been determined potential payers are beyond legal jurisdiction.
- Accounts which have reached the Statute of Limitations and all feasible means of collection have been exhausted and a lawsuit cannot be filed.
- Accounts where the information provided was insufficient to identify or locate the payer.
- Accounts referred in such a condition that skip-tracing efforts would not result in location of a payer.
- Accounts which do not qualify for referral to an outside agency.

The following are examples of accounts that are considered legally uncollectible:

- Accounts where liability was reduced to facilitate Small Claims action, but still remain uncollected. For example, the original claim was for $5,100, but the department would like to settle in small claims, therefore, the claim is reduced to $5,000 and the remaining $100 is uncollectible (Civil Code of Procedure Section 116.220).
- Accounts where no one is legally responsible for payment.

- Accounts where the payer is deceased and there is no financially responsible relative and no tangible assets.

- Accounts where there are compromised settlements such as:

    a. Reduced liability approved by the Board of Supervisors.

    b. Reduced liability approved by the TTC.

    c. Reduced liability approved by DHS for its accounts.

    d. Reduced liability granted under the authority of another County department or agency.

- Accounts where an indigent care program paid less than full cost and the patient is not liable for the difference.

- Accounts where a lawsuit resulted in a judgment against the County.

- Accounts where collection efforts will not be pursued due to administrative errors on accounts where the patient was eligible for third party reimbursement but the department failed to bill for related charges within the payer's (e.g., Medi-Cal, Medicare, Third-party Insurance, etc.) applicable time constraints.

If a department has accounts meeting the write-off guidelines stated above, the accounts may be submitted to the Treasurer and Tax Collector recommending write-off according to the above guidelines. The department must identify the amounts to be written off and the reason for recommending write-off using the categories/codes on the following page. The department must include this information in a letter to the Treasurer and Tax Collector recommending write-off (See Sample Write-off Letter in Section 10.2.14).

The letter and all supporting documentation should be forwarded to:

Treasurer and Tax Collector
Collections Accounting
Reports Unit-Room 461
222 N. Grand Ave.
Los Angeles, CA 90012

If the Treasurer and Tax Collector approves the amounts recommended for write-off, the Treasurer and Tax Collector will include the amounts in the monthly write-off report submitted to the Executive Office of the Board of Supervisors.

10.2.12 Procedures for Collection of Accounts Receivable for Services Performed for Cities and Special Districts

All County departments performing services for cities and special districts must adopt the following procedures for collecting receivables that are not paid on a timely basis. These procedures apply to delinquent receivables arising from services performed for all cities and special districts.

A County may offset any delinquent amount due it for services rendered to a debtor local public entity unless it would result in the debtor’s inability to meet encumbered bonded indebtedness repayments. The offset may be charged against any amount reciprocally owing, upon the giving of 30 days advance written notice, if no written dispute is received from the debtor within the 30-day notice period.

- If payment is not received within the time frame provided by contract or agreement, a second collection effort must be made by mailing a duplicate invoice bearing the statement "Delinquent Account."

- If payment is not received on the duplicate invoice within 30 days of its date, forward a “Notice of Intention to Offset” to the debtor by certified mail, return receipt requested, with a copy of the Notice to the Auditor-Controller's Executive Office. Enclose a copy of the invoice with the Notice. If no written “dispute” is received from the debtor within thirty days of the date the Notice (as shown by the return receipt) was received, forward all pertinent documents and information to the Auditor-Controller’s Executive Office. The Auditor-Controller, upon review of the documents, will arrange to implement an offset at the next feasible scheduled tax payment to the debtor entity. Below is a sample form of a “Notice of Intention to Offset.” Refer any question of the sufficiency of the Notice or whether the debtor has replied with a timely and sufficient “Dispute” to your department’s legal counsel.

- The Auditor-Controller will credit any amounts that are collected to the proper departmental revenue accounts.

10.2.12.1 Sample “Notice of Intention to Offset” Letter

(Debtor Public Entity)
(Address)

Re: NOTICE OF INTENTION TO OFFSET (Government Code Section 907)

(Salutation)

PLEASE TAKE NOTICE, that if payment in full of the enclosed invoice, or a sufficient written Dispute, certifying that such payment would result in your inability to make encumbered bonded indebtedness repayments, is not received within thirty (30) days, the County of Los Angeles will offset the amount due it for services against any amount reciprocally owing to you, including property tax revenue collected by the County of Los Angeles for disbursement to you.

(Signature of department head)
(Title)

10.2.13 Reasons to Write-off Accounts

Code	Description
WOD	Payer deceased, no estate (include death certificate).
WOP	Residual charge left after partial payment from indigent care program, not collectible.
WOB	Accounts discharged by bankruptcy (include documentation).
WOK	Adverse judgment to the County (include documentation).
WFB	Accounts where patient was eligible for third-party reimbursement, but the County did not bill for related charges within the payer's applicable time constraints.
WFP	Accounts where the patient was billed but the County failed to provide scheduled service.
WOR	Accounts referred to and returned by an Outside Collection Agency for which no collection has been made.
WOE	Routine collection effort expended, account balance does not warrant further effort.
WOJ	Accounts where it has been determined that the payer is beyond legal jurisdiction.
WOS	Statute of Limitations has expired.
WOL	Accounts where information provided was insufficient to identify or locate the payer.
WON	No ability to pay.
WOO	Other – specify.
WOA	Administrative adjustment approved by referring department.

WOM Accounts where patient was eligible for third-party reimbursement, but billing did not meet third-party requirements and payment was denied. Patient is not responsible for charges.

WCB Compromised settlements approved by the Board.

WCC Compromised settlements granted under authority of another County department or agency.

10.2.14 Sample Write-Off Letter

To: Name of Treasurer and Tax Collector
Treasurer and Tax Collector

From: (Department Head Name and Signature)
(Department)

Subject: **Recommendation for Write-off**

In accordance with Los Angeles County Code Section 2.52.040(k) I hereby request that you write-off these charges as uncollectible pursuant to the authority granted you by the Board of Supervisors. I have included (# of accounts and type) in the attached (list, microfiche, diskette, tape, etc.) totaling ($__________) for each type of account). The reason(s) for our recommendation for write-off are contained in the attached (list, microfiche, diskette, tape, etc.) for each account.

10.3.0 ACCOUNTS RECEIVABLE PROCESSING IN ECAPS

eCAPS allows departments to record receivables for money owed the County while establishing a basis for billing a customer or other governmental entity. eCAPS also provides departments with the ability to post cash collections to the County's funds and initiate refunds, as appropriate. When receivables become delinquent, departments can refer these accounts to the Treasurer and Tax Collector (TTC) for collection or write them off.

Except for deposit transactions generated by the TTC or the Department of the Auditor-Controller (A-C), each eCAPS document requires at least two approvals, and deposit transactions need the TTC's approval before being posted to eCAPS. Deposit transactions are final and cannot be edited or deleted.

Supporting documentation should be retained for a period of at least five years.

10.3.1 Internal Controls Over Accounts Receivable Document Processing

Below is a summary of the eCAPS user assignment guidelines that departments will be expected to meet. Any exceptions to these requirements must be properly justified and include a discussion of any compensating controls. The exceptions must be documented and authorized by the requesting department head or designee before they are submitted to the Auditor-Controller's Enterprise Systems Support Division for review and approval.

Data Entry:	Can be any employee without approval capabilities.
Approver 1:	Must be an Accountant II or higher.
Approver 2:	Must be an Accountant III or higher.
Approver 3:	
RF and WO Documents:	Must be a Fiscal Officer 1 or higher.
DP Documents:	Must be an Accountant III or higher with a position of responsibility within the TTC and/or the TTC Internal Controls Branch Supervisor.
Approver 4:	Must be an Accountant III or higher with a position of responsibility within the TTC and/or the TTC Cashiering Supervisor.

10.3.2 Accounts Receivable (AR) Documents

The eCAPS Accounts Receivable (AR) module uses various documents to complete the receivable process. A receivable and billing invoice can be created through a Receivable (RE) document. When the collection is received, the Deposit Permit (DP) document is used to deposit the money into a trust account. The RE document is then opened and a copy forwarded Journal Voucher Cash Transfer (JVCT) is created to liquidate the receivable, update the customer account, and record the revenue.

If the receivable is not collected, follow the procedures in Section 10.2.0. After the Department sends a receivable for collection to the Treasurer and Tax Collector (TTC), the Department should process the "WO" document. For prior fiscal year RE documents, payment must be received by the close of the fiscal year. Otherwise, the prior fiscal year RE document will automatically be written off (a WO document processed) during the year end closing process. If an overpayment is received, a Revenue Refund (RF) document can be used to refund the overpayment.

The following is a summary of documents used in the Accounts Receivable process:

- **Receivable (RE):** Establishes an account receivable and is the basis for an invoice.
- **Deposit Permit (DP):** Used to post cash receipts into any County fund. See Section 1.3.7 for Treasurer and Tax Collector deposit procedures.

- **Journal Voucher Cash Transfer (JVCT):** Used to liquidate the RE document through use of the "copy forward" function from the RE document. The JVCT is also used in other eCAPS areas.

- **Revenue Refund (RF):** Used to return overpayments posted to revenue.

- **Write Off (WO):** Used to write off delinquent receivables that are deemed uncollectible and for receivables sent to TTC for collection.

10.3.3 RE Document

- When certain criteria are met for earned revenue or other collections, an accounts receivable can be established through the creation of a RE document in eCAPS.

- The RE document generates invoices for billing purposes.

- The total amount (total of all Line Amounts) of a RE document must be greater than or equal to zero. If necessary (e.g., to apply a credit or adjustment), an individual line amount can be less than zero, etc.

- Departments that are new to creating RE documents must first populate the Accounts Receivable Tables (See Section 10.3.5). Contact the Auditor-Controller's Accounting Division or eCAPS Helpdesk for information on setting up Receivables for the first time.

For procedures and references on using and creating Accounts Receivable documents and updating Tables, see the eCAPS website icon Learning Center. After clicking on Learning Center, click on Financial under the heading References. Choose one of the Accounts Receivable training manuals (the Financial 400 series).

10.3.4 Modifying a Current Fiscal Year RE Document

- If a RE document amount should be increased or decreased, the department can modify the original RE document. Open the original RE document and modify the line amount to increase or decrease the line amount (e.g., Change the original line amount from $100 to $80).

- For any RE modification, the "Reason" code on the Accounting Page must be completed (choose reason from pick list).

- If a RE document is not needed (duplicate billing, test document, created in error, etc.), the RE document should be cancelled. Open the original RE document and modify the "Line Amount" to zero. On the Accounting page, the "Reason" field must be completed (e.g., choose "Cancel" from the drop down menu, etc.).

10.3.5 Accounts Receivable Table Administration

In addition to the primary documents in Section 10.3.1, the Accounts Receivable (AR) process utilizes various tables containing accounts receivable, billing or customer information. To create receivables in eCAPS, the records in these tables must be updated first.

The AR tables can be updated by each department's accounts receivable administrator. Once a record is saved, the table is updated. The only exception is the Vendor Customer table. The documents from this table must flow through the appropriate approval process.

Summary of Accounts Receivable Tables:

- **Vendor Customer Table (VCUST):** Customer and Vendor information is centrally stored in this table. To add a customer, a VCC1 document must be completed. To modify information on an existing customer, a VCM1 document must be completed. Approval is required by the department and the Auditor-Controller.
- **Customer Account Information (CUSTA):** Inquiry on customer balance and credit history information.
- **Customer Accounts Options Table (CACT):** Table where billing options are established and maintained for customers.
- **Billing Profile (BPRO):** Table that sets up options and controls used in processing finance charges.
- **Billing Instructions (BINST):** Table that defines text that provides customers specific information or instructions related to their bill.
- **Billing Rate (BILLR):** Table that defines the charge and unit of measure information for a billing rate. Start and stop dates for billing rates can also be specified.
- **Finance Charge Setup (FNCHG):** Table which defines characteristics of fees that are used in the finance charge process.
- **Finance Charge Eligibility (FCEG):** Table used to automatically apply finance charges to specific event types.
- **Adjustment Reason (ADJR):** Table used to specify an adjustment reason for finance charges assessed.
- **Dunning Message (DNGM):** Table used to maintain notices that inform customers of past due receivables.

- **Collection Letter (COLL):** Table used to maintain letters that inform customers of collection proceedings for receivables that are significantly past due.

- **Collection Control (COLLC):** Table used to maintain collection and dunning parameters for system generated notices.

- **Collection Agency Agreement (COLLA):** Table used to establish and maintain collection agency agreements.

10.3.6 Monitoring Receivable Activity in eCAPS

- The departments that create accounts receivable in eCAPS should monitor their receivable activity by using the On Demand "Cognos" reports AR-ODLLRES1 (Receivable Aging Summary by Customer) and AR-MREC1 (Receivable Activity report).

- The Departments can utilize the eCAPS Table "RESTA" to view and query receivables by entering various selection criteria.

- Prior to year end, the departments should determine the status of their Current Year RE documents and separate them into three categories as follows:

    1. RE document is uncollectible. The department should process a WO document in eCAPS.

    2. RE document is not collectible by June 30th of the following fiscal year. The department must notify the Auditor-Controller's Accounting Division and explain why this RE document should remain open. If the department is uncertain as to when the payment will be received, the department could cancel the RE document in the current fiscal year and re-establish it in the new fiscal year.

    3. RE document will be collectible within the next Fiscal Year. No action is needed by the department. The open receivable will automatically roll forward to the new fiscal year.

- Departments should review all <u>previous</u> fiscal year RE documents and determine whether they will be collected by June 30th of the current fiscal year.

    1. If the receivable payment has been received, departments should make sure they liquidate all prior year RE document by the deadlines set at year end closing.

    2. RE documents that were rolled forward from the <u>previous</u> fiscal year will be cancelled automatically by a WO document if not collected (or liquidated) by the close of the current fiscal year.

10.3.7 Payments Received by the TTC

Collections received against referred accounts will be credited net of the TTC's commission to the departmental trust liability balance sheet account as identified by the referring department.

- The TTC will send the referring department a copy of the Journal Voucher effecting the collection.

- Once the referring department has posted payment against the RE document, the department will process a Journal Voucher to credit the TTC's account.

Chapter 11 – Cost Accounting

11.1.0 COST ACCOUNTING

11.1.1 Background

The purpose of this chapter is to provide County departments with authoritative standards for cost accounting and guidance in the use of the standards in computing billing rates, fees, and other cost applications associated with County department operations. The implementation of the standards will provide uniformity to ensure cost data has been calculated on a theoretically sound basis, will allow intra and interdepartmental comparability of data, and ensure adherence to federal and State cost accounting policies. Cost accounting standards will also provide County management with better information to allocate resources, control department operations, and evaluate performance of individuals, organizational units, or departments as a whole.

11.1.2 Policy

Section 2.10.010 of the Los Angeles County Code states: "All bookkeeping and auditing of accounts of all offices and departments shall be subject to the inspection and control of the auditor, under the supervision and direction of the board of supervisors." Accordingly, the Auditor-Controller is directing all departments to follow the cost accounting standards and procedures as outlined in this document.

11.1.3 Definitions

Cost Accounting

A system for recording, analyzing, and allocating costs and the keeping of appropriate records.

Cost Center

An end cost objective or activity established for the accumulation of the direct and indirect costs of performing services.

Countywide Cost Allocation Plan

An annual plan prepared in accordance with federal regulations to allocate central support costs to departments for the purpose of maximizing claim reimbursements.

Countywide Overhead

All unbilled central support costs associated with an organizational unit performing services (e.g., utilities, custodial, building security, etc.) which is allocated to the user department.

Depreciation Accounting

The process of maintaining a set of books to record the acquisition and depreciation of Capital assets over the useful life of the assets.

Direct Costs

Salaries and wages, employee benefits, services and supplies, etc., that are readily identified with a service. To the extent possible, these costs should be charged directly to a cost center rather than be allocated.

Indirect Costs

Costs that cannot be readily identified to an individual service, but which are incurred in the course of performing the service.

- Departmental indirect - typically includes the executive office and its clerical support as well as the "administrative" sections, such as payroll, personnel, and accounting.

- Divisional indirect - typically includes the Division Chief and assistant(s) and any clerical support.

- Sectional or unit indirect - occasionally departments have sectional or unit supervisors who cannot readily identify their efforts directly to an individual service. These supervisors would then be allocated as indirect.

Performance Accounting

A system of accounting tailored for an organization so that costs are accumulated and reported by levels of responsibility. Each supervisor in an organization is responsible for his share of the budget and accomplishments.

Productive Work Hours

The annual number of work hours developed to recover the salary cost of paid leaves, which are not directly identified with specific County programs.

Program Accounting

The accumulation of costs in all units of an organization or department to perform a task or service.

11.1.4 General Standards

Cost accounting systems should be designed to provide management with pertinent information for planning, budgeting, controlling, and evaluating operations. Each system should reasonably and objectively equate a service with the costs to provide that service.

This standard recognizes the use of cost accounting in meeting the informational needs of management. Cost accounting can be used for:

- projecting and estimating multi-year goals.
- comparing budget to projection of actual revenue and expenditures.
- comparing costs and cost per unit among similar or identical operating units.
- comparing results with goals.

Departmental systems should be designed to ensure that costs accumulated present fairly the costs of the service. Objective allocation of functional costs to services is an essential prerequisite for an effective cost accounting system. Any deviation from this principle affects not only the cost of the service, but all other departmental services as they will then be allocated more or less costs than appropriate.

Cost accounting principles and methods will, to the extent possible, be uniform from period to period in order to provide comparability of data. Adjustments will be made when organizational changes distort inter-period comparability.

This standard requires that cost accounting principles and methods remain constant from period to period so that inter-period comparisons are valid. Changes in principles or methods greatly distort data comparisons and diminish the use of accounting reports in making management decisions and evaluating performance. Changes in organizational structure likewise distort inter-period cost comparisons. Whenever possible, prior period cost data should be restated when a principle, organization, or method changes in the present period.

***Cost accounting and reporting methods will satisfy legal cost identification and allocation requirements, including those of the federal and State governments*.**

Cost accounting and reporting methods must satisfy legal requirements even if these are not theoretically sound. The federal and State governments have established extensive cost accounting requirements that are prerequisite to claiming cost reimbursement from these entities (e.g., OMB Circular No. A-87 which covers the allocation of overhead costs to subvented programs). Highly subvented departments' cost accounting systems must provide for accumulation of cost in accordance with the requirements and in sufficient detail to satisfy grantor requirements for supporting amounts claimed for reimbursement.

Cost accounting systems must be continuously supervised by qualified management personnel to ensure that cost accounting objectives are met.

Departments must have employees with the necessary skills to operate their cost accounting systems. To ensure effective performance and that the cost accounting objectives are met, supervisors must be familiar with cost accounting methods, principles, policies, and procedures to effectively monitor their subordinates' work.

11.1.5 Cost Classification, Accounting, and Documentation Standards

11.1.5.1 Directly Allocated Personnel Expenditures

Personnel expenditures should be identified with functions, programs, or services through use of a time accounting system. The accurate identification and recording of personnel expenditures is imperative in the determination of the cost of functions, programs, or services.

Personnel costs include three elements:

- Salaries and wages.
- Employee benefits such as retirement, workers' compensation, health and life insurance.
- Vacation, sick leave, or other leaves.

Tracking Personnel Time

It is essential in determining personnel costs that the actual time spent by employees on a function, program, or service be identified.

- **Timekeeping System** - A department must develop and maintain a timekeeping system which accumulates hours worked by employees and assigns these hours to pre-established cost centers through use of a coding system. These cost center codes are usually assigned and controlled by a department's accounting office and should be in sufficient numbers so as to identify costs associated with functions, programs, or services. The primary source document is the employee's timecard on which the employee enters the labor hours identified with various cost centers as defined by the department.
- **Timekeeping Requirements** - Employees who are considered direct labor should record their time on an hourly basis and record all hours for a full workday to appropriate cost centers. Employees who are considered indirect labor should also record their time on an hourly basis and record all hours for a full workday to an overhead account.

It is imperative that timecards be maintained and include:

a. Employee name

b. Employee number

c. Total hours worked each day and daily variances

d. Total hours charged to each cost center

Employees must certify the accuracy of their reported time by signing their daily/monthly timecards in ink. Employee supervisors must certify the accuracy of employee time reported by also signing the employee's timecard in ink.

Computing Personnel Costs

In determining personnel costs, different rates must be determined and applied (i.e., an employee's productive hourly rate, premium overtime rate, item class rate, functional rate, special rates as the need arises, etc.).

Productive Work Hour (PWH) Rate

This rate is developed to recover the salary cost of paid leaves, which are not directly identified with specific County programs. The productive work hour factor accounts for Saturdays and Sundays (regular days off), holidays, vacation days, sick leave days (including partial pay sick leave days), and miscellaneous paid leaves of absence (i.e., bereavement leave, civil service examinations, jury duty, military leave with pay, and witness leave). The following is an example of how the rate is determined:

Total Annual Hours Available [(3 x 365) + 366 or 1,461 days divided by 4 = 365.25 average days times 8 hours = average annual hours available]		2,922	
Less Paid Absences:			
Average Vacation	123		
Average Sick Leave	89		
Average Megaflex	9		
Regular Days Off	835		
Holiday	88		
Other	11		
Total Paid Absences		-1,155	
Annual Productive Work Hours			1,767

Note: When the annual productive work hours change, the Auditor-Controller will notify the departments of the revision.

Sample Rate Calculation:

An employee's productive work hour rate equals the annual salary divided by the 1,767 PWH as follows:

$ 1,255.09 per month x 12 months per year = $15,061.08/1,767 = $8.52 PWH rate

Premium Overtime Rate

The premium overtime rate is developed to recover the employee's compensated overtime plus applicable employee benefits and overhead.

Item Class Rate

The item class rate is developed to recover the average salaries and wages cost of employees within the same position class and also applicable employee benefits and overhead. For example, the hourly rate shown in the County Code for a Clerk may range from $4.83 to $5.36 per hour. Whereas, the calculated item class rate may be $5.17 (the fifth step salary rate adjusted by the department's fifth step variance factor). The $5.17 rate is then used no matter whether the person is on the first step or the fifth step of their salary range.

Functional Rate

The functional rate is developed to recover the average cost of employees performing similar functions. For example, the Department of Public Works may have functional hourly rates to charge contract cities for building and safety services (e.g., building inspection, plan checking, etc.).

11.1.5.2 Allocable Services and Supplies

Services and supplies expenditures should be charged directly or indirectly to pre-established cost centers identified with a function, program, or service, as discussed below:

Direct Charges

Services and supplies costs ordered and used specifically for a function, program, or service should be charged directly to the cost center established to account for these costs. These items may have been special ordered from a vendor or issued from the Internal Services Department (ISD).

Items purchased directly from a vendor are fairly simple to identify and charge to a cost center; whereas, items issued from ISD may require extra effort to identify the appropriate cost center. This is because the item would need to be identified with the original requisition. The charge to the cost center should include the cost of the item, freight, sales or use tax, and any other appropriate charges.

Indirect Allocations

There are instances when services and supplies are not directly purchased for a function, program, or service, but are allocated. In those instances, the allocation basis must be some acceptable, logical, and rational method. For example, rent and utilities for a particular building may be charged to a project based on square footage of space utilized. Telephone charges could be allocated to users based on the number of instruments assigned. Parking lot maintenance costs could be spread to users based on space assignments or number of employees.

There are numerous other bases for allocation, but whatever basis is selected; the allocation must be reasonable and well documented.

11.1.5.3 Non-Directly Allocable Expenditures

Personnel, and services and supplies expenditures that cannot be directly identified or allocated should be charged to functions, programs, or services using departmental indirect expense rates.

Except for the preparation of the department's Indirect Cost Proposal, indirect costs should be determined in accordance with the guidelines below.

Countywide Overhead Rate

Countywide overhead costs include the cost of any external support costs not billed to a department as reported by the Auditor-Controller's Accounting Division per the Countywide Cost Allocation Plan (CCAP). Calculate a rate for the department (See example shown in **Step One** in Section 11.1.5.6) as follows:

1. **Calculate countywide overhead costs:**

   Determine the total CCAP costs (obtained from the Auditor-Controller) = countywide overhead costs (A).

2. **Calculate adjusted salaries and wages:**

   Determine the annual top step salaries and wages for the department X the fifth step variance factor = adjusted salaries and wages (B).

3. **Calculate the countywide overhead rate:**

   Countywide overhead costs (A) divided by adjusted salaries and wages (B) = countywide overhead rate.

Departmental Administration Overhead Rate

Departmental administration overhead costs typically include the Executive Office and its clerical support as well as the "administrative" sections such as payroll, personnel, and accounting. Calculate a rate for the department (See example shown in **Step Two** section 11.1.5.6) as follows:

1. **Calculate the indirect cost:**

   Determine the annual top step salaries for indirect positions at the departmental level X the fifth step variance factor = adjusted indirect salaries and wages (C) + employee benefits for the above positions + countywide overhead for the above positions + indirect services and supplies not included as divisional indirect = indirect cost (D).

2. **Calculate the direct labor cost:**

   Determine the total department adjusted salaries and wages from the countywide overhead calculation (B) - adjusted indirect department salaries and wages from above calculation (C) = direct labor cost (E).

3. **Calculate the department indirect expense rate:**

   Indirect cost (D) divided by direct labor cost (E) = department indirect expense rate

Divisional Administration (or Bureau, Branch, etc.) Overhead Rate

Divisional administration (bureau, etc.) costs typically include the Division Chief, assistant and any clerical support. A rate should be calculated for each division (See examples shown in **Step Three** section 11.1.5.6) as follows:

1. **Calculate the indirect cost:**

   Determine the annual top step salaries for all indirect positions within the division times the fifth step variance factor = adjusted indirect divisional salaries and wages (F) + employee benefits for the above positions + countywide overhead for the above positions + department overhead for the above positions + services and supplies identified as indirect to the Division = indirect cost (G).

2. **Calculate the direct labor cost:**

   Determine the total divisional top step salaries times the fifth step variance factor minus the adjusted indirect salaries and wages from above calculation (F) = direct labor cost (H).

3. **Calculate the division indirect expense rate:**

   Indirect cost (G) divided by direct labor cost (H) = division indirect expense rate.

11.1.5.4 Group Rates

The group rates consist of various Countywide, departmental, and divisional indirect cost elements depending on who is being billed. For example, the composition of the Group II overhead rate is determined by federal and State regulations. The rate for Group IV is dictated by State code. Listed below are the various groups:

Group I - General Fund departments except those in Group II

Group II - General Fund subvented/grant departments or programs

- Children and Family Services
- Community and Senior Services
- Mental Health
- Public Social Services
- District Attorney's Bureau of Family Support
- Health Services' programs such as:
  - Alcohol and Drug Abuse
  - California Children Services
- Other federal reimbursed programs
- State mandated programs
- State reimbursed programs

Group III - Non - General Fund entities except Contract Cities

- Enterprise funds
- Internal service funds
- Special districts
- Special fund departments
- Other Public Agencies
- Private Individuals and Agencies

Group IV - Contract Cities

11.1.5.5 Indirect Cost Proposals

Departments may be required to prepare an Indirect Cost Proposal (ICP) and file the completed ICP with the Auditor-Controller annually. The ICP is used for federal and State reimbursement claims. Instructions for the preparation of the department's ICP are outlined in Section 11.2.0, Indirect Cost Proposal Preparation Guide**.**

11.1.5.6 Sample Department - Overhead and Billing Rate Calculations

Following is an example of the calculation of overhead and billing rates. Assume the department has asked that you develop the cost of a particular service. Also, assume the following information has been provided by management based on their best estimate of how the department will be organized during the fiscal year. Salaries are at top step and services and supplies and employee benefit amounts may be based on budget or prior year's actual cost.

Salaries & Wages	Indirect	Direct	Total
Executive Office	$365,062	$0	$365,062
Administrative Services	620,359	0	620,359
Technical Services	70,588	1,056,583	1,127,171
Public Services	150,835	2,873,501	3,024,336
	$1,206,844	$3,930,084	$5,136,928

Services & Supplies	Indirect	Direct	Total
Executive Office	$259,425	$0	$259,425
Administrative Services	1,246,897	0	1,246,897
Technical Services	456,936	155,478	612,414
Public Services	215,414	456,258	671,672
	$2,178,672	$611,736	$2,790,408

Employee Benefits	Amount	(1) Net Salaries	(2) Factor(%)
Retirement	$731,550	$5,027,255	14.552%
Retiree Health Insurance	50,701	5,027,255	1.009%
Long-Term Disability	23,630	5,027,255	0.470%
Unemployment Insurance	27,174	5,027,255	0.541%
Health Insurance	164,895	5,027,255	3.280%
Life Insurance	28,253	5,027,255	0.562%
Dental Insurance	16,438	5,027,255	0.327%
Thrift Plan	40,068	5,027,255	0.797%
Savings Plan	44,332	5,027,255	0.882%
Flexible Benefits	36,575	5,027,255	0.728%
Workers' Compensation	252,531	5,027,255	5.023%
Total			28.169%

(1) Gross salaries and wages less salary savings.
(2) Employee benefit factors are determined by dividing the employee benefit amounts by the net salaries.

11.1.5.6 Sample Department - Overhead and Billing Rate Calculations (Cont'd)

The Auditor-Controller's Accounting Division can provide the following data which is updated annually:

Fifth Step Variance Factor	97.865%
Productive Work Hours	1,767
Countywide Cost Allocation Amounts:	

Insurance	$148,506
Rental Expense	4,568
Building Use Allowance	137,359
Equipment Use Allowance	265,832
Utility Expense	23,719
Vacant Space	2,795
Board of Supervisors	2,714
Chief Exec Office	25,881
Chief Info Officer	2,965
County Counsel	76,370
ISD-General	125,602
Human Resources	22,642
Public Safety	32,560
Treasurer and Tax Collector	5,874
EB-General	3,901
Total	$891,417

Using the data provided, the calculations are as follows:

Step One

Countywide Overhead Rate				Formula
Total CCAP Costs		$891,417	(A)	
Total Departmental Salaries & Wages		$5,136,928	(B)	
Adjust for Fifth Step Variance @	97.865%	$5,027,255	(C)	
Countywide Overhead Rate		17.732%		(A/C)

11.1.5.6 Sample Department - Overhead and Billing Rate Calculations (Cont'd)

Step Two

Departmental Overhead Rate					Formula
Indirect Salaries: (1)					
Executive Offices			$365,062		
Administrative Services			620,359		
Total Indirect Salaries			$985,421	(A)	
Adjust for Fifth Step Variance @	97.865%	(B)	$964,382	(C)	(A*B)
Add:					
Employee Benefits @ (2)	28.171%	(D)	271,676		(C*D)
Countywide Overhead @ (3)	17.732%	(E)	171,001		(C*E)
Indirect S & S (4)			1,506,322		
Total Indirect Costs			2,913,382	(F)	
Total Departmental Salaries & Wages			$5,136,928	(G)	
Adjust for Fifth Step Variance @	97.865%	(B)	$5,027,255		(G*B)
Less: Adjusted Indirect Salaries			964,382	(C)	
Departmental Labor Base			$4,062,872	(H)	
Departmental Overhead Rate			71.707%		(F/H)

(1) Salaries of those positions considered to be in support of the entire department. These costs are not and will not be identifiable to specific activities.

(2) Employee benefit cost applicable to indirect executive and administrative salaries.

(3) Countywide overhead cost applicable to indirect executive and administrative salaries.

(4) Services and supplies cost not identifiable to specific activities and not indirect to particular divisions. Amount includes Executive and Administrative divisions' indirect services and supplies.

11.1.5.6 Sample Department - Overhead and Billing Rate Calculations (Cont'd)

Step Three

Technical Services Division Overhead Rate

				Formula
Indirect Salaries (1)		$70,588	(A)	
Adjust for Fifth Step Variance @	97.865% (B)	69,081	(C)	(A*B)
Add:				
Employee Benefits @ (2)	28.171% (D)	19,461		(C*D)
Countywide Overhead @ (3)	17.732% (E)	12,249		(C*E)
Departmental Overhead @ (4)	71.707% (F)	49,536		(C*F)
Indirect Services & Supplies (5)		456,936		
Total Indirect Cost		$607,263	(G)	
Total Divisional Salaries		1,127,171	(H)	
Adjust for Fifth Step Variance @	97.865% (B)	$1,103,106		(H*B)
Less Adjusted Indirect Salaries		69,081	(C)	
Divisional Labor Base		$1,034,025	(I)	
Technical Services Overhead Rate		58.73%		(G/I)

(1) Salaries of those positions considered to be in support of the entire division. These costs are not identifiable to specific activities.

(2) Employee benefit cost applicable to indirect salaries.

(3) Countywide overhead applicable to indirect salaries.

(4) Departmental overhead applicable to indirect salaries.

(5) Services and supplies cost not identifiable to specific activities, but does relate exclusively to the particular division's activities.

11.1.5.6 Sample Department - Overhead and Billing Rate Calculations (Cont'd)

Step Three (cont'd)

Public Services Division Overhead Rate

					Formula
Indirect Salaries (1)			$150,835	(A)	
Adjust for Fifth Step Variance @	97.865%	(B)	147,615	(C)	(A*B)
Add:					
Employee Benefits @ (2)	28.171%	(D)	41,585		(C*D)
Countywide Overhead @ (3)	17.732%	(E)	26,175		(C*E)
Departmental Overhead @ (4)	71.707%	(F)	105,851		(C*F)
Indirect Services & Supplies (5)			215,414		
Total Indirect Cost			$536,638	(G)	
Total Divisional Salaries			3,024,336	(H)	
Adjust for Fifth Step Variance @	97.865%	(B)	$2,959,766		(H*B)
Less Adjusted Indirect Salaries			147,615	(C)	
Divisional Labor Base			$2,812,152	(I)	
Public Services Overhead Rate			19.08%		(G/I)

(1) Salaries of those positions considered to be in support of the entire division. These costs are not identifiable to specific activities.

(2) Employee benefit cost applicable to indirect salaries.

(3) Countywide overhead applicable to indirect salaries.

(4) Departmental overhead applicable to indirect salaries.

(5) Services and supplies cost not identifiable to specific activities, but does relate exclusively to the particular division's activities.

11.1.5.6 Sample Department - Overhead and Billing Rate Calculations (Cont'd)

Step Four

The following will demonstrate how to develop hourly billing rates and how to use these rates to determine the cost of a service which would be used as the basis for fees, costs applied, etc.

AUDIO/VISUAL EQUIPMENT SERVICE Cost Data:

Two Intermediate Typist Clerks and one Head Clerk spend an average of 15 minutes each in preparing and processing requests for the usage of audio/visual equipment. The Head Clerk works out of the Public Services Division, while the ITC's work in the Technical Services Division. It has been estimated that $1,500 is expended for direct services and supplies and that approximately 500 orders are processed per year. This service is provided to the public and will be a Group III rate.

Head Clerk Hourly Rate					Formulas
Top Step Annual Salary			$39,956.76	(A)	
Adjust for Fifth Step Variance @	97.865%	(B)	$39,103.68	(C)	(A*B)
Productive Hourly Rate (1)			$22.13	(D)	(C/1767)
Add:					
Employee Benefits @	28.169%	(E)	6.23		(D*E)
Countywide Overhead @	17.732%	(F)	3.92		(D*F)
Department Overhead @	71.707%	(G)	15.87		(D*G)
Public Services Div. Overhead @	19.083%	(H)	4.22		(D*H)
Total Hourly Billing Rate			$52.38		

ITC Hourly Rate					Formulas
Top Step Annual Salary			$28,764.00	(I)	
Adjust for Fifth Step Variance @	97.865%	(B)	$28,149.89	(J)	(I*B)
Productive Hourly Rate (1)			$15.93	(L)	(J/1767)
Add:					
Employee Benefits @	28.169%	(E)	4.49		(L*E)
Countywide Overhead @	17.732%	(F)	2.82		(L*F)
Department Overhead @	71.707%	(G)	11.42		(L*G)
Tech. Services Div. Overhead @	58.728%	(K)	9.36		(L*K)
Total Hourly Billing Rate			$44.02		

(1) Adjusted salary divided by Productive Work hours.

11.1.5.6 Sample Department - Overhead and Billing Rate Calculations (Cont'd)

Step Four (cont'd)

Labor Cost

	Number of Positions	Hourly Rate	Hours per Order	(1) Cost per Order
Head Clerk	1	$52.38	0.25	$13.09
Intermediate Typist Clerk	2	$44.02	0.25	$22.01
Total Labor Cost per Order				$35.11

Services & Supplies Cost

	Cost per Year	Orders per Year	Cost per Order
Direct Supplies	$1,500	500	$3.00

Total Cost per Order

Labor Cost	$35.11
Services and Supplies Cost	$3.00
Total	$38.11

(1) Labor cost per order is determined by multiplying the hourly rate times the hours per order times the number of positions.

(2) Services and supplies cost per order was determined by dividing cost per year by orders per year.

11.2.0 INDIRECT COST PROPOSAL PREPARATION GUIDE

11.2.1 Purpose

The purpose of this Indirect Cost Proposal (ICP) preparation guide is to provide departments with suggested procedures and sample formats for preparing their ICP. Through the use of the rates developed in the ICP, the County is reimbursed for indirect costs applicable to federal and State reimbursable activities.

11.2.2 Countywide Cost Allocation Plan

The Countywide Cost Allocation Plan (CCAP) is an allocation of the costs incurred by the County's central service departments. These costs are necessary to support grant-funded as well as County-funded activities, and thus are legitimate costs of grants. The CCAP is compiled each year by the Auditor-Controller's Accounting Division.

In the CCAP, the costs of the central services are identified, allocated, and reduced by all appropriate costs applied, revenue, and transfers. Therefore, the costs that appear in the summary of the CCAP are related to unbilled services or to under/over billed services (See Section 11.2.9 for an example of one page of a CCAP). The operating departments include their CCAP costs in reimbursement claims to federal and State governments, generally through the use of their ICP.

11.2.3 Indirect Cost Proposal Agreements and Methods

In OMB A-87, three types of ICP agreements are discussed: Provisional-Final, Predetermined, and Fixed with Carry Forward. In addition, two types of ICP rate calculation methods are described in OMB A-87; the Simplified (or Single Rate) method and the Multiple Rate method. The Multiple Rate method must be used in lieu of the Simplified method when:

- Federal and State supported activities and other departmental activities benefit to large, varying degrees from indirect costs, and
- Federal and State funding (directly or indirectly received) is substantial in amount.

The typical ICP used in the County is a Fixed with Carry Forward agreement and the most frequently used method in the County is the Simplified method.

Section 11.2.10 (Simplified Method) and Section 11.2.11 (Multiple Rate Method) are examples of the Fixed with Carry Forward type of ICP. The Fixed portion is a projection of the relationship of indirect to direct costs for a fiscal year (provisional year). This projection can be based on budgeted or actual costs, but in either case, after actual costs for the provisional year are known, a comparison must be made of actual and projected costs. The difference resulting from this comparison is the Carry Forward portion.

If budgeted costs are used for the provisional year projection, then another ICP using actual costs will also have to be computed for the Carry Forward comparison. Unless significant organizational changes have occurred, a department should use actual costs for the projection, to avoid computing two ICPs.

A County department's management must determine what type of agreement is required in their grant(s) and the calculation method to use in their ICP. This can be done by:

- Reviewing the types of agreements and methods in OMB A-87 and prior years' ICPs
- Discussing grant needs with accounting and grant management personnel, and
- Performing an indirect/direct ratio analysis

The example below demonstrates the concept of all activities sharing equally in the indirect costs (indirect/direct ratio analysis). Although the indirect costs vary by division, the ratio of indirect to direct in each division is similar (difference from high to low is no greater than 10%).

	Indirect	Indirect	Direct	Indirect/Direct
Division	S&W	S&S	S&W	Ratio
1	$ 89,129	$ 0	$ 473,489	18.82%
2	71,287	20,381	377,798	24.26%
3	53,437	0	213,378	25.04%
4	126,641	115,962	1,234,359	19.65%

When preparing this comparison, be sure to include less than department-wide indirect S&S. In this example if S&S had not been included, the ratio for Division 4 would be too low to justify the Simplified method.

All discussions and decisions should be documented to provide a basis for future decisions and consistent explanation for subsequent inquiries.

11.2.4 Gathering of Cost Data

Once the ICP type and method have been selected the costs of salaries and wages, employee benefits, and services and supplies must be gathered and classified as direct or indirect. Each department should consider that changing the classification of costs from indirect activities to direct activities will reduce the ICP rate, which can be helpful in negotiating reimbursements if federal or State agencies are reluctant to reimburse indirect costs. This type of ICP adjustment can be made at any time; however, the adjustment is effective for all programs for the entire year. In addition, the newly identified direct costs must be charged against the grant, if appropriate.

The following information provides guidelines for gathering cost data and minimum documentation standards for ICPs.

11.2.4.1 Salaries and Wages (S&W)

1. **Background and Guidelines**

   The proper identification and allocation of S&W for employees of the department is the most important step in the preparation of the ICP. It is the department's responsibility to analyze the duties of each of its organizational units to determine the correct classification of S&W (i.e., direct or indirect). S&W includes salaries, wages, overtime, time certificates, shift differentials, and bonuses; but not employee benefits. To determine the proper identification and allocation of S&W, the following guidelines should be used:

   a. Units providing services to other departments, other government agencies, or the public are considered direct.

   b. Units performing support duties for the efficient running of the department (e.g., payroll, personnel records maintenance, accounting, planning, administration, etc.) are generally considered indirect. These units can exist at all organizational levels - divisions, sections, etc.

   c. A grantor agency may directly reimburse the department for the S&W of individuals performing a particular indirect function. If so, the S&W of any person performing the function is considered direct. It would also be considered direct if the cost of this function is not reimbursed, but is part of the directly identified County match required by the grantor agency.

   Indirect S&W must be segregated between department-wide functions (e.g., executive administration, accounting, payroll etc.), and less-than department-wide functions (e.g., division administration). Direct S&W should be identified in as much detail as needed for the ICP rates to be developed. For example, if separate ICP rates are needed for all divisions, then direct S&W must be identified individually only for those divisions. The remaining direct S&W can be determined by subtracting all identified S&W costs from total S&W.

   In ICPs based on actual costs, the S&W total must reconcile to the amount shown in eCAPS. If a department is unable to agree their total with eCAPS totals, they may contact the Auditor-Controller's Accounting Division for assistance. If budgeted costs are used, S&W must reconcile to the final proposed or adopted budget.

2. **Sources**

   The following are sources of S&W cost data:

   a. Departmental accounting systems.

b. Payroll vouchers (copies are furnished to each department on a monthly basis by the A/C).

c. eCAPS expenditure reports (copies are furnished to each department on a monthly basis by the A/C).

d. Salary and Employee Benefits (EB) spreadsheets maintained by the Budget sections of the departments.

3. Documentation

The following represents minimum documentation of S&W cost data:

a. Description of all organizational units, classification (direct or indirect), and reason for classification.

b. Source(s) of S&W data.

c. For S&W to be reimbursed as direct (whether for indirect or direct functions), time records detailing hours worked for each grant-funded or County-funded project.

d. Schedules showing accumulation of S&W data.

e. Reconciliation of S&W data to eCAPS or budget totals. The budget shows S&EB combined. The eCAPS reports show S&W and EB separately.

11.2.4.2 Employee Benefits (EB)

1. Background and Guidelines

Whenever possible, EB's should be directly identified with federal and State programs, similar to identification of direct S&W. In the absence of direct identification, EB rates must be developed.

In general, EB rates are determined by dividing each EB cost by the S&W related to the cost. "Related" implies excluding from the S&W base the S&W of any employee which does not benefit from the EB cost (e.g., excluding Student Workers' S&W from the S&W base for all benefits except Workers' Compensation and Unemployment Insurances, since they are not allowed to participate in the other EB elements). As a result, there would be an EB rate for every element of EB (multiple rates).

When the department is involved in a federal or State program, the rates for EB would be determined by accumulating the different elements in appropriate combinations. As an alternative to multiple EB rates, a department may use a single, average EB rate for all of its federal and State programs, if using it will not cause reimbursable EB to be significantly different from the amount using multiple rates.

ICP EB rates are composed of two parts, an Estimated EB Rate and an EB Carry Forward Rate. Refer to the Carry Forward section for exception requirements. An EB Carry Forward Rate is also composed of two parts, an Estimate Variance and a Carry Forward Variance. The former variance results from actual EB and S&W cost differing from estimates. The later variance results from actual S&W cost differing from the estimate. (Carry Forward cost in the EB rate is not an estimate; therefore, no variance will occur for it.) A department may use budgeted cost for determining its Estimated EB Rate as long as actual is used in the EB Carry Forward Rate determination.

2. Sources

In addition to actual costs for Carry Forward purposes, a department should choose data for developing the EB rate which will provide the best estimate.

Examples of available source data are:

a. Budgeted costs from CEO S&EB spreadsheets.

b. Actual costs from eCAPS expenditure reports.

3. Documentation

The following represents minimum documentation for an EB rate:

a. Source(s) of the cost data.

b. Schedule(s) showing the development of the rate.

c. Written description of reasoning for choosing between a single rate and multiple rate approach.

d. Reconciliation of EB data to eCAPS reports or to the Budget. The budget shows S&EB combined. The eCAPS reports show S&W and EB separately.

11.2.4.3 Services and Supplies (S&S)

1. Background and Guidelines

The department is responsible for analyzing the amounts charged to each S&S account (e.g., professional and specialized services, office expenses, auto mileage, etc.) and classifying the expense as direct or indirect.

The following guidelines should be used:

a. An account with all expenses directly identified with services for a grant, another department, another government agency, and/or the public, is considered direct.

b. Any payments made against your S&S appropriation for lease/purchase equipment, including LAC-CAL equipment, must be identified as direct.

c. Expenses representing items not directly identified and used throughout the department (department-wide) for day-to-day operation are considered indirect. In addition, for the Multiple Rate method, if an expense meets this guideline, except that it is only used throughout a lower level organizational unit, it is also considered indirect.

d. When using the Simplified method, some S&S expenses may benefit only one or a few organizational units. In this case, the expenses should be classified as direct if the unit they benefit is classified as direct or indirect if the unit is classified as indirect.

e. Expenses which are partially direct and partially indirect should be divided between direct and indirect on some justifiable basis (for example, salaries).

f. As with S&W, indirect S&S should be segregated between department-wide and less-than department-wide functions. For the Simplified method, all indirect S&S will be included in the ICP's departmental overhead rate. For the Multiple Rate method, indirect department-wide S&S will be included in the departmental overhead rate, and other unit's indirect S&S will be included in the overhead rates for the corresponding bureau, division, section, etc.

g. Direct S&S will not be included in the development of the ICP rates, unless the inclusion is authorized by the Auditor-Controller's Accounting Division.

2. Sources

S&S cost data can be gathered from the following sources:

a. Departmental accounting system.

b. eCAPS expenditure reports (copies are furnished to each department on a monthly basis by the Auditor-Controller).

c. Budgeted costs from the CEO S&S spreadsheets.

3. **Documentation**

The following represents minimum documentation of S&S cost data:

a. Source of data.

b. Description of items charged to each account.

c. Reasons for classifying accounts as 100% direct or 100% indirect.

d. Reasons and bases for pro-ration of applicable S&S accounts to indirect and indirect.

e. For S&S to be reimbursed as direct, source documents (invoices, etc.) identifying expenditures by project.

f. Reconciliation of S&S to eCAPS if actual costs are used. If budgeted costs are used, S&S must reconcile to the final proposed or adopted budget.

11.2.5 Memorandum Billings

A memorandum billing (memo bill) is defined as a reported cost of service provided, for which there are no entries to record the transfer of cost in the accounting records of either the providing or receiving department.

Memo bills from central service departments may not be used by any department in federal or State reimbursement claims. Costs reported in these billings are included in the CCAP and ICPs as unbilled. Non-compliance with this instruction will result in duplicate reimbursement and subsequent audit disallowances.

11.2.6 Carry Forward

When a Fixed with Carry Forward type of ICP agreement is involved, a carry forward (also known as roll forward) calculation is necessary. This calculation compares estimated projections of rates to actual experience and is used to adjust a future year's rate for the difference. In any of these comparisons the differences will result from actual/estimate variations of the indirect costs (numerator) and the S&W (denominator).

11.2.6.1 Requirements for Carry Forward Computation

- Carry forward adjustments are to be included in the provisional ICP three years after the base year (the year of the estimate/actual comparison). Thus the 2007-08 ICP carry forward will show the differences between actual and estimated costs for 2004-05.

- A carry forward must be computed for each rate that was developed in the base year's ICP.

- A carry forward is computed using total actual indirect and direct costs. Because the purpose of an ICP is to establish a uniform relationship applicable to all reimbursable activities, we do not consider what amounts were actually reimbursed for any particular activity.

- Occasionally a department (and lower organizational units when multiple rates are involved) will have one or two years without federal or State reimbursable activities. If carry forward is appropriate for the base year(s), then the actual cost ICP must be prepared solely for determining the carry forward. The carry forward amount should then be included in the ICP of the next year with federal or State reimbursable activities.

  For example, a department has had reimbursable activities from 1997-98 through 2002-03, and had them in 2006-07. However, in 2004-05 no such activities occurred. The department would still have prepared the 2003-04 ICP to determine the carry forward amount for the 2000-01 estimate/actual comparison. But since no reimbursable activity occurred in 2004-05, the amount was carried forward further to 2006-07, where it was combined with the carry forward amount for the 2003-04 estimate/actual comparison.

11.2.6.2 Exceptions to Carry Forward Requirement

Under the following circumstances carry forward for the base year (for department or a lower level organizational unit in multiple rates) should not be necessary:

- For the first three years that federal or State reimbursable activities are involved.

- When no federal or State reimbursable activities occurred in the base year, whether or not there was an ICP for that year.

11.2.7 Preparation, Submission, and Record Retention Requirements

Any department that is involved with, or considering involvement in, federal or State reimbursable activities must prepare an ICP for each fiscal year of participation. If a "Fixed with Carry Forward" agreement is involved, the annual ICP preparation requirement continues for three years following the end of the federal or State reimbursable activities.

Each department will be responsible for retaining the work papers and other documentation used to prepare their ICP. In the Office of Management and budget Circular A-102 (Attachment C), "Uniform Administrative Requirements for Grant-In-Aid to State and Local Government," the Federal government requires "financial records, supporting documents ... shall be retained for a period of three years," except "if any …audit is started before the expiration of the 3-year period, the records shall be retained until all ... audit findings involving the records have been resolved." In addition, "the retention period starts from the date of the submission of the final expenditure report."

11.2.8 Source of Technical Assistance

Departments should contact the Auditor-Controller's Accounting Division, Cost Section:

- If technical assistance is needed during the preparation of the ICP,
- If federal or State agencies disallow CCAP or ICP costs, or
- If otherwise required by this guide.

11.2.9 Countywide Cost Allocation Plan

County of Los Angeles
Countywide Cost Allocation Plan
PLAN YEAR 2007-2008

	AUDITOR-CONTROLLER	BEACHES & HARBORS	BOARD OF SUPRVS	DEPT OF CORONER
Allocated Indirect Costs:				
INSURANCE	65,163	47,916	1,418,478	9,992
RENTAL EXPENSES	(452,415)	(7,817)	(1,100,304)	(18,952)
BUILDING USE ALLOWANCE	135,725	1,014,970	150,263	136,356
EQUIPMENT USE ALLOW	104,296	378,984	106,465	245,812
UTILITY EXPENSE	(231,226)	(10,133)	(333,963)	1,560
VACANT SPACE	10,568	3,772	10,261	5,591
AUDITOR-CONTROLLER	223,512	7,560	94,753	9,143
BOARD OF SUPERVISORS	61,785	2,282	1,782,448	2,462
CHIEF EXEC OFFICE	41,936	8,793	46,736	22,771
CHIEF INFORM OFFICER	5,097	2,800	8,159	3,022
COUNTY COUNSEL	89,073	48,536	368,542	119
INTERNAL SERVICES	170,415	6,614	(2,054,622)	5,190
HUMAN RESOURCES	(94,447)	1,099	46,391	20,941
TREASURER & TAX COLL	734	(398)	(1,684)	
EB-GENERAL	(9,352)	14,098	7,556	63,540
Total Indirect Costs	120,864	1,519,076	549,479	507,547
Roll-Forward Amount		(772,439)		(146,994)
Net Costs	120,864	746,637	549,479	360,553
Adjustments		(1,028,724)		(45,934)
Claimable Costs	120,864	(282,087)	549,479	314,619

11.2.10 Simplified ICP Rate Calculation Method

The Simplified Method (a single rate method) can be used only when:

- All activities share indirect costs equally, or
- Grant activity (direct or indirect) is minimal when compared to total operations and thus does not justify the preparation of a more detailed ICP.

In order to substantiate that activities share indirect costs equally, a ratio analysis computation should be used. Shown below is the indirect/direct ratio analysis that supports the ICP example. Divisional ratios did not vary by more than 10% and thus justifies the use of the Simplified Method.

Department of Coroner
Indirect Cost Proposal Example
Fiscal Year 2007-2008

Ratio Analysis

Division	Indirect S&W	Indirect S&S	Direct S&W	Ind/Dir Ratio
Investigation	$ 254,951	$ 0	$ 1,338,491	19.05%
Forensic Labs	83,418	52,333	558,261	24.32
Forensic Medicine	215,047	0	1,439,161	14.94
Forensic Support	86,253	20,381	488,136	21.82

11.2.10 Simplified ICP Rate Calculation Method (Cont'd)

Department of Coroner
Indirect Cost Proposal Example
Fiscal Year 2007-2008
Summary of Costs

		Costs Incurred by Other County Departments	Indirect Costs	Direct Costs
Salaries and Wages (1)				
Executive Office (2)			$302,883	$0
Administrative Services (2)			221,240	0
Public Services (3)			354,761	62,605
Investigations (3)			254,951	1,338,491
Forensic Labs (3)			83,418	558,261
Forensic Medicine (3)			215,047	1,439,161
Forensic Support (3)			86,142	488,136
Irreconcilable Difference (4)				2,261
Total S&W			$1,518,442	$3,888,915
Other Indirect Costs				
Employee Benefits (for indirect personnel) (5) @	31.04%		$ 471,324	
Services and Supplies (6)			728,664	
Departmental Carry Forward			(551,678)	
Unbilled Services Furnished (9)				
Countywide Carry Forward (7)		$ (98,345)		
Insurance		9,992		
Rental Expense		(18,952)		
Building Use Allowance		136,356		
Equipment Use Allowance		245,812		
Utility Expense		1,560		
Vacant Space		5,591		
Auditor-Controller		9,143		
Board of Supervisors		2,462		
Chief Exec Office		22,771		
Chief Information Officer		3,022		
County Counsel		119		
Internal Services		5,190		
Human Resources		20,941		
Treasurer and Tax Collector		-		
Other Adjustments		(45,934)		
Total Costs		$299,728	$2,166,752	$3,888,915
		(A)	(B)	(C)

Click here for Footnote Explanations

11.2.10 Simplified ICP Rate Calculation Method (Cont'd)

Department of Coroner
Indirect Cost Proposal Example
Fiscal Year 2007-2008
ICP Rate Calculation Schedule

Countywide Overhead Rate (A) / (C) $299,728 / $3,888,915	7.71%
Department Overhead Rate (B) / (C) $2,166,752 / $3,888,915	55.72%
Total Overhead Rate	63.43%
Employee Benefits Rate	31.03%
Total ICP Rate	94.46%

11.2.10 Simplified ICP Rate Calculation Method (Cont'd)

Department of Coroner
Indirect Cost Proposal Example
Fiscal Year 2007-2008
Employee Benefits Rate

FY 2007-2008 Estimated EB Rate:				
Estimated EB Cost (8)		$ 1,505,118		
Estimated Unbilled CCAP EB (9)		63,540		
2007-2008 Estimated EB Cost		1,568,658		
2007-2008 Estimated S&W (10)			$ 5,912,273	
2007-2008 Estimated EB Rate				26.53%
FY 2004-05 EB Carry Forward Rate:				
2004-05 Actual EB Cost (11)	$ 1,316,831			
2004-05 Actual Unbilled CCAP EB (9)	63,540			
2004-05 Actual EB Cost		$ 1,380,371		
2004-05 Actual S&W (12)		$ 5,407,357		
2004-05 Actual EB Rate		25.53%		
Estimated Variance:				
Less Estimated Rate				
(from 2004-05 Base Year ICP) (13)		20.57%		
Difference then multiplied by		4.96%		
2004-05 Actual S&W (above)		$ 5,407,357	$ 268,205	
Carry Forward Variance:				
2004-05 Estimated S&W				
(from 2004-05 Base Year ICP) (14)		$ 5,488,756		
Less 2004-05 Actual S&W (above)		5,407,357		
Difference then divided by the 2004--05		$ 81,399		
estimated S&W (above)		5,488,756		
		1.48%		
then multiplied by the 2004-05 Total				
Carry Forward (15)		$ (121,848)	(1,803)	
2007-2008 Carry Forward Rate:				
2004-05 Total Carry Forward (Estimate				
Variance plus Carry Forward Variance)			$ 266,402	
then divided by the 2007-08 Estimated S&W (above)			$ 5,912,273	4.51%
FY 2007-08 ICP Final EB Rate:				
2007-08 Estimated rate plus the				
2004-05 Carry Forward Rate				31.04%

Click here for Footnote Explanations

11.2.10 Simplified ICP Rate Calculation Method (Cont'd)

Department of Coroner
Indirect Cost Proposal Example
Fiscal Year 2007-2008
Carry Forward Computations

Countywide Carry Forward		
FY 2004-05 Estimated Recoverable Overhead (16)	$	802,320
FY 2004-05 CCAP Roll Forward (17)		(146,994)
Total FY2004-05 Actual Recoverable Overhead		655,326
Deduct FY 2004-05 Recovered Overhead (18)		753,671
Total Countywide Carry Forward (19)	$	(98,345)

Departmental Carry Forward		
FY 2004-05 Actual Recoverable Overhead:		
Indirect Salaries and Wages (20)	$	1,518,442
Indirect Services and Supplies (20)		728,664
Employee Benefits (1,518,442 x 18.35%) (21)		278,634
2004-05 Departmental Carry Forward (22)		(261,066)
Total Actual Recoverable Overhead		2,264,674
Deduct FY2004-05 Recovered Overhead (23) (3,888,915 x 72.42%)		2,816,352
Total Departmental Carry Forward	$	(551,678)

Department of Coroner
Indirect Cost Proposal Example
Fiscal Year 2007-2008
Summary Footnotes

The following footnotes relate to the indicated references in this example. They are for information only, and do not need to be submitted to the Auditor-Controller as part of the ICP package.

(1) Actual cost from 2004-05 was used in this example.

(2) The S&W of a department's chief executive, the immediate staff Executive Office) and department-wide administrative services (e.g., Administrative or Business divisions) are generally considered departmental indirect costs.

11.2.10 Simplified ICP Rate Calculation Method (Cont'd)

(3) Indirect S&W for units at a lower level than department-wide should be summarized at the level below departmental. In our example, the S&W of indirect functions in Investigations for each section, unit, etc., has been accumulated as indirect costs on the Investigations line. A similar accumulation has been done for each division.

(4) Any irreconcilable difference, which will most often be a prior year's adjustment, can be accounted for as a direct cost if the amount is insignificant. If the amount of the difference is significant, it will be necessary to determine the portion that is indirect cost. If any of the difference is identified as indirect, it must be documented as are all other indirect S&W.

(5) Application of the EB rate in reimbursement claims to direct S&W will recover only the EB amount related to direct personnel. To recover EB for indirect personnel, the related amount must be included in the overhead rate as an additional indirect cost. Therefore, the amount resulting from the EB rate applied to indirect S&W is an additional indirect cost.

(6) Only indirect S&S cost is included in the ICP computations. For the Simplified ICP Method, the departmental indirect S&S cost includes the indirect S&S cost from all organizational levels (departmental, divisional, sectional, etc.).

(7) See page XX for the computations related to this example.

(8) Estimated EB costs are the sum of EB items obtained from Salary and EB spreadsheets provided annually by the CEO.

(9) These costs must be obtained from the CCAP which is a schedule of the unbilled costs of services furnished by other County departments. To record these unbilled costs in the ICP, all elements of the "Actual Cost" should be included except the "Employee Benefits" costs, which is included as described in footnote (5).

(10) Estimated S&W costs are obtained from salary and EB spreadsheets provided annually by the CEO. The calculation is summarized as follows: Gross S&W less salary savings plus salary items budgeted below the gross line (i.e., overtime, bonuses, shift differential, and salary increases etc.).

(11) Actual costs were scheduled from the Final eCAPS expenditure reports.

(12) Refer to footnote (1). Figure should be equal to the sum of indirect and direct S&W appearing on the ICP Summary of Costs.

(13) Obtain this figure from the base year ICP EB calculation. See page XX.

(14) Same as (13) above.

(15) Same as (13) above.

(16) This cost comes from the base year ICP Summary of Costs (page XX in this example) and is the total from the column headed "Cost Incurred by Other County Departments."

(17) The CCAP "ROLL FORWARD" adjustment comes from the CCAP approved for use in the year for which the ICP is being prepared.

(18) To determine actual Countywide overhead recovered, apply the Countywide overhead rate from the base year ICP to the actual direct S&W, as shown in the actual cost ICP to the actual direct S&W, as shown in the actual cost ICP Summary of Cost schedule. For this example, the FY 2007-08 provisional ICP is based on FY 2004-05 actual cost; therefore, direct S&W comes from the first page of the ICP, Summary of Costs (page XX) while the rate is from the 2004-05 Base Year ICP, page XX.

(19) The actual recoverable overhead less the actual recovered overhead is the Carry Forward to be included in the ICP.

(20) These are actual indirect costs, and as discussed in footnote (18) figures come from the first page of the ICP, Summary of Costs, page XX.

(21) The employee benefits rate from the base year ICP is applied to the actual indirect S&W. The base year's rate is used in the computation because we are only determining the effect of the actual/estimate variations of indirect S&W. The variations of actual/estimate EB cost or direct S&W are determined and included in other computations. See page XX for the source of the EB rate used in this example.

(22) The Departmental Carry Forward from the base year ICP is included as an element of actual recoverable overhead. FY 1997-98 is the base year ICP in this example. See page XX for source of figure used.

(23) A similar determination should be made for the departmental overhead rate (and divisional rates) as for the Countywide overhead rate, described in footnote (18). See page XX for the Department overhead rate used.

11.2.10 Simplified ICP Rate Calculation Method (Cont'd)

Department of Coroner
Indirect Cost Proposal
Fiscal Year 2004-05
Summary of Costs

		Costs Incurred by Other County Departments	Indirect Costs	Direct Costs
Salaries and Wages				
Executive Office			$432,342	$0
Administrative Services			221,013	0
Public Services			360,097	64,271
Investigations			316,206	1,661,271
Forensic Labs			61,129	398,484
Forensic Medicine			206,677	1,440,946
Forensic Support			97,646	574,278
Total S&W			$1,695,110	$4,139,250
Other Indirect Costs				
Employee Benefits (for indirect personnel) @	18.35%		$ 311,053	
Services and Supplies			1,252,674	
Departmental Carry Forward			(261,066)	
Unbilled Services Furnished				
Countywide Carry Forward		$ 299,351		
Insurance		64,172		
Rental Expense		758		
Building Use Allowance		592		
Equipment Use Allowance		95,880		
Utility Expense		43,187		
Vacant Space		27,994		
Auditor-Controller		26,454		
Board of Supervisors		58,877		
Chief Exec Office		1,122		
Chief Information Officer		25,709		
County Counsel		119		
Internal Services		508		
Human Resources		56,098		
Treasurer and Tax Collector		24,214		
Other Adjustments		77,285		
Total Costs		$ 802,320	$2,997,771	$4,139,250
		(A)	(B)	(C)

11.2.10 Simplified ICP Rate Calculation Method (Cont'd)

Department of Coroner
Indirect Cost Proposal
Fiscal Year 2004-05
ICP Rate Calculation Schedule

Countywide Overhead Rate (A) / (C) $802,320 / $4,139,250	19.38%
Department Overhead Rate (B) / (C) $2,997,771 / $4,139,250	72.42%
Total Overhead Rate	91.80%
Employee Benefits Rate	18.35%
Total ICP Rate	110.15%

11.2.10 Simplified ICP Rate Calculation Method (Cont'd)

Department of Coroner
Indirect Cost Proposal
FY 2004-05
Employee Benefits Rate

FY 2004-05 Estimated EB Rate:				
Estimated EB Cost		$ 1,174,542		
Estimated Unbilled CCAP EB		(45,734)		
2004-05 Estimated EB Cost		1,128,808		
2004-05 Estimated S&W			5,488,756	
2004-05 Estimated EB Rate				20.57%
FY 2001-02 EB Carry Forward Rate:				
2001-02 Actual EB Cost	$ 1,274,664			
2001-02 Actual Unbilled CCAP EB	(45,734)			
2001-02 Actual EB Cost		$ 1,228,930		
2001-02 Actual S&W		$ 5,835,012		
2001-02 Actual EB Rate		21.06%		
Estimated Variance:				
Less Estimated Rate				
(from 2001-02 Base Year ICP)		23.33%		
Difference then multiplied by		-2.27%		
2001-02 Actual S&W (above)		$ 5,835,012	$ (132,455)	
Carry Forward Variance:				
2001-02 Estimated S&W				
(from 2001-02 Base Year ICP)		$ 5,284,746		
Less 2001-02 Actual S&W (above)		5,835,012		
Difference then divided by the 2001-02		$ (550,266)		
estimated S&W (above)		5,284,746		
		-10.41%		
then multiplied by the 2004-05 Total Carry Forward		$ (101,895)	10,607	
2004-05 Carry Forward Rate:				
2001-02 Total Carry Forward (Estimate Variance plus Carry Forward Variance)			$ (121,848)	
then divided by the 2004-05 Estimated S&W (above)			$ 5,488,756	-2.22%
FY 2004-05 ICP Final EB Rate:				
2004-05 Estimated rate plus the 2001-05 Carry Forward rate				18.35%

11.2.10 Simplified ICP Rate Calculation Method (Cont'd)

Department of Coroner
Indirect Cost Proposal
Fiscal Year 2004-05
Carry Forward Computations

Countywide Carry Forward

FY 2001-02 Estimated Recoverable Overhead	$	754,123
FY 2001-02 CCAP Roll Forward		150,482
Total FY2001-02 Actual Recoverable Overhead		904,605
Deduct FY 2001-02 Recovered Overhead		605,254
Total Countywide Carry Forward	$	299,351

Departmental Carry Forward

FY 2001-02 Actual Recoverable Overhead:		
Indirect Salaries and Wages	$	1,695,110
Indirect Services and Supplies		1,252,674
Employee Benefits (1,695,110 x 19.82%)		335,971
2001-02 Departmental Carry Forward		(413,892)
Total Actual Recoverable Overhead		2,869,863
(4,139,250 x 75.64%)		3,130,929
Total Departmental Carry Forward	$	(261,066)

11.2.11 Multiple ICP Rate Calculation Method

The Multiple Rate Method example demonstrates the concept that various activities do not share equally in the indirect costs. The analysis which follows is only necessary if a department has a substantial amount of federal and State funding. Without such funding, a department should use the Simplified Method described in Section 11.2.10.

Multiple Rate Method
Indirect Cost Proposal Example
Fiscal Year 2007-2008
Ratio Analysis

Division	Indirect S&W	Indirect S&S	Direct S&W	Ind/Dir Ratio
1	$ 229,345	$ 50,422	$ 1,406,845	19.89%
2	72,901	$ 22,867	5,579,084	1.72

The ratios varied by more than 10%. Therefore, the Multiple Rate Method must be used. If the analysis of indirect cost indicates an equal sharing among activities, (refer to the criteria indicated in Section 11.2.10), the department should use the Simplified Method.

11.2.11 Multiple ICP Rate Calculation Method (Cont'd)

Multiple Rate Method
Indirect Cost Proposal Example
Fiscal Year 2007-08

		Costs Incurred by	Departmental Costs		Division 1		Division 2	
		Other County	Indirect	Direct	Indirect	Direct	Indirect	Direct
		Departments	Costs	Costs	Costs	Costs	Costs	Costs
Salaries and Wages (1)								
Executive Office (2)			$502,098	$345,174				
Business Division (2)			562,849	231,638				
Division 1 (3)			0	1,636,190	$229,345	$1,406,845		
Division 2 (3)			0	5,651,988			$72,904	$5,579,084
All Other Divisions (6)			0	10,827,283				
Irreconcilable Difference (4)				49,464				
Total S&W			$1,064,947	$18,741,737	$229,345	$1,406,845	$72,904	$5,579,084
Other Indirect Costs								
Employee Benefits (for indirect personnel) (5) @	29.22%		$ 311,178		67,015		21,303	
Services and Supplies (10)			430,844		50,422		22,867	
Departmental Overhead (8)	9.90%				22,705		7,217	
Countywide Overhead (8)	3.21%				7,362		2,340	
Departmental Carry Forward (7)			49,120					
Divisional Carry Forward (7)					(5,999)		7,494	
Unbilled Services Furnished (9)								
Countywide Carry Forward (7)		$ (194,730)						
Insurance		34,014						
Rental Expense		31,124						
Building Use Allowance		60,420						
Equipment Use Allowance		126,682						
Utility Expense		116,074						
Vacant Space		972						
Auditor-Controller		57,500						
Board of Supervisors		33,574						
Chief Exec Office		92,219						
Chief Information Officer		14,793						
County Counsel		7,311						
Internal Services		134,229						
Human Resources		64,473						
Treasurer and Tax Collector		1,273						
Other Adjustments		23,757						
Total Costs		$ 600,685	$1,856,089	$18,741,737	$370,850	$1,406,845	$134,125	$5,579,084
		(A)	(B)	(C)	(D)	(E)	(F)	(G)

Click here for Footnote Explanations.

11.2.11 Multiple ICP Rate Calculation Method (Cont'd)

Multiple Rate Method
Indirect Cost Proposal Example
Fiscal Year 2007-08
ICP Rate Calculation Schedule

	Division 1 Overhead Rate	Division 2 Overhead Rate
Countywide Overhead Rate (A) / (C) ($600,685 / $18,741,737)	3.21%	3.21%
Department Overhead Rate (B) / (C) ($1,856,089 / $18,741,737)	9.90%	9.90%
Division 1 Overhead Rate (D) / (E) ($370,850 / $1,408,845)	26.36%	
Division 2 Overhead Rate (F) / (G) ($134,125 / $5,579,084)		2.40%
Total Overhead Rate	39.47%	15.51%
Employee Benefits Rate	29.22%	29.22%
Total ICP Rate	68.69%	44.73%

11.2.11 Multiple ICP Rate Calculation Method (Cont'd)

Multiple Rate Method
Indirect Cost Proposal Example
FY 2007-08
Employee Benefits Rate

FY 2004-05 EB Carry Forward Rate:				
2004-05 Actual EB Cost (11)	$ 5,345,474			
2004-05 Actual Unbilled CCAP EB (9)	33,227			
2004-05 Actual EB Cost		$ 5,378,701		
2004-05 Actual S&W (12)		$ 19,806,684		
2004-05 Actual EB Rate		27.16%		
Estimated Variance:				
Less Estimated Rate				
(from 2004-05 Base Year ICP)		25.03%		
Difference then multiplied by		2.13%		
2004-05 Actual S&W (above)		$ 19,806,684	$ 421,882	
Carry Forward Variance:				
2004-05 Estimated S&W				
(from 2004-05 Base Year ICP)		$ 19,412,774		
Less 2004-05 Actual S&W (above)		19,806,684		
Difference then divided by the 2004-05		$ (393,910)		
estimated S&W (above)		19,412,774		
		-2.03%		
then multiplied by the 2004-05 Total				
Carry Forward		$ 636,739	(12,926)	
2007-08 Carry Forward Rate:				
2004-05 Total Carry Forward (Estimate				
Variance plus Carry Forward Variance)			$ 408,956	
then divided by the 2004-05 Actual S&W (above)			$19,806,684	2.06%
FY 2007-08 ICP Final EB Rate:				
2007-08 Estimated rate plus the				
2004-05 Carry Forward Rate				29.22%

Click here for Footnote Explanations

11.2.11 Multiple ICP Rate Calculation Method (Cont'd)

Multiple Rate Method
Indirect Cost Proposal Example
Fiscal Year 2007-08
Carry Forward Computations

Countywide Carry Forward

FY 2004-05 Estimated Recoverable Overhead	$	3,413,736
FY 2004-05 CCAP Roll Forward (17)		85,530
Total FY 2004-05 Actual Recoverable Overhead		3,499,266
Deduct FY 2004-05 Recovered Overhead		3,693,996
($18,741,737 x 19.71%)		
Total Countywide Carry Forward (19)	$	(194,730)

Departmental Carry Forward

FY 2004-05 Actual Recoverable Overhead:		
Indirect Salaries and Wages	$	1,064,947
Indirect Services and Supplies		430,844
Employee Benefits (1,064,947 x 28.31%)		301,486
2004-05 Departmental Carry Forward		(269,434)
Total Actual Recoverable Overhead		1,527,843
Deduct FY 2004-05 Recovered Overhead		
($18,741,737 x 7.89%)		1,478,723
Total Departmental Carry Forward	$	49,120

Divisional Carry Forward

	Division 1	Division 2
FY 2004-05 Actual Recoverable Overhead:		
Indirect Salaries and Wages	229,345	72,904
Indirect Services and Supplies	50,422	22,867
Employee Benefits		
($229,345 x 28.31%)	64,928	
($72,904 x 28.31%)		20,639
Countywide Overhead (24)		
($229,345 x 19.71%)	45,204	
($72,904 x 19.71%)		14,369
Departmental Overhead		
($229,345 x 7.89%)	18,095	
($72,904 x 7.89%)		5,752
2004-05 Divisional Carry Forward	(48,495)	(11,876)
Total Actual Recoverable Overhead	359,499	124,655
Deduct FY 2004-05 Recovered Overhead		
($1,406,845 x 25.98%)	365,498	
($5,579,084 x 2.10%)		117,161
Total Divisional Carry Forward (19)	(5,999)	7,494

Click here for Footnote Explanations

11.2.11 Multiple ICP Rate Calculation Method (Cont'd)

Multiple Rate Method
Indirect Cost Proposal Example
Fiscal Year 2007-08
Summary Footnotes

The following footnotes relate to the indicated references in this example. They are provided for information only, and do not need to be submitted to the Auditor-Controller.

For footnotes (1), (2), (4), (9), (11), (12), (17), (19), and (22), see footnote explanations in Section 11.2.10.

(5) The same general explanation as for footnote (5) in Section 11.2.10 of this Chapter applies here. The rate used in this example is also calculated using the average EB rate determination method. See the 'Employee Benefits Rate' calculation for the computation related to this example. The difference between this calculation and the one in Section 11.2.10 is that the FY 2007-08 Estimated EB rate is not calculated. It was determined that the FY 2004-05 actual cost data was not materially different from budget for FY 2007-08 and would be used for the FY 2007-08 Estimated EB Rate.

(6) For multiple rate ICP methods, rates should only be developed for organizational units which need them. For all other direct units, S&W must be included as direct in the ICP to maintain a proper relationship between departmental indirect and direct costs.

(7) See the Carry Forward Computation for the calculations related to this example.

(8) After the Countywide and Departmental Overhead Rates have been determined, these rates should be applied to each divisional indirect S&W total. Following the same reasoning as for EB in footnote (5), results should be added to the other divisional indirect costs.

(10) Only indirect S&S cost is included in the ICP computations. Only departmental level indirect S&S is recorded as an indirect departmental cost. For each of the appropriate divisions, the lower organizational levels' portion is recorded as an indirect divisional cost. More detailed classification would be necessary if rates are being developed for sections, units, etc.

(24) Countywide overhead, and departmental overhead rates for the base year's ICP are applied to the actual indirect S&W. The base year's rate is used in these computations, because we are only determining the effect of the actual/estimate variations of indirect S&W. The variations of actual/estimate cost of direct S&W are determined and included in other computations.

(25) The divisional carry forward from the base year's ICP (2004-05 in this example) is included as an element of actual recoverable overhead.

Chapter 12 – Contracting

12.1.0 CONTRACTING

12.1.1 Overview

This chapter includes key information on several contracting topics that department's need to be aware of related to Proposition A contracting and contracting in general. Several of the topics are also incorporated into other County procedure and policy manuals. Where applicable, we have referred to those policies.

12.2.0 PROPOSITION A CONTRACTING

12.2.1 Background

In 1978, Proposition A amended the County charter to permit outside contracting, through competitive bidding, for performance of any County service or activity now being performed or capable of being performed by County employees. A Proposition A contract may be entered into if:

- The Board of Supervisors makes a finding that it is more economically feasible to contract.
- Contracting of the service is not prohibited by the State or other County law.
- It is cost effective, or, in the case of subsequent contract awards, the services have been performed cost-effectively under the prior contract.
- Assurance can be provided that the County's capability to respond to emergencies will not be diminished.
- Assurance can be provided that confidentiality of citizens' personal information will be protected.
- Assurance can be provided that contracting will not lead to absolute reliance on a sole source vendor.
- There is the ability to assure the level of a contractor's performance. There are available budgeted funds.
- Assurance can be provided that contracting will not infringe on the proper role of the County in its relationship to the citizenry; e.g., regulatory functions, etc.

12.2.2 Overview of the Contract Process

The Internal Services Department's Service Contracting Manual provides an overview of the contracting process for Proposition A contracts. The Internal Services

Department's Purchasing Policy P-2400 (Proposition "A" Contracts) sets forth instances where the Purchasing Agent assists with the solicitation of a Proposition A contract, at the request of a department. These resources should be referred to prior to initiating contracting action. Also, the Board of Supervisors Policy Manual, Chapter 5—Contracting and Purchasing, and Policy #4.060, Contract Expenditures Reduction Flexibility, should be reviewed.

The following chart indicates when departments are required by the Board of Supervisors to submit cost analyses for Proposition A contracts to the Auditor-Controller (A-C) for approval.

Contract/Amendment Amount	**Auditor-Controller Review Required?**	
	Yes	**No**
Annual Contract Amount < $1.0 Million		**X**
Annual Contract Amount ≥ $1.0 Million	**X**	
Amendments/Renewals that increase Annual Contract Amount to ≥ $1.0 Million	**X**	
Amendments to Contracts ≥ $1.0 Million annually if the amendment is 10% or more of the Annual Contract Amount and is $500,000 or more (See Note (1) for an example of this computation).	**X**	

*(*1) The 10% threshold is applied to the annual amount of the contract times the number of years of the contract term (excluding any option years). For example, for a $2 million per year contract with a three-year term, 10% X $2.0 million, or $200,000 is multiplied by 3 years, or $600,000. Since $600,000 is greater than $500,000, the A-C would be required to review the department's cost analysis if the amount of the amendment is greater than, or equal to $600,000. If the annual contract amount varies from year to year, then 10% should be applied to each of the annual contract amounts during the term of the contract and the total would be compared to $500,000 to determine if an A-C review is necessary.

In addition to reviewing the cost analyses, the A-C will validate the departments' determination of cost-effectiveness.

The A-C will also review a sample of Proposition A contracts with an annual contract cost of less than $1 million to ensure that departments are completing the Proposition A cost analyses properly, and continue to review Proposition A cost analyses for contracts, contract renewals and contract amendments under $1 million a year when requested by the Board or by the department.

Departments should contact the A-C as soon as a decision is made to pursue a Proposition A contract to reach an agreement on the information needed to support the cost analysis. In all cases, the A-C must be given a minimum of ten working days to review the cost analysis before the contract/amendment appears on the Board Agenda.

The A-C may require department management to provide a representation letter. This letter is a certification by department management that all information provided to the A-C by the department is accurate and complete. The representation letter describes the level of service, the number of positions affected, incremental costs, salary and employee benefit rates, and services and supplies. The department should complete the determination of its costs before reviewing the cost factor for proposers/bidders.

12.2.3 Definition of Terms

To ensure that a valid cost comparison can be made, it is important that a consistent, rational cost comparison model be used. While a full understanding of cost accounting principles is not necessary to make the required cost comparisons, an understanding of certain key terms and concepts is needed. The following definitions, concepts, and guidelines are provided to assist departments in making the necessary analyses. Example situations are also provided to demonstrate the application of these cost analysis principles.

Costs: Includes salaries and wages, employee benefits, services and supplies, and capital assets.

Avoidable Costs: Costs that will be eliminated (or not incurred) as a result of the decision to contract for specific services.

Unavoidable Costs: Costs which will not be reduced or eliminated as the result of a decision to contract for specific services.

Estimated Actual Avoidable Costs: The estimate of avoidable costs after consideration of service level adjustments.

Direct Costs: Costs that can be directly attributed to provision of a service. Usually these costs are the salary and employee benefits cost of the employee(s) and any measurable amount of services or supplies directly related to the service under consideration for contracting.

Indirect Costs: Costs which cannot be readily attributed to provision of a service but which are incurred in the course of performing the service. Usually such costs include department administration, division administration, and Countywide support.

"Full" County Costs: Direct costs plus applicable indirect costs of:

- Department Administration: This cost usually includes the executive office and its clerical support as well as department "administrative" sections such as, payroll, personnel and accounting.

- Division Administration (or Bureau, Branch, etc.): This cost usually includes the Division Chief, the Division Chief's Assistant, and clerical support of the Division (Bureau, etc.) responsible for performing the service being considered for contracting.

Countywide Support Costs: The department's share of the costs service departments (e.g., County Counsel, Auditor-Controller, Internal Services Department, CEO, etc.) incur for the benefit of all the operating departments. Such costs also include the cost of rent, utilities and insurance.

Cost of Living Adjustment (COLA): The increase to contract costs for recognized adjustments to an employee's cost of living (See Section 12.7.0 for a more detailed discussion of COLAs and limitations on COLAs).

12.2.4 Cost Analysis Process

The following procedures should be applied in developing the cost comparison.

1. Determine the Level of Service to be Contracted

The goal in the cost analysis is to provide an objective comparison of the County's cost to provide the service being contracted with the contractor's bid for providing the same service. In calculating the County's cost, the level of service used in the calculation must be the same as the level of service being required of the contractor. If the level of service historically provided by the County differs from that to be provided by the contractor, the County's cost for comparison must be the Estimated Actual Avoidable Cost. The County's Estimated Actual Avoidable Cost may be more or less than the budgeted County cost, or more or less than historical cost, depending on the service level requirement for operations during the contract period.

For example, suppose the County is considering contracting for custodial services at a facility where the County has eight budgeted full-time positions, but only six have been providing the service (actual cost). Some questions need to be answered in order to determine Estimated Actual Avoidable Cost.

- Will the County fill the vacant positions if there is no contract to provide the level of service specified in the RFP?

- Will the service level decrease such that four or five staff could provide the service?

The answers to these questions will significantly affect the cost comparison analysis. Following are examples of scenarios involving service levels and a discussion of the impact of the situations on the cost comparison calculations.

- **Eight positions are budgeted; six positions are filled.**

The County's Estimated Actual Avoidable Cost calculation is based upon eight positions if the department plans to fill the additional two positions to provide the service level required in the Request for Proposal (RFP). If not, the calculation would be based upon the number of positions required to meet the service level described in the RFP.

- **Four positions are budgeted and filled. The RFP indicates a lower level of service is being requested.**

If, for example, the lower level of service being requested would equate to one-half of the present level, then the County's Estimated Actual Avoidable Cost calculation is based upon two positions. There would be an additional one-time savings of the cost of two positions, assuming the positions were deleted from the budget or the displaced employees transferred to funded vacancies that would have been filled whether or not a contractor was engaged. However, these savings would not be attributable to contracting and are not to be included as part of the Estimated Actual Avoidable Cost or contract savings.

- **Four positions are budgeted; three employees are actually performing the task and one employee has been on extended sick leave.**

If the department plans to return the employee to his/her position or fill it with another employee, then the County's Estimated Actual Avoidable Cost includes the cost of the employee on extended leave. This presumes that during the employee's absence the department has been operating at a less than desired service level.

Typically, signs such as backlogs, or additional overtime or assistance obtained from other units may indicate the need for the fourth position. Again, the service level in the RFP determines the County's avoidable costs. If the County only needs three employees to accomplish the RFP service level, then the Estimated Actual Avoidable Cost would be based upon three positions.

- **Six positions are budgeted; four employees are working in the area and two employees have been working in another area.**

If the reassignment of the two employees is temporary and six employees are needed to provide the level of service being requested in the RFP, then the County's Estimated Actual Avoidable Cost includes the cost of the two employees working in the other area. If the reassignment is a permanent reallocation of the workload, then the County's Estimated Actual Avoidable Cost is based upon four employees. Presumably, in this latter instance, the RFP service level could be accomplished by the four employees.

- **Five positions are budgeted and filled. The contractor will provide the same level of service with four employees.**

The County's Estimated Actual Avoidable Cost calculation is based upon the cost of the five employees. Contractor efficiencies do not affect the County's calculation of Estimated Actual Avoidable Cost.

- **Four positions were budgeted and filled, and the contract was awarded to the contractor based upon cost effectiveness. When the contract is renewed, it is determined that the service level will be increased/ decreased. This adjustment in service level could be the result of**

increased or decreased demand for services, the introduction of new technology, reductions due to budget cuts, etc.

The County's original calculation of Estimated Actual Avoidable Cost must be adjusted to reflect the adjusted service level requirement. The adjusted Estimated Actual Avoidable Cost must then be compared with the contract cost to verify that contracting for the service continues to be cost effective. Such changes should be addressed in the Board Letter for the renewal (if required).

2. Determine the Estimated Actual Avoidable Cost

The Estimated Actual Avoidable Cost is the County's cost that would be eliminated/avoided if the work is performed by a contractor rather than by County employees. It is this cost that is compared to the contractors' bids in determining cost effectiveness. After the level of service has been determined, the calculation of the Estimated Actual Avoidable Cost is mechanical. Six positions are budgeted and five of the positions are filled. The Request for Proposal requires a service level 20% lower than currently provided.

Calculation of Estimated Actual Avoidable Cost

Current budgeted top step salaries (a.)	$	150,000
Adjustments for:		
Vacancies (b.)		(25,000)
Service level changes (c.)		(25,000)
Budgeted top step salaries of postions needed to provide the required service level--actual avoidable positions (d.)	$	100,000
Adjustment for top step salaries variance @ 96% (e.)		(4,000)
Estimated actual avoidable salaries	$	96,000
Add: Related employee benefits @ 30% (f.)		28,800
Estimated actual avoidable direct labor costs	$	124,800
Add: Other avoidable costs (g.)		10,000
Estimated actual avoidable costs (h.)	**$**	**134,800**

Discussion Items:

a. Current Budgeted Top Step Salaries

In the example on the preceding page, six potentially avoidable budgeted positions have been initially identified at an annual cost of $25,000 per position. The cost of these positions is determined from the Salary Ordinance. Salaries must include employee Cost of Living Adjustments [COLAs] that have been approved by the Board of Supervisors and that will be effective during the contract period.

In most cases, there will be a combination of direct supervisory and subordinate positions that could be potentially avoidable. At this point in the determination of Estimated Actual Avoidable Cost, budgeted positions are used. The key is to identify all direct positions that will be eliminated or avoided if the service is contracted, whether or not the positions are currently filled.

Calculations of equivalent positions or partial positions should be scrutinized to ensure the costs are actually avoidable. Partial positions will generally only be avoidable if the department will be able to use the hours made available by the contract to reduce overtime or reduce time spent by temporary personnel.

Avoidable direct positions include direct positions outside of the service being contracted if those positions are dedicated to (although not budgeted in) the service area being considered for contracting. For example, all or part of a clerical support unit in another department division/section may be dedicated to the service being considered for contracting. Conversely, positions are not avoidable if budgeted in the service area but permanently dedicated to another area. At times, the budget does not reflect the current allocation of positions.

b. Adjustment for Vacancy

In the example, one position is currently vacant and not needed to meet the required future service level. Because the budgeted service level is not needed, the $25,000 associated with the vacant position is removed from the calculation. If the vacant position would have to be filled by the department to meet the required service level, then the position would be included in the calculation of the Estimated Actual Avoidable Cost.

c. Adjustment for Service Level Change

The example includes a further service level reduction equal to 20% of the current workload, or one position at $25,000. This savings, plus any related employee benefits, is a one-time savings not attributable to contracting. Presumably, the department would have made the workload adjustment whether or not a contract was let. Therefore, the salary is not considered as part of the Estimated Actual Avoidable Cost calculation.

d. Budgeted Top Step Salaries of Positions Needed to Provide the Required Service Level

After adjustments for vacancies and service level changes have been made, the remaining positions should be the avoidable direct positions that will be the basis for the determination of the Estimated Actual Avoidable salary costs. The cost of these specific positions is determined from the County Salary Ordinance.

e. Adjustment for Top Step Salary Variance

Top step avoidable salaries need to be adjusted to give recognition to the fact that not all employees are on the top step of their item classification. This adjustment is made by applying a factor provided by the A-C that is based upon the average experience within the subject department. This factor is expressed as a percentage of 100%, with 100% indicating a situation where all employees are on top step.

If it can be demonstrated that the "average experience" is inappropriate for a particular situation, then actual salaries would be used and no variance factor adjustment made. It is important to remember, however, that the current employees' step variations may not be representative of the average step variance over a period of time. Therefore, an average rate is generally appropriate. Also, if temporary employees had been hired to provide services as a prelude to contracting, the average step experience for the department should be used.

f. Related Employee Benefits

In the example, and in most situations, a variable employee benefits (EB) rate is applied to direct salaries to arrive at related avoidable employee benefits. The rate is calculated from the department budget by dividing the total variable employee benefits budget by net salaries. Net salaries are gross budgeted salaries less salary savings or any other similar adjustments.

The rate is an average of the variable benefits paid to permanent and temporary employees. If it is determined that the mix of employee positions being considered for contracting is not average (e.g., all temporary, etc.) then an attempt should be made to determine a closer approximation of the actual employee benefits cost. Also, if the budgeted amount of employee benefits is not, for some reason, representative of those which may be actually paid, the calculation of the employee benefits cost must be adjusted accordingly.

If temporary employees were hired as a prelude to contracting, an average department employee benefits rate should be used in calculating Estimated Actual Avoidable Costs.

g. Other Avoidable Costs

Other avoidable costs include the following types of costs:

- Direct Services and Supplies (S&S)

  S&S costs directly related to the service being contracted may be avoidable. These costs might include employee mileage, training costs, materials, office supplies, information technology charges, etc. The amount of these avoidable costs should be estimated to the extent possible and the estimate documented.

S&S costs should be scrutinized to ensure that they are avoidable to the County (or Special District) as a whole, rather than just to the contracting department.

- Department Indirect Costs

  Supervisory and indirect S&S costs associated with the direct avoidable costs need to be carefully evaluated to identify avoidable departmental indirect costs. Such costs might include supervisory and management personnel, clerical support, etc., no longer needed if a contractor performs the service. In order to consider department indirect costs as avoidable, the department must eliminate these costs from its budget as a result of the service being contracted.

- Costs in Other Departments' Budgets

  In certain situations, avoidable costs include such costs as rent, equipment leases, utilities, etc., which are budgeted in other departments' budgets. It is important that an agreement is reached as to what is in fact avoidable to the County as a whole. For example, if rented space will be vacated, is the lease cancelable, assignable, etc. If not, there are no savings until this cost is deleted.

- Equipment Costs

  Equipment costs require special analysis. In most cases, the maintenance costs may not be avoidable (i.e., if provided by another County department and that department does not intend to reduce (avoid) their cost). In addition, depreciation is not avoidable. In certain circumstances, for example where the department would incur substantial equipment costs if it were to start or continue a service, equipment costs may be avoidable. Equipment costs in long-term contracts where equipment will wear out and be replaced must be evaluated on an individual basis to determine if they should be classified as avoidable.

- Transition Costs for Displaced Employees

  The incremental costs associated with retraining displaced employees, unemployment, holding excess employees while awaiting attrition, etc., should not be included in the analysis.

- Monitoring Costs

  The costs associated with monitoring a contract should be considered in the cost comparison only when such costs are incremental. In most cases, contract monitoring is performed by existing management staff. Therefore, it is generally not an incremental cost.

  Monitoring costs are incremental when a position(s) is added (or transferred from another area) or an otherwise avoidable position is retained to monitor the contract. When a position is added, the salary and related amount of employee benefits should be deducted from computed contract savings. Also, when an additional non-salary cost is incurred (for example, audit costs borne by the County), this cost is likewise deducted from contract savings. When an otherwise avoidable position is retained to monitor the contractor, the salary and related amount of employee benefits should be deducted from computed contract savings (unless the cost of that position was not included as an avoidable cost).

h. Estimated Actual Avoidable Cost

The total Estimated Actual Avoidable Cost, $134,800 in the example, is the cost to be compared to contractor's bids to determine the cost effectiveness of contracting the service.

12.2.5 Additional Cost Analysis Considerations

12.2.5.1 Calculating Avoidable Cost on Contract Renewals

When contracts are renewed, it is necessary to recompute the County's Estimated Actual Avoidable Cost to ensure contracting remains cost effective. The calculation is essentially the same, but special attention must be given to the following factors:

- Service Level Changes

  If the new contract calls for a different level of service, the County's Estimated Actual Avoidable Cost must be adjusted to the service level the contractor will be asked to meet. Any changes in service level should be addressed in the Board Letter for contract award.

- Adjustment of Salaries and Other Costs

  After adjusting for any service level changes, all remaining avoidable costs must be updated to current cost levels. Salary costs should be updated to current Salary Ordinance levels. If salaries or employee benefits must be projected beyond the current Salary Ordinance amounts, realistic estimates of future increases should be used. Other costs, such as Services and Supplies, should also be increased to current cost levels if possible or projected using appropriate inflator/deflator indices.

12.2.5.2 Budgetary Transfers as a Result of Inter and Intra-Fund Billings

Contracting services previously provided by other departments presents unique budgetary problems. The impact is different depending on whether the user department is subvened or not (See Section 12.2.5.3 below regarding the Impact of Subvention on Contracting). Both cases require budget adjustments between the departments in conjunction with contracting. The CEO and the A-C should be consulted early in the contract development process so that adjustments can be made.

12.2.5.3 Impact of Subvention on Contracting

Departments that receive cost reimbursement (called subvention) from third parties (State and/or federal governments, contract cities, etc.) present unique problems in the determination of cost savings from contracting. These problems extend to the service departments that provide services to the departments. To determine cost effectiveness, the impact of subvention on both avoidable and unavoidable County costs must be determined.

The following example demonstrates the nature of the analytical process required.

Facts:		
	Total Costs of Service	$170,000
	Avoidable Cost	100,000
	Unavoidable Cost	70,000
	Contract Cost	95,000
	Subvention Rate	75%
	County Cost (100% less subvention rate)	25%

	Net County Cost Before Contracting	Net County Cost with Contracting		Net Loss due to Contracting	
Total Cost	$170,000	$95,000			
% County Cost	25%	25%			
	$42,500	$23,750			
Unavoidable Nonreimbursed Overhead	$0	$70,000	(1)		
Net County Cost	**$42,500**	**$93,750**		**$51,250**	**(2)**

Notes:

(1) In this example, the $70,000 presents unavoidable overhead previously reimbursed by third parties that will not be reimbursed if the service is contracted. This example assumes the overhead cannot be reallocated to and reimbursed through other programs. In certain cases all or part of the displaced overhead can be reimbursed elsewhere. In these cases, the net County cost under contracting would be adjusted to reflect the amounts reimbursed.

(2) The $51,250 is a net loss to the County caused when overhead previously subvened is no longer reimbursable.

Reimbursement of overhead is also a problem when General Fund service departments, such as the Internal Services Department, contract services previously billed at full cost (avoidable plus overhead) to special districts under control of the Board of Supervisors (Flood, Road, Fire, Waterworks). The impact of lost overhead reimbursement on the General Fund should be calculated prior to contracting these services.

12.2.5.4 Positions Held Vacant for Contracting

Departments sometimes do not fill vacancies when they are contemplating contracting a function. The cost of such vacant positions is considered avoidable if the department would have to fill the vacancies to accomplish the service level described in the RFP. These vacancies should not be confused with routine vacancies.

12.2.5.5 Contracting for Services on an Hourly Rate Basis

It is very difficult to compare costs on an hourly rate basis. Contracts to be let in this manner must be carefully evaluated to determine equivalent positions for deletion. Then it must be determined if the deletions will in fact occur, remember that partial positions are not generally avoidable. Also, safeguards must be included in the RFP to ensure the contractor will provide the same level of service (i.e., hourly productivity) as County personnel.

Similar difficulties arise when contracting for services on a “units of output” basis. The department must evaluate and estimate the expected output. Actual fluctuations in output can have a material effect on the cost analysis/contract savings.

12.2.5.6 Determine the Cost of Services Not Previously Provided

Out of necessity, such cost determinations require estimates. Assumptions and calculations used to make such estimates must be documented. Salary and employee benefit costs should be estimated after discussing with the Department of Human Resources and the CEO's Financial and Asset Management Branch, the cost of adding such positions if the County performed the work being considered for contracting.

12.2.5.7 Calculating Points for Each Proposer’s Cost of Contracting

The Board of Supervisors has indicated some concerns with departments awarding Proposition A contracts to proposers/bidders who are not the lowest cost proposer/bidder. To ensure appropriate weight is given to cost savings, the Board has adopted the following guidelines.

Departments should ensure that only critical requirements (factors that are essential to the work being contracted) are included in the Request for Proposals. Departments should also be careful not to establish too many "critical" factors, which could prevent proposers/bidders from proposing new and innovative approaches. This applies to all contract proposals/bids, not just Proposition A contracts.

When evaluating/rating proposals received, departments should ensure that the cost of contracting is assigned the appropriate weight so that the County maximizes cost savings through contracting. The Auditor-Controller recommends that the cost be assigned a weight that is at least equal to the highest other evaluation criteria. For example, if the proposer's approach to providing the required services is assigned 35%, cost savings must be assigned a minimum of 35% of the total evaluation score, and the remaining factors (e.g., proposer's qualifications, proposer's quality control plan, etc.) no more than 30%. The specific weight assigned to the cost criteria will depend on the importance of qualitative factors. If qualitative factors are not critical, cost could be as much as 50% of the total evaluation points.

Departments should assign points to cost by comparing each proposer's/bidder's cost to the lowest proposed contract price. For example:

> Department X is soliciting for custodial services. Total evaluation points are 100, with 40 points assigned to cost. Three bids are received:
>
> Company A's bid is $900,000
> Company B's bid is $850,000
> Company C's bid is $750,000
>
> **Computing Points for Cost**
>
> $\dfrac{\text{Lowest proposed contract price}}{\text{This proposer's contract price}} \times 40 = \_\_\_\_\_\_$

In the example above:

> $\dfrac{\text{Lowest cost – Company C (\$750,000)}}{\text{Company A proposal (\$900,000)}} \times 40 = 33.33 \text{ points}$
>
> $\dfrac{\text{Lowest cost – Company C (\$750,000)}}{\text{Company B proposal (\$850,000)}} \times 40 = 35.29 \text{ points}$
>
> $\dfrac{\text{Lowest cost – Company C (\$750,000)}}{\text{Company C proposal (\$750,000)}} \times 40 = 40 \text{ points}$

Sample Problem: Calculation of Estimated Actual Avoidable Costs

Question: Should the County contract for grounds maintenance at a contract cost of $150,000 per year?

Analysis: The County Department of Parks and Recreation maintains the grounds for several County facilities in the San Fernando Valley. The department has budgeted six groundskeepers and a supervisor to perform the work. One groundskeeper has been on extended leave due to an industrial accident. The department intends to permanently transfer one of the groundskeepers to a funded vacancy in another area upon the return of the injured employee. The service level to be contracted is that provided by the five groundskeepers and the supervisor. One filled clerical assistant and the corresponding budgeted position in division administration can be eliminated if a contractor provides the services. The Assistant Division Chief will perform contract monitoring. In addition, direct services and supplies can be reduced by $8,000 if the work is contracted.

Calculation

Cost Element	Full County Cost (illustrative only)	Estimate Actual Avoidable Costs
Direct Costs:		
Current budgeted top step salaries (1)	$ 145,000	$ 145,000
Adjustments for Service Level Changes (2)	(20,000)	(20,000)
Budgeted top step salaries at established service level	125,000	125,000
Adjustment for top step salary variance (96%)	0.96	0.96
Estimated actual avoidable salaries	120,000	120,000
Add: Employee benefits (@24%)	28,800	28,800
Direct supplies	8,000	8,000
Total Direct Costs	**156,800**	**156,800**
Indirect Costs (3):		
Division overhead (43%)	51,600	10,000 (4)
Department overhead (8%)	9,600	0 (5)
Countywide overhead (13%)	15,600	0 (5)
Total Direct and Indirect Costs	$ **233,600**	
Total Estimated Actual Avoidable Costs		$ **166,800**

(1) From County Salary Ordinance: Six groundskeepers at $20,000; one supervisor at $25,000.

(2) One groundskeeper is on long-term industrial injury leave. The department plans to reassign one position to fill a vacancy in another area upon the employee's return. This reduced service level will be sufficient to accomplish the service requirements in the RFP. Accordingly, the avoidable costs are calculated for the five employees and the supervisor.

(3) Overhead percentages are applied to salary costs only.

(4) One secretary in division administration who provided clerical support for the eliminated employees can also be eliminated.

(5) There are no other avoidable overhead costs.

Estimated Actual Avoidable Cost	**$166,800**
Contract Costs	**<u>150,000</u>**
Savings from contracting	**<u>$16,800</u>**

<u>Decision: Contract is Cost Effective</u>

12.3.0 LIVING WAGE ORDINANCE

In October 1999, the Board adopted the Living Wage Ordinance (LWO). The LWO is applicable to Proposition A and cafeteria services contracts. Chapter 2.201 of the County Code contains the LWO language. Under the LWO, County contractors that are not exempt from the LWO are required to pay full-time staff working on the County contract a living wage and submit monthly reports to County departments certifying that they are paying their staff a living wage. The LWO also requires increased monitoring by County staff of Proposition A and cafeteria contractors. In addition, all solicitations for Proposition A and cafeteria services must contain language regarding the LWO requirements.

12.3.1 Award of Living Wage Contract

Upon the award of the contract, departments shall complete and submit a Notice of Pre-Job Conference and Contract Information to ISD. ISD will assign a Deputy Compliance Officer to monitor the contract.

Departments must input contract information into the County Contract Database within ten business days of the contract award. Departments will also be required to complete the Contractor Evaluation Checklist before the contract expires. For further information regarding the database see the County Contract Database section below.

12.3.2 Living Wage Monitoring Requirements

Monitoring Living Wage compliance will be a joint responsibility of the contracting department and ISD. Departments will conduct ongoing monthly monitoring. ISD will review LWO Program contracts to report on Living Wage Program compliance, as well as respond to departments' requests for assistance, and addressing inquiries from the public and/or the hotline.

12.3.2.1 Department Responsibilities

- Invite ISD to the pre-bid and pre-job conferences for contract services involving employment of low-wage workers. ISD will explain the reporting requirements completion of the required forms and the payroll certification review process.

- Notify ISD at least ten (10) days before the pre-job conference by completing and forwarding the Award of Contract form.

Departments should notify ISD of contract changes that affect compliance:

1. Notifications

- Changes in services, locations, number of facilities or any other requirements.

- Contract amendments affecting the LW Program.

2. Living Wage Program Documentation

Departments should confirm that all required compliance/monitoring documents are received from the contractors by the fifteenth (15^{th}) of the month following the reporting period. Departments shall maintain a separate and secure LW Program file, in accordance with security requirements identified in Chapter 3 of this manual.

a. Contractor's Staffing Plan

- Departments should ensure that they have the contractor's most recent staffing plan and compare this plan to payroll reports to verify use of full-time employees or, if applicable, the proper use of part-time employees.

- In the event of a staffing change, the contractor shall submit a revised staffing plan. Changes to staffing include, but are not limited to, new and terminated employees who provide service to the County, and effective dates for these changes.

- If departments discover any discrepancies, they should follow up with the contractor in writing.

b. Contractor Living Wage Declaration

- Departments should validate that the appropriate Living Wage Program hourly rate identified on the contractor's Living Wage Declaration, is being paid to their employees.

c. Payroll Reports

Prior to paying contract invoices, departments should review the following:

- The payroll Statement of Compliance to ensure it is complete, signed, and dated by the owner or company representative.

- The sequence of the payroll report to ensure it is consecutive and continuous from the prior report. (i.e., no missing dates).

- The hourly rates paid from the payroll report to the rates required by the LW Program.

- The list of employees, work classification and total hours worked each week to ensure the payroll report is consistent with the staffing plan.
- Deductions for Federal, State, and FICA withholding and other deductions listed on the payroll register for reasonableness.
- The employer paid health benefit hourly rate to validate that the rate coincides with the Living Wage Declaration and LW Program hourly wage rates.
- The employer paid health benefit, gross amount paid, to validate that it coincides with the payroll report.
- Payroll records to ensure the contractor is not scheduling employees to work lesser hours to avoid classifying them as full-time employees (e.g., scheduling employees to work less than six-hour shifts, five days per week.)

Departments should investigate any discrepancies or, if necessary, request follow-up by ISD.

d. Monthly Certification for Applicable Health Benefit Payments (if applicable)

If the contractor indicated on the Living Wage Declaration that the lesser living wage rate would be paid, then the contractor must submit a copy of their health benefit plan and the Monthly Certification for Applicable Health Benefit Payments report to the department, who will review and validate the following:

- A copy of the contractor's Health Care Plan and premium payment schedule (if applicable).
- A copy of front and back of cancelled check issued to the contractor's Health Plan.
- Aggregate dollar amount of health benefits paid corresponds with the contractor's health benefit plan rate(s).
- Amount the employee was paid by the contractor was done in a timely manner and the amount paid for the health care insurance agrees with the health benefit plan payment schedule.

Note: If the Contractor's Health Benefit Premium Payment Schedule requires payments less frequently (e.g., quarterly, semi-annually, and annually) than monthly, the department should request a copy of the cancelled insurance premium check at the appropriate time.

Departments should closely monitor employees who are receiving lower LW Program hourly rate plus health benefits to ensure employer's (and if applicable, employee's) health premiums are properly paid. Investigate discrepancies or, if necessary, request follow-up by ISD.

3. Employee Interviews

Departments shall conduct annual interviews for all LW Program contracts, excluding those contracts with approved exemptions. Departments must ensure that a reasonable sample group of employees working on a LW Program contract is interviewed (i.e., at least 10% of the total contract staff). If the contractor's staff is less than 10 employees, all employees must be interviewed (See Chapter 10 for links to all forms).

- Interviewer should note work being performed on the site, number of workers, and any other observations that may require clarification or follow-up with the department or the contractor.

- During the interview, the interviewer should note their findings, comments, and recommendations for further actions and request verification of actions to be taken on the employee questionnaire.

- After completion of the interview, department should compare the information provided by the employee to the payroll records to verify that the employee is receiving appropriate health and fringe benefits and is being paid in accordance with the LW Program requirements and the contractor's Living Wage Declaration.

- Interviewer should also note the contractor's compliance with the LW Program to include in the department's annual contractor performance evaluation.

- Interviewer should identify possible LW Program violations and the appropriate resolution, if applicable. All LW Program violations must be reported to ISD for follow-up.

4. Miscellaneous Monitoring

- Ensure the contractor provides employees with the "Notice to Employees" information sheet which includes notification of the County's Living Wage Ordinance and Federal Earned Income Tax Credit eligibility at least annually and maintain records of the distribution.

- Ensure the contractor posts the "Notice to Employees" poster in a conspicuous place at the contractor's worksite. Posters may be requested from ISD at (626) 943-5622.

- Immediately inform ISD of any LW Program employee complaints or information regarding LW Program abuse.

- Inform contractors about the provisions and goals of the Living Wage Ordinance and Program and distribute the following:

  a. Payroll reporting forms and instructions

  b. Fringe Health Benefit Payment forms and instructions

  c. Notification to Employees handout

  d. LWO Notice to Employees poster

- Require contractors to notify them when prior County employees are being released within the first 90 days of the new contract. The contractor must provide an explanation for the release of the employee. Departments may request ISD assistance if further investigation is required.

5. **Retention of Employees** (if applicable)

a. In the event that a LWO contract is terminated prior to its expiration, the subsequent contractor shall offer employment to retention employees. A "retention employee" is an employee of the predecessor employer (contractor) who:

   - Is not an exempt employee under the minimum wage and maximum hour exemptions defined in the federal Fair Labor Standards Act;
   - Has been employed by an employer under a predecessor Proposition A contract or a predecessor cafeteria services contract for at least six (6) months prior to the date of a new contract; and
   - Is or will be terminated from his or her employment as a result of the County entering into a new contract.

b. Subsequent employers shall offer employment to all retention employees who are qualified for such jobs.

c. Subsequent employers are not required to hire a retention employee who:

   - Has been convicted of a crime related to the job or his or her job performance; or
   - Fails to meet any other county requirement for employees of a contractor.

d. Subsequent employers may not terminate a retention employee for the first 90 days of employment under a new contract, except for cause. Thereafter a subsequent employer may retain a retention employee on the same terms and conditions as the subsequent employer's other employees.

e. To verify the retention of qualified employees, departments should:

- Obtain a list of retention employees providing a service to the County from predecessor contractor.
- Request the subsequent contractor provide documentation that the predecessor's employees were offered employment.
- Ensure all employees who elected to continue to work for the new contractor are included on the new contractor's monitoring reports. Once the contract is approved.
- Ensure that retention employees are employed at least 90 days following the start of the new contract. Departments may validate retention of employees on payroll reports.

f. If the predecessor's contract employees are released within the first 90 days of the new contract, the subsequent contractor must provide an explanation for the release of an employee.

Departments may request assistance from ISD, if necessary.

Note: Additional statutes pertaining to the retention of employees may apply to specific industries (e.g., Displaced Janitors Act).

For a more in-depth discussion of the LWO, refer to the Living Wage Program Manual. The Manual is a resource guide used by County departments to ensure effective implementation of the LWO. The Internal Services Department has been assigned the responsibility of ensuring the Manual is appropriately updated.

12.3.3 Evaluation of Labor Law and Payroll Violations for Contracts Subject to the Living Wage Guidelines

A "Labor Law/Payroll Violation" includes violations of any federal, State or local statute, regulation or ordinance pertaining to wages, hours, working conditions such as minimum wage, prevailing wage, living wage, the Fair Labor Standards Act, employment of minors, or unlawful employment discrimination. The County may deduct points from a proposer's final evaluation score only for Labor Law/Payroll Violations with disposition by a public entity within the past three years of the date of the proposal.

12.3.3.1 Assessment Team Guidelines

The Guidelines for Assessment of violations establishes four general categories for assessing the severity of violations -- major, significant, minor, and insignificant, and provides various criteria to determine the appropriate percentage deduction from a proposer's evaluation score for the violations. The percentage point deductions that the Assessment Team may assess are within established percentage ranges for each category and, to encourage full disclosure, larger percentage deductions are established for a proposer's undisclosed violations. The Assessment Team has flexibility within these Guidelines to consider a variety of criteria and circumstances that may have impacted the violation.

Proposers are required to disclose pending claims, complaints, investigations, proceedings, and/or findings related to alleged labor law/payroll violations. The Assessment Team will consider all such history, but will assess percentage point deductions only for a violation. Although pending claims (claims without a final disposition) will not result in rating point deductions, the occurrence and pending status will be reported to the Board if: 1) the proposer is recommended for a contract award, and 2) the pending claim, if it were ultimately decided adversely to the proposer, would be determined to be a significant or major violation.

With respect to the State Division of Labor Standards Enforcement (DLSE) process and final dispositions, an employee may file a claim with DLSE against his employer when he/she believes there has been a violation of labor law. These claims may remain as pending open cases until the issue is resolved in some manner and a disposition letter is issued and the case is closed.

12.3.3.2 Departmental Referrals to the Assessment Team

Each department will complete their established proposal review process (with the exception of reviewing violations), including submission of the required inquiry to DLSE. If violations and/or pending claims are disclosed by the proposer, or through inquiry to DLSE, or any other public entity, the department will make referrals to the Assessment Team as follows:

- If the top-rated proposer has no record of violations or pending claims and the department intends to recommend a contract with the proposer, there is no need to refer any proposers to the Assessment Team.

- If the top-rated proposer has violations or pending claims, the department must refer documentation of the top-rated proposer’s violations or pending claims to the Assessment Team.

- If the top-rated proposer has violations or pending claims and other proposers have violations or pending claims, the department must refer to the Assessment Team documentation of violations or pending claims for any proposer who could potentially become the top-rated proposer if the maximum 20 percent of total evaluation points is deducted from the score of the original top-rated proposer.

- If a top-rated proposer is determined to have a record of major violations or significant undisclosed violations and remains the top-rated proposer even with a deduction for the violations, the contracting department should consider whether to pursue a finding of proposer non-responsibility.

12.3.3.3 Request for Assessment Team Assistance

The Assessment Team is comprised of staff from the Chief Executive Office, the Internal Services Department, and the Department of Public Works. The Chair of the Assessment Team rotates annually among the Team. To initiate a review by the Assessment Team, the contracting department will contact the Chair of the Assessment Team and email a copy of all supporting documents for an initial review of completeness. These documents must include the proposer's explanation of any violation or pending claim that the proposer may have provided on the *Acknowledgment and Statement of Compliance* form which is required from all proposers for Proposition A and cafeteria services contracts.

The contracting department shall not reveal the evaluation score for any proposer submitted to the Assessment Team or the point spread between multiple proposers for the same contract.

Once the Chair is satisfied that the information is sufficient to complete an assessment, the Chair will notify the other Assessment Team members and the designated County Counsel, arrange a mutually convenient date to complete the assessment and request the contracting department to email copies of the supporting documents to the other Assessment Team members.

The Assessment Team members may decide to conduct the assessment in person or via a conference call. Staff from the contracting department familiar with the solicitation shall be notified of the assessment date/time and shall be available by phone to answer questions regarding the supporting documents. The final assessment by the Assessment Team shall be a consensus of the members with documentation of the reasons for the decision.

In the event that a proposer protests a department's final evaluation rating because of a deduction for violations, a member of the Assessment Team shall be available to the contracting department to explain the Assessment Team's determination.

12.3.3.4 Definition of Terms to Proposers

Proposers will be advised of the County's disclosure requirements for violations (as previously defined) and pending claims in the following documents:

County Counsel has prepared mandatory language which departments shall include in all Proposition A and cafeteria services contract solicitations. This language clearly defines: 1) the County's disclosure requirement regarding violations and pending claims; 2) the County's assessment of violation(s), either disclosed or undisclosed by the proposer, as major, significant, minor, or insignificant; and, 3) the range of possible percentage point deductions, based on the assessment of the severity and extent of the violation(s). Please refer to the Living Wage Program Manual for an example of the mandatory contract language.

The *Acknowledgment and Statement of Compliance* form has been revised to clearly specify requirements for disclosure of violations within three years of the proposal date and all pending claims. To encourage full proposer disclosure, the revised form indicates that up to 20 percent of the total evaluation points available may be deducted for violations and that failure to disclose a violation results in the largest deduction. Please refer to the Living Wage Program Manual for the most current version of the *Acknowledgment and Statement of Compliance* form.

County Counsel created mandatory contract language which departments shall include in all Proposition A and cafeteria services contracts. This language clearly defines the contractor's responsibility to disclose violations and pending claims throughout the term of the contract to ensure continued good labor law/payroll practices. Please refer to the Living Wage Program Manual for an example of the mandatory contract language.

For existing contracts, departments shall issue a change notice or contract amendment to update contract terms as soon as possible but no later than the time a department exercises an option to renew a Proposition A or cafeteria services contract.

The contracting department shall ensure that appropriate monitoring mechanisms are in place to quickly identify problems and minimize the possibility for violations or limit their severity and extent.

12.4.0 CONTRACTOR NON-RESPONSIBILITY/DEBARMENT

12.4.1 Debarment of Contractors

Under the Determinations of Contractor Non-Responsibility and Contractor Debarment Ordinance (Los Angeles County Code Chapter 2.202), the County may debar a contractor that has an existing contract with the County and/or a contractor that has submitted a bid or proposal for a new contract with the County. The County may debar a contractor if the County finds, at its sole discretion, that the contractor has done any of the following:

- Violated any term of a contract with the County.
- Committed any act of omission or engaged in a pattern or practice, which negatively reflects on the contractor's quality, fitness or capacity to perform on a contract with the County or any other public entity.
- Committed an act or omission which indicates a lack of business integrity or business honesty.
- Made or submitted a false claim against the County or any other public entity.

12.4.2 Debarment Hearing

Before making a debarment determination, the department head shall give written notice to the contractor of the basis for the proposed debarment, and shall advise the contractor that a debarment hearing will be scheduled on a date certain. The debarment process will occur as follows:

- The Contractor Hearing Board (CHB) shall conduct a hearing where evidence on the proposed debarment is presented. The regular membership of the CHB is comprised of representatives from the Internal Services Department, the Chief Executive Office (CEO), and the Department of Public Works. The departments of Health Services, Parks and Recreation and Public Social Services serve as alternate members. Alternate members normally serve only when more than one regular member cannot participate due to a matter before the CHB involving their departments. However, they may be called to serve on other occasions (e.g., increased CHB workload, etc.).

- ISD functions as the chair to call meetings as necessary to hear departmental debarment cases and is a non-voting member of the CHB. Neither regular nor alternate members may participate if the contract at issue involves their department. If such an instance creates an even number of participating members, not including ISD, ISD will exercise its vote. If a contract before the CHB involves ISD, the other departmental representatives shall designate an acting chair (who will also be a voting member), and ISD will not participate in the hearing. County Counsel acts as a legal advisor to the CHB.

- The involved department is responsible for presenting evidence supporting the debarment to the CHB.

- The contractor and/or attorney or other authorized representative must be given an opportunity to appear at the debarment hearing and to submit documentary evidence, present witnesses, and offer rebuttal evidence at that hearing.

- After such hearing, the CHB shall prepare a written tentative proposed decision, which shall contain a recommendation regarding whether the contractor should be debarred and, if so, the appropriate length of time for the debarment. The CHB's proposed decision and recommendation regarding debarment shall be based on the record of the hearing.

- The CHB shall transmit its tentative proposed decision and recommendation to the parties and provide notice of a hearing to consider written objections to the tentative proposed decision, and:

    a. A contractor or the department may submit objections to the tentative proposed decision of the CHB.

b. All objections shall be made in writing and transmitted to the CHB (with a copy to the other party) at least five (5) days before the scheduled hearing.

c. All objections must specify the portion(s) of the tentative proposed decision and recommendation and the basis for the objections. These objections shall be based on the tentative proposed decision. No new evidence or issues will be considered.

d. If no objections are received by the CHB, the hearing will be cancelled.

e. After conducting a hearing or if the parties waived the right to a hearing on the proposed tentative decision, and after consideration of the written objections, the CHB may modify, correct or otherwise amend the proposed decision and recommendation as it deems appropriate.

- The Board of Supervisors may, at its discretion, limit any further hearing to the presentation of evidence not previously presented. The Board of Supervisors shall have the right to modify, deny or adopt the proposed decision and recommendation of the departmental hearing officer. A non-responsibility finding shall become final upon approval by the Board of Supervisors; if non-responsibility is determined, the bidder/proposer is ineligible for the award of the contract(s) at issue.

The decision by the County to debar a contractor is within the discretion of the County. The seriousness and extent of the contractor's acts, omissions, patterns or practices as well as any relevant mitigating factors may be considered by the County in making any debarment decision. Upon a debarment finding by the Board of Supervisors, the County shall have the right, at its discretion, to determine the length that the contractor may be prohibited from bidding upon or proposing on, contracts being awarded, and/or performing work on a contract with the County.

Ordinarily, the period of debarment should not exceed five years; however, if warranted by the circumstances, the County may impose a longer period of debarment up to and including permanent debarment. In addition, upon a debarment finding by the Board of Supervisors, the County may, at its discretion, terminate any or all existing contracts the contractor may have with the County. In the event that any existing contract is terminated by the County, the County shall maintain the right to pursue all other rights and remedies provided by the contract and/or applicable law.

12.4.3 Findings of Non-Responsibility

During the contract solicitation process, departments can recommend that a bidder/ proposer be found non-responsible to perform services under the proposed contract. The County may declare a contractor to be non-responsible for purposes of a particular contract if the County, at its discretion, finds that the contractor has done any of the following:

- Committed any act of omission or engaged in a practice which negatively reflects on the contractor's quality, fitness of capacity to perform on a contract with the County or any other public entity.

- Committed an act or omission, which indicates a lack of business integrity or business honesty.

- Made or submitted a false claim against the County or any other public entity.

Such contractors are entitled to hearing before the department head or his/her designee. Department heads make the recommendation regarding finding of non-responsibility to the Board of Supervisors. The Board can modify, deny, or adopt the recommendation of the department. The Board makes the final determination of non-responsibility.

12.4.4 County Contract Database

Departments must input contract information into the County's Contract Database within ten business days of the contract award. Departments will also be required to complete the Contractor Evaluation Checklist before the contract expires. Only authorized personnel shall have access to the County's Contract Database. Access to entering data into the database will only be allowed to authorized users who have confidential passwords.

The Contract Database will be used to monitor contractors' performance and contractors' labor law violations for Proposition A/Living Wage, information technology, and construction contracts. In addition, the database will track non-responsible contractors and the debarring of contractors.

Individual departments remain responsible for reviewing past contractors' performance (e.g., past labor law issues on both County and non-County contracts) prior to recommending contracts, monitoring contractors' performance, inputting relevant contractor information in the database, recommending findings of non-responsibility, and initiating debarment procedures, as appropriate.

Department heads will be required to annually certify that they have complied with all required procedures including review of past contractors' performance as part of the solicitation process, at least as part of annual performance reviews, inputting required information in the database, and proceeding with non-responsibility and debarment procedures where required.

As part of normally-scheduled audits, the A-C will review the manner in which departments are inputting evaluation data in the database and the appropriateness of the data provided. ISD will also conduct semi-annual reviews of the Contract Database to determine if departments are appropriately updating the database, as well as following up on documented deficiencies.

ISD will provide a report to Chief Executive Officer based on these semi-annual reviews indicating any instances where a department has not commenced debarment procedures and believes debarment should be pursued. The CEO and the A-C will follow-up as necessary with the relevant department(s).

12.5.0 CONTRACT MONITORING

Monitoring contractors' compliance is the responsibility of the department. Each department will be responsible for setting up and following their established monitoring plan. Each department will also be required to input contract information into the County's Contract database within ten business days of the contract award and will be required to complete the Contractor Evaluation Checklist before the contract expires. The A-C will evaluate the department's monitoring plan in conjunction with department audits. ISD will also review the County Contract database to determine if departments have completed the contractors' performance ratings.

12.5.1 Setting up an Effective Quality of Service Monitoring Plan

The key to an effective Quality of Service Monitoring Plan (QSMP) is explicitly worded contracts. Contracts must specify quantifiable goals and objectives and the methods for assessing the contractor's compliance with contract requirements.

Specific performance indicators and standards must be written into the contract so that measurable outputs are identified. Weak, ambiguous or general contract wording will result in the contractor's or the County manager's confusion as to what is to be provided, which could impede efforts to correct the contractor's non-compliance or poor service. The contract wording comes from the Performance Work Statement. The Performance Work Statement defines the scope of the work to be performed by the contractor, including performance indicators and standards. The Performance Work Statement can also be attached as an exhibit to the final contract.

Contract monitoring is a process of evaluating the contractor's performance based on measurable service outputs as identified in the Performance Work Statement. A Quality of Service Monitoring Plan (QSMP), which is a comprehensive monitoring plan, must be developed for each program to be contracted prior to contract solicitation. It is <u>not</u> included in the solicitation document. However, the Performance Requirements Summary, which states the method of monitoring the requirements as outlined in the Performance Work Statement, shall be included in the solicitation document so that potential proposers/bidders are aware of the County's expectations regarding the contractor's performance.

The QSMP should evaluate the services or products provided through data collection and analyses of the contractor's program operations against performance indicators and standards identified in the Performance Work Statement. A reasonable, acceptable quality level or error rate should be established for each contracted service as shown on the Performance Requirements Summary as maximum allowable deviation from 100% performance.

Based on reviews and analyses of the monitoring data, regular reports should be provided to the contractor indicating strengths and weaknesses of contractor performance along with a plan for implementing corrective action. Notification of unsatisfactory performance should occur as promptly as possible, should be in writing, and should require a response from the contractor and timely correction of deficiencies.

12.5.2 Monitoring Contract Effectiveness

Contract effectiveness is a measure of the extent to which a contractor provides a desired or expected level of service(s). Effectiveness involves a comparison between what a contract actually accomplishes and that which it is intended to accomplish. An effective monitoring plan contains the following elements.

1. Contract Objectives

A contract objective specifies required services and states the output or services the contractor is to provide. The following examples of contract objectives specify required services:

- To provide meals to Juvenile Hall facility population.
- To provide towing and winching services for stranded County vehicles.
- To provide custodial services for County facilities.

The contract objective should be clearly stated in the contract to ensure mutual understanding of the requisites of the contractual relationship. The contract objective, however, should always be stated in conjunction with measurement criteria or performance indicators, which will be used to measure the accomplishment of the objective and assess the contractor's performance. Multiple objectives may require multiple measurement criteria.

2. Measurement Criteria/Performance Indicators

Performance indicators are outputs of contract performance, which can be measured or evaluated. The following are examples of performance indicators:

Contract Service	Possible Performance Indicators
Food Service	Meals served
Towing	Vehicles towed
Custodial	Square feet cleaned
Job Training	Number of participants that complete training
Employment Services	Number of participants placed in

	employment

Performance indicators are key elements of an effectiveness measurement system. It is essential that these measures be clearly and precisely defined in the contract. It is also important that these indicators be incorporated into pre-contract solicitation documents to ensure proposers/bidders are aware of service expectations.

3. Performance Standards

Performance Standards are measures of comparison, which reflect acceptable or adequate quality levels of efficiency and/or effectiveness. Performance standards express the desired level and become a point of reference in evaluating program effectiveness. The following guidelines should be considered when determining a performance standard:

- It should state the Acceptable Quality Level (percentage of the whole that must be performed in accordance with the stated standard(s) for the successful performance of the contract).
- It should address qualitative as well as quantitative considerations.
- It should be practically attainable.
- It should be compatible with the contract objective and performance indicator.

The following are examples of performance standards and their relationship to performance indicators:

Contract Service	Performance Indicators	Examples of Performance Standards
Food Service	Meals served	Number of meals per day, etc.
		Time considerations (meals served at pre-established times)
		Dietary considerations (e.g., menu, quality, quantity, etc.)
Towing	Vehicles towed	Response time
		Equipment standards
		Service time
Custodial	Square feet cleaned	Specific cleaning schedule

		Specific quality requirements
		Carpets vacuumed, trash cans emptied, etc.
Job Training	Number of participants completing training	Hours of training provided
		Number of participants enrolled
Employment Services	Participants placed into employment	Average days to initial placement
		Number of participants that remain in full-time employment for a minimum of 90 days

Performance standards are key elements of an effectiveness measurement system. It is essential that these measures be clearly and precisely defined in the contract. It is also important that these standards be incorporated into pre-contract solicitation documents to ensure proposers/bidders are aware of service expectations.

4. Data Collection Process

The data collection process involves collecting performance indicator and performance standard data from the data source. It is a process of data accumulation and summarization for the purpose of comparing the contractor's performance to standards and for verifying and attesting to the validity and appropriateness of billings. Much of the data collection can be obtained and reviewed in advance of on-site reviews. The data source contains or provides information about the status of the performance indicators and standards. Common data sources are: timecards, service data sheets, service invoices, and accounting records.

The following table shows examples of data sources and their relationship to performance indicators and standards.

Contract Service	Performance Indicator	Performance Standards	Data Source
Food Service	Meals	Numbers of meals per day	Document with signature of responsible County official certifying meal count.
Towing	Vehicles towed	Response time	Service ticket and invoice, showing time tow truck called, time of tow truck arrival, and time at delivery of vehicle to specified

			garage or repair site.
Custodial	Square feet cleaned	Specific quality requirements	Invoice with signature of appropriate County official certifying square footage cleaned.
Job Training	Participants completed training	Number of participants enroller Hours of training provided	Participant sign-in/out logs showing type of training, location, hours, and certificates of completion.
Employment Services	Participants placed in jobs	Initial placement and job retention	Employment verification and participant job placement records.

To be an effective monitoring tool, data sources should:

- Be specific and directly related to performance indicators and standards.
- Provide specific, quantifiable data that facilitates an evaluation of the degree of attainment of the performance standard(s).
- Contain the signature of a responsible County representative attesting to the authenticity of the information shown thereon.
- Be reconcilable to the contractor's invoices for service. In certain cases, the data source will be the invoice. More often, however, it will be daily documentation of performance.

Data sources to be used in performance measurement should also be defined in the contract.

5. Monitoring Process

The contractor's performance will be compared to the performance indicators, standards and Acceptable Quality Levels (AQL's) specified in the Quality of Service Monitoring Plan (QSMP).

<u>Planning</u>:

- Review the Quality Assurance Monitoring Plan developed for the specific contract.

- Schedule regular appointments for site visits and unscheduled appointments so that inspection results produce valid and reliable information concerning contract performance.

- Prepare monitoring instruments and other required documents.

- Advise the appropriate contractor representative of any reports or data that should be available for review prior to or at the time of the site visit.

- Review applicable federal, State, and County laws, regulations and licensing requirements.

- Review existing contract and any amendments.

Desk Audit/Pre-Site Visit Activities:

Desk audits refer to those monitoring activities that occur at the monitor's own office. These activities can include:

- Reviews of required reports or information gathered by Management Information Systems submitted by the contractor.

- Comparing budgetary and expenditure reports.

- Review of any departmental reports or correspondence regarding the contractor's performance.

- Comparison of the contractor's bills with predetermined billing rates.

- Certificates evidencing current insurance coverage and appropriate amounts (i.e., bonding, liability, workers' compensation).

On-Site Activities:

The on-site review is comprised of two elements:

- **Entrance Conference** at which the monitor should discuss the purpose of the visit and scope of review to be conducted.

- **Site Visit Activities** which include:

    a. Interviews with key contractor personnel responsible for program operations.

    b. Review of specific documentation, records and reports to verify contracted services per monitoring methods identified in the Performance Requirements Summary.

c. Validation of invoices and billings submitted by the contractor against services performed.

d. Verification of services or product outputs compared against performance indicators and standards in the Performance Work Statement.

e. Verification that services or products are within Acceptable Quality Levels established in the Performance Requirements Summary.

f. A variety of inspection methods to evaluate the contractor's performance may be used. Examples of monitoring methods used are:

   1) Random sampling of recurring output products. Services are sampled by the monitor to determine if the contractor's level of performance during a given period of time is acceptable or should be rejected. This method is useful when large quantities of a service or a product are produced.

   2) One hundred percent inspection of output items or each occurrence of a service on a periodic basis (daily, weekly, monthly, quarterly, semiannually, or annually) as determined necessary to assure a sufficient evaluation of the contractor's performance. This type of monitoring can be useful for contract requirements or services that are infrequent or are of a critical nature. It can be a very expensive method and should be used sparingly.

   3) Management Information System (MIS) reported results which rely on data and information gathered from reports regarding the contractors can be utilized. MIS data usually accumulate information for 100% of the activities for a specified time. This information can be geared to a contract standard or performance indicator. On the basis of this comparison, performance can be judged and the performance for the specified period accepted or rejected. When using MIS data submitted by the contractor, the monitor should ensure the data are reliable.

   4) Formal customer complaints are a means of documenting certain kinds of service problems. A well-established customer complaint program requires a formal and well-structured plan which includes training of persons responsible for taking customer complaints and thorough documentation of the complaint, including date and time of the complaint, source and nature of the complaint, contract reference of complaint related services, and validation of the complaint and review with the contractor.

      Formal Customer complaints should be used for any type of service when customers are aware of service standards. Customer complaints should seldom be used as the sole basis to reject a service or deduct money from the contractor, but can be used to support the findings developed from using the other monitoring methods.

Each service identified on the Performance Requirements Summary must be analyzed to determine which inspection method or combination of methods should be used to evaluate the contractor's performance. The relative critical nature and frequency of the services as well as cost and importance of accuracy of the service determine the method of monitoring to be used. For example, if it is a critical service, a 100% inspection should be considered. If it is an important service that occurs frequently, random sampling may be the best monitoring method.

The department should establish schedules for ongoing monitoring of contracted services to ensure compliance with appropriate levels of service, scope of activities, quality of service and program expenditures. This will allow timely identification and resolution of potential problems areas.

6. Comparison Process

The comparison process involves comparing the actual level of performance with the performance standard.

- If all system elements satisfy their quality conditions, this process finalizes the determination of contract effectiveness. When the actual status of the performance indicator equals or exceeds the performance standard, the contract service is considered to be acceptable. Conversely, a contract's level of effectiveness is diminished to the extent that the actual status of performance falls short of its standard.

- To be effective, the comparison process should:

    a. Be assigned to a responsible County employee(s).

    b. Be a continual process.

    c. Be a formal process with regular written performance evaluations.

    d. Have a well-defined procedure for deficiency notification and corrective action.

- Departments should assign responsibility for contract appraisal and regularly assess the contractor’s performance. The routine collection of source data, authenticated with appropriate departmental signatures, provides regular feedback on the contractor’s performance. This information can be routinely measured against performance standards.

7. Contractor Evaluation and Follow-up Activities

A written report should be prepared and distributed to the contractor, the County manager responsible for the contracted service and other appropriate departmental offices. A copy should also be retained in the contractor's file for review by contracting and monitoring staff. These reports should include the following information:

- Summary of review activities, documents reviewed and individuals interviewed.
- Description of strengths and weaknesses of the contractor's performance and areas for improvement.
- Plan for corrective action for the contractor with specific time frames for completion of improvements or completion of remedial activities.
- Outline of follow-up activities that are to be performed by the operating department with time frames for completion.

A formal evaluation process documented by regular written evaluations ensures prompt identification of deficiencies and provides the basis for notifying contractors of substandard performance. The specifics of this evaluation process, including timeframes for notification of deficiencies and corrective action by the contractor, should be clearly and precisely defined in the contract. Also, damages or other remedies for uncorrected substandard performance should be specified in the contract. Examples of damages and remedies might include:

- Contract recession
- Dismissal of contractor employee(s)
- Withholding of payments until performance is acceptable

The key to an effective comparison process is that it be timely and decisive. Substandard performance by the contractor must be quickly and comprehensively documented. Timeframes for corrective action should be short and penalties for non-compliance applied in accordance with contract provisions.

It is important that the monitor provide feedback to the contractor detailing findings of the monitoring effort. The monitor should outline any identified problems, or noncompliance issues committed by the contractor with the terms of the contract. The monitor should allow the contractor an opportunity to respond to the findings or furnish additional information to clarify or rebut any of the findings. A plan for corrective action should be developed with a timetable for implementation of these changes.

Follow-up activities are a check to ensure that corrective action recommendations/ requirements have been implemented. These follow-up activities can consist of telephone contacts, exchange of written reports and extensive on-site follow-up reviews.

These activities can occur during the interim period between site visits or during the next regularly scheduled review.

12.5.3 Summary

The monitoring system described in this section is intended to assist County departments in adequately monitoring the contractors' performance. The system is general in nature and should be used as a guideline. Monitoring is effective only when pre-contract planning, the Performance Work Statement and contract wording are comprehensive, thorough, and clear. The key elements of an effective Quality of Service Monitoring Plan are specifically worded contracts, regular written performance evaluations based on measurable outputs and performance standards, and immediate written notification to the contractors of substandard performance with a plan for corrective action.

12.5.4 The Contractor Alert Reporting Database (CARD)

CARD is the County's mechanism for alerting departments of poorly performing contractors. Departments should enter any poorly performing contractors into CARD, which is located on the County's existing enterprise-based eCAPS System, if the contractors meet the criteria indicated in the CARD Manual. The CARD Manual is available on the A-C Website at http://auditor.lacounty.gov/ and on ISD Purchasing & Contracts website at http://purchasingcontracts.co.la.ca.us/resources.htm. Departments are required to follow the policies and procedures indicated in the CARD Manual when placing a contractor into CARD. In addition, departments are required to follow procedures indicated in the CARD Manual during any County contract solicitation where a proposer's performance history is scored as part of the evaluation process.

12.6.0 RETROACTIVE CONTRACTS

Consistent with managing operations under their direction, all department heads are required to adequately plan for the timely solicitation and approval of contracts. For contracts requiring Board approval, departments may not authorize contractors to begin providing services for a new contract, providing services outside of the contractor's scope of services, continue providing services after a contract has expired, or providing services that result in costs beyond the contract sum without prior approval by the Board. However, if this does occur, the contract may need to be approved by the Board retroactively.

The Chief Executive Office (CEO) established the Retroactive Contract Review Committee (RCRC), in response to the Board's instructions to take various actions to reduce the occurrence of retroactive contracts and retroactive payments. The RCRC reviews all retroactive contracts before they are submitted to the Board for approval. The RCRC consists of a three-member panel, and is currently chaired by a representative of the Internal Services Department with representatives from the Auditor-Controller and the CEO. The following must occur, prior to requesting Board approval for retroactive contracts:

1. The County department advises their appropriate Chief Executive Office's analyst, that they are seeking Board approval of a retroactive contract or purchase order.

2. The CEO analyst advises the Chair of the RCRC.

3. The County department provides a completed Retroactive Contracts Reporting Form (Reporting Form) with attached written report on the matter to the Chair of the RCRC. The report must include information as requested in the Reporting Form, including the cause, disciplinary actions taken, if appropriate, and a Corrective Action Plan to help prevent a recurrence.

4. The RCRC Chair advises the RCRC members of the possible retroactive situation, and provides copies of the Reporting Form and supporting documents.

5. The RCRC Chair schedules a meeting with RCRC members, departmental representatives, the appropriate CEO analyst and staff, to consider the departmental proposal for retroactive contract approval.

6. The County department is allowed an opportunity to present its case for retroactive contract approval, followed by an opportunity for RCRC members and CEO analyst/staff to ask questions of the department. Based on a majority of votes, the RCRC issues its final recommendations(s), which include one or more of the following:

    - That the retroactive contract not be approved;
    - That the retroactive contract be approved as proposed by the department;
    - That the retroactive contract be approved with modification(s);
    - That the department return with a corrective action plan and/or that the Auditor-Controller conducts an audit;
    - That the department negotiate a reduced contract amount with the contractor; or
    - That the department develop and provide additional information (e.g., develop/revise corrective action plan), and return to the RCRC.

7. The final recommendation(s) of the RCRC must be reflected in the retroactive contract Board letter. Prior to the finalization of the Board letter, the RCRC members are provided an opportunity (via email) to review the language describing the RCRC's deliberations for accuracy and completeness.

8. The department provides an adopted copy of the Board letter to the RCRC Chair.

12.7.0 COST OF LIVING ADJUSTMENT (COLA)

A COLA is defined as any contract price increase during the term of a contract that is not a cost included in the initially negotiated contract price and is not for an increased service level or workload. A COLA reflects changes in the cost of doing business based on inflation.

COLA provisions in contracts are <u>not</u> mandatory; a department's determination to recommend the use of COLAs shall be a business decision based on such factors as the nature of the services contracted, the market, and the department's history and experience contacting the specific service. If a services contract is developed as a result of a solicitation and the department decides to recommend the use of COLAs, the department must include the applicable COLA language in the solicitation document.

The following policy language shall be incorporated in substantially similar form into solicitations and contracts that include COLA provisions:

> "The contract (hourly, daily, monthly, etc.) amount may be adjusted annually based on the increase or decrease in the U.S. Department of Labor, Bureau of Labor Statistics' Consumer Price Index (CPI) for the Los Angeles-Riverside-Orange County Area (CPI) for the most recently published percentage change for the 12-month period preceding the contract anniversary date, which shall be the effective date for any cost of living adjustment. However, any increase shall not exceed the general salary movement granted to County employees as determined by the Chief Executive Office as of each July 1 for the prior 12-month period. Furthermore, should fiscal circumstances ultimately prevent the Board from approving any increase in County employee salaries; no cost of living adjustments will be granted." Where the County decides to grant a cost of living adjustment (COLA) pursuant to this paragraph for contract option years, it may, at its sole discretion exclude the cost of labor (including the cost of wages and benefits paid to employees providing services under this contract) from the base upon which a COLA is calculated, unless the contractor can show that his/her cost will actually increase.

The above calculations establish the "COLA cap." No COLA may be granted that exceeds the COLA cap, but lesser or no COLA may be appropriate depending on the specific contract.

When COLA provisions are recommended in a contract, the contracting department shall indicate this in the Board letter recommending the contract award in the **<u>CONTRACTING PROCESS</u>** section and specify whether the contract language complies with County policy. The contract award recommendation shall not include actual COLA dollar increases for any subsequent contract or optional extension year because the information necessary to calculate the COLA cap is not known for future years.

Departments shall discuss with Board offices any contract recommendation that does not comply with the County's COLA policy in advance of issuing the solicitation for the contract.

Chapter 13 – Los Angeles County Travel Policy

13.1.0 LOS ANGELES COUNTY TRAVEL POLICY

13.1.1 Background

The Los Angeles County Travel Policy discussed below provides **minimum** guidelines to be followed by County employees traveling on County business. The Policy also applies to anyone whose travel expenses are paid by the County, as provided in County Code or by order of a court. Departments should use this Policy when developing their own internal policies for reimbursing travel expenses. Individual departments may, at their discretion, impose greater controls beyond what is required by this Policy.

On November 1, 2011, the Board of Supervisors (See Board Letter) mandated that all County-related business travel be arranged through a County-approved travel service agency (Agency). The Agency bills charges for air, lodging, rail, bus, and car travel directly to the County's Business Travel Account (BTA). The Auditor-Controller reconciles travel activity to monthly BTA billing statements and apportions expenses to County departments.

13.1.2 Purpose of Policy

The purpose of this Policy is to:

- Provide a uniform process to approve and control of travel expenses
- Provide guidance to travelers, departmental travel coordinators, and, approvers for managing travel expenses
- Distinguish between reimbursable and non-reimbursable expenses

13.1.3 Travel Management Services Agency

County business travelers are required to make reservations through the County–approved Agency. The Auditor-Controller's Disbursements Division is the liaison between County travelers and the Agency to resolve problems, negotiate travel agreements, and distribute centralized travel charges to departments.

The Auditor-Controller receives detailed reports of business travel, by department and traveler, from the Agency. The reports identify employees who declined lower airfares or booked a higher class of service than authorized (coach).

13.2.0 TRAVEL RESERVATIONS

Travelers should use the self-service online system to make travel reservations whenever possible. Phone agents are available for more complex travel arrangements, but agent-assisted reservations have higher transaction fees.

13.2.1 24-Hour Traveler Emergency Assistance

The Agency provides 24-hour traveler emergency assistance (see Auditor-Controller Intranet). Live agents are available to assist travelers during normal business hours at 877-454-8785, and after-hours for emergency assistance at 800-639-9368.

13.2.2 Travel Authorization

Departments must ensure that travelers obtain authorization before making a reservation, and are encouraged to use the A-C's Travel Authorization Form for that purpose. Prior approval is necessary to ensure employees are aware of all travel policies, including reimbursable and non-reimbursable expenses. The authorization form should include, at a minimum, the following information:

- Traveler's name
- Employee number
- Date of birth
- Departmental (eCAPS) unit code to be charged
- Purpose of the trip
- Travel Itinerary
- Manager's signature

This information must be provided to the Agency when booking travel. Copies of the authorization form should be forwarded to staff responsible for reviewing the department's travel expenditure distribution, to verify travel charges were authorized. These authorizations should be retained for at least three years.

13.2.3 Reservation Procedures

When reserving travel, the following information is required:

- Traveler's name
- Employee number
- Date of birth
- Department name and number
- Departmental five-digit eCAPS unit code to be charged
- Traveler's preferred airport of departure and arrival
- Dates and approximate times of travel

Frequent travelers can complete a traveler profile with the Agency, so their information is on the file in the Agency's system.

13.3.0 AIR TRAVEL

The County will only reimburse air travel that is booked through the Agency.

13.3.1 Ticket Delivery

The Agency provides electronic tickets instead of paper tickets. Electronic tickets are generally emailed to the traveler within two days of ticketing.

13.3.2 Overnight Delays

Should an airline delay necessitate an overnight stay, the traveler must attempt to secure complimentary lodging from the airline.

13.3.3 Cancellations/Unused Tickets

Travelers must notify the Agency if they need to cancel travel reservations. The Agency will refund the cost of refundable tickets, and may be able to obtain a partial refund or change non-refundable tickets for use by another traveler. To ensure that proper credit is issued, travelers must notify the Auditor-Controller of any cancellations at:

CountyTravelManager@auditor.lacounty.gov

13.3.4 Use of Private Aircraft

Use by an employee of his or her own aircraft for County business is subject to provisions of County Code Section 5.40.270, including advance approval by the Chief Executive Office, possession of a current valid FAA pilot's license, and proof of $100,000/$300,000/$100,000 liability insurance naming the County as co-insured.

13.3.5 Travel Class

County business travelers are required to travel in Coach/Economy class, and any exceptions must be approved in advance by the traveler's department management. Travelers may elect to upgrade at their own cost, and are personally responsible for reimbursing the department for additional costs. The County's Business Travel Account (BTA) should never be charged for upgrades.

Any upgrades charged to the County's BTA will appear on a monthly exception report. Departments must review the report, ensure that all upgrades were approved, and/or collect reimbursement from the employee, as appropriate.

13.3.6 Lowest Logical Airfare

County travelers are expected to minimize travel costs to the County by taking advantage of any **reasonable** discounts, or accepting alternate schedules. The County does not expect travelers to be unreasonably inconvenienced in order to reduce costs. The following guidelines should be followed when booking air travel:

Lowest Logical Airfare Definition

When savings exceed $75, travelers are expected to book the lowest logical airfare based on the following parameters:

- Routing requires no more than one additional interim stop or change of planes each way
- Routing does not increase the one-way total elapsed trip time (origin to destination) by more than 1 hour
- Time Window: Departure/arrival must be no more than two (2) hours before or after requested time
- Alternate airports are to be used where practical

Departments should consider the following when determining the lowest logical airfare:

- Specially-negotiated fares
- Refundable/Non-refundable fares (See Section 13.12.8)
- Saturday-night stays
- Advance purchase fares
- Connecting and additional stop flights
- Off-peak flights
- Alternate airports
- Promotional/bulk fares
- Lower cost carriers

The Agency can help travelers select itineraries that meet the County's Lowest Logical Airfare definition. Travelers are required to provide a justification for not selecting the lowest logical fare. Reservations that do not comply with this policy are included on a monthly exception report, which is forwarded to departments for follow up. Departmental management is responsible for reviewing the exception report and verifying that the travel was reasonable/appropriate.

The following examples illustrate which flights travelers can accept:

Example 1

The traveler lives in Pasadena, and needs to be in San Francisco for a meeting from 8:30 a.m. to 4:00 p.m. The travel agent offers the traveler the following three flights:

- Southwest Airlines flight departs Los Angeles at 6:45 a.m., and arrives in San Francisco at 7:55 a.m. with a fare of $210, round trip.
- American Airlines flight departs Los Angeles at 6:20 a.m. and arrives in San Francisco at 7:40 a.m. with a fare of $140, round trip.
- United Airlines flight departs Los Angeles at 6:40 a.m. and arrives in Oakland at 7:30 a.m. with a fare of $170.

The traveler may choose any of the options since each of the itineraries is within $75 of each other.

Example 2

The traveler lives in Long Beach, and needs to be in Washington, D.C. for a three-day seminar. The seminar begins on Wednesday at 8:30 a.m., and ends on Friday at 4:00 p.m. The travel agent offers the traveler the following two flights:

- JetBlue Airways flight departs Long Beach on Tuesday at 10:05 a.m., and arrives in Washington, D.C. at 6:05 p.m. The return flight departs Washington, D.C. on Friday at 6:40 p.m., and arrives in Long Beach at 9:05 p.m. Total cost of the fully refundable flight is $402.30.
- United Airlines flight departs Los Angeles on Tuesday at 8:47 a.m., and arrives in Washington, D.C. at 3:58 p.m. The return flight departs Washington, D.C. on Friday at 6:50 p.m., and returns to Los Angeles at 9:23 p.m. Total cost of the fully-refundable round trip flight is $280.

The traveler should accept the United Airlines flight since the savings exceed $75. County travelers are expected to consider alternative airports if alternate routes can save the County at least $75, and if the routing does **not** increase the one-way total elapsed trip time (origin to destination) by more than 1 hour.

13.3.7 Advance Ticket Purchase

Most airlines provide discounts for advance ticket purchases. To qualify for these discounts, travelers must confirm reservations 7, 14, or 21 days in advance of their flight. Travelers are expected to take advantage of advance purchase discounts, and should make travel reservations as far in advance as possible.

13.3.8 Group and Meeting Travel

When a group (two or more people) is traveling to the same destination, one person representing the group should contact the Agency to coordinate travel arrangements.

13.3.9 Air Travel Insurance

All County business travelers whose tickets were purchased through the Agency automatically receive travel accident and baggage insurance. For coverage details, travelers should contact the Auditor-Controller at:

CountyTravelManager@auditor.lacounty.gov.

13.3.10 Additional Travel Insurance Purchased By Travelers

The County will NOT reimburse expenses for additional travel insurance coverage.

13.4.0 GROUND TRANSPORTATION

13.4.1 Rental Cars

Travelers may rent a car at their destination when it is less expensive than other transportation (e.g., taxi, airport shuttle), or if the nature of the travel requires it. All rental car reservations must be made with the Agency.

13.4.2 Rental Car Categories

When traveling alone, travelers should book mid-size cars or smaller, based on need. Requests for exceptions or special needs must be submitted to the traveler's department management for approval. When any car type other than mid-size or smaller is chosen, travelers are required to provide the reason for the exception. At the time of rental, the car should be inspected, and any damage should be noted on the contract before the vehicle is accepted.

13.4.3 Rental Car Upgrades

Travelers may upgrade under the following conditions:

- Insufficient space for the number of County employees traveling together, or to accommodate work-related equipment;
- The traveler can be upgraded at no extra cost; or,
- Pre-approved medical reasons (e.g., drivers with disabilities).

13.4.4 Rental Car Insurance

Domestic

The County self-insures rental cars against third-party liability and physical damage to the rented vehicle. Certain rates negotiated by the County/State directly with car rental companies also include liability insurance. Therefore, travelers must decline all insurance coverage, except:

- Coverage for additional drivers (when applicable)
- Coverage for drivers under 25 years of age

International

Travelers should ask if the rental agency accepts the County's self-insurance. If **not**, travelers should accept all insurance coverage when renting a car outside the United States.

13.4.5 Rental Car Cancellation Procedures

Travelers are responsible for canceling rental car reservations, and must contact the Agency or rental car company directly. Travelers should request and record the cancellation number in case of billing disputes.

13.4.6 Returning Rental Cars

Every reasonable effort must be made to return the rental car:

- To the original rental city, unless approved for a one-way rental
- Undamaged
- On time, to avoid additional hourly charges
- With the required amount of gas to avoid refueling charges

13.4.7 Rental Car Accidents

In the event of an accident involving a rental car, travelers should immediately contact:

- The rental car company (direct the company to contact the Auditor-Controller's Transportation Unit at (213) 974-8441 for claiming procedures)
- Local authorities, as required

In addition, travelers should report the accident to their department using normal County accident reporting procedures.

13.4.8 Pre-Paid Fuel

Travelers should decline pre-paid fuel if offered by the rental agency.

13.5.0 OTHER TRANSPORTATION

13.5.1 Personal Vehicle Usage Guidelines

These guidelines apply when an employee uses his/her personal vehicle to travel on County business to a destination outside of Los Angeles, Kern, Orange, Riverside, San Bernardino, San Diego, San Luis Obispo, Santa Barbara, or Ventura County. Employees may use a personal vehicle rather than public or common carrier transportation under the following conditions:

- If it is less expensive than other transportation methods
- If it is more timely

The vehicle owner must comply with any insurance coverage requirements.

13.5.2 Reimbursement for Personal Vehicle Usage

Travelers will be reimbursed for business use of personal vehicles in accordance with current County mileage reimbursement provisions for travel outside of the County of Los Angeles, and nearby counties (See County Code 5.40.060) upon approval of an expense claim that includes the following information:

- Purpose of the trip
- Date(s) of travel
- Street addresses for origin, destination, and intermediate stops during the trip, which account for the total mileage claimed
- Mileage driven
- Toll and parking receipts

13.5.3 Rail and Bus Transportation

Travelers may use rail and bus transportation when necessary to complete business travel, or if they prefer it to air travel. Departmental management is responsible for authorizing rail and bus transportation. The traveler's choice of transportation method should not result in increased costs to the County or additional time away from work.

Rail and bus transportation must be reserved through the Agency.

13.5.4 Ground Transportation to and from Terminals

Employees traveling to the same location should share ground transportation to and from the airport whenever possible. The most economical mode of transportation should be used to and from airports, bus, and rail terminals.

The following modes of transportation should be considered:

- Public Transportation (buses, subways, taxis)
- Hotel and airport shuttle services
- Personal vehicle

13.6.0 LODGING

13.6.1 Making Hotel Reservations

Hotel reservations must be made through the Agency, and must be secured with a personal or corporate credit card (See Section 13.11.1). Travelers must submit an expense claim for reimbursement (See Section 13.9.0). When the hotel rate exceeds the maximum reimbursable amount indicated in the Travel Expense Reimbursement Rates memo, employees must provide justification to the Agency.

13.6.2 Long-Term Hotel Stays

Travelers staying one week or longer should inquire about weekly/long-term discounts.

13.6.3 Hotel Spending Guidelines

Travelers are responsible for any non-business related spending (e.g., room service, pay-per-view entertainment, spa, etc.) beyond the basic lodging expense. These expenses should not be charged to the BTA, and must be paid for separately by the traveler. Any non-business related expenses billed to the BTA must be reimbursed by the traveler.

13.6.4 Room Guarantee

Unless otherwise instructed, all rooms booked by the Agency will be guaranteed for late arrival with the traveler's credit card or corporate credit card.

13.6.5 Hotel Cancellation Procedures

Travelers are responsible for canceling hotel rooms, and must contact both the Agency and the hotel before the cancellation period ends. Cancellation deadlines are usually based on the local time of the hotel. Travelers should request and record the cancellation number in case of billing disputes. **Travelers will not be reimbursed for any fees charged by the hotel for late cancellation or "no-show", unless the employee can document circumstances outside his/her control (e.g., a late arriving flight resulting in a missed connection, an emergency illness, a management directive to change travel plans after the cancellation period ended, etc.).**

13.7.0 MEALS

13.7.1 Meal Reimbursements

Travelers will be reimbursed for meal expenses as provided in County Code Section 5.40.060. Meals shall not be allowed in the County of Los Angeles or on one-day trips to adjacent counties, except under special circumstances specified in County Code Section 5.40.060 B.2. Reimbursement rates for meals can be found in the Travel Expense Reimbursement Rates memo.

Reimbursement for meals shall be made when travel extends for a minimum of 4 hours during the employee's workday. To be reimbursed for the cost of meals, travel should begin by the following times:

Breakfast	6:00 a.m.
Lunch	11:00 a.m.
Dinner	5:00 p.m.

In addition, to qualify for dinner reimbursement, the trip must end after 7:00 p.m. For purposes of determining eligibility for meal reimbursement, travel is considered to begin when the traveler departs his/her residence or office, and ends when the traveler arrives at his/her residence or office after conclusion of the trip.

Following are examples to illustrate when meal reimbursement is appropriate:

MEAL(S)	TRAVEL BEGINS	TRAVEL ENDS
Breakfast Only	6:00 a.m. or earlier	10:00 a.m. or later
Breakfast and Lunch	6:00 a.m. or earlier	1:00 p.m. or later
Breakfast, Lunch and Dinner	6:00 a.m. or earlier	7:00 p.m. or later
Lunch Only	11:00 a.m. or earlier	3:00 p.m. or later
Lunch and Dinner Only	11:00 a.m. or earlier	7:00 p.m. or later
Dinner Only	5:00 p.m. or earlier	7:00 p.m. or later[1]

See the Travel Expense Reimbursement Rates memo for current reimbursement rates.

[1] **Travel must extend for a minimum of 4 hours during the normal working day.**

Note: Meal reimbursement is generally not allowed if attending a County paid event (e.g., a seminar, training, conference, etc.) where meal(s) are included as part of the cost. Any exceptions must be approved by the department head or designee. For example:

> The traveler would normally claim up to $66.75 for breakfast, lunch, and dinner. However, lunch was included in the County paid registration fee for an event. In

this scenario, $15.75 must be deducted for lunch, for a maximum reimbursable claim of $51.00 for that day.

13.8.0 CAPITAL CITY ALLOWANCE

13.8.1 Use of Capital City Allowance

The Capital City Allowance, per County Code Section 5.40.090 (a), is intended to reimburse additional lodging and meal expenses associated with traveling to certain capital and primary cities. The Capital City Allowance is only **claimable to the extent incurred**, and not claimable for travel to any other cities, unless approved in advance by the Auditor-Controller or Chief Executive Officer. See the Travel Expense Reimbursement Rates memo for a listing of allowance amounts and cities. To receive the Capital City Allowance, travelers must have been required, for business purposes, to be physically present in a designated city for a portion of the day the Allowance is claimed.

Only travelers who actually incurred additional expenses while traveling in a capital or primary city may claim the Allowance. The following are examples of allowable and unallowable Capital City Allowance expenses:

Examples of Allowable Capital City Allowance Expenses

- An employee traveling to a conference in New York City needs to stay at the hotel where the conference is being held. The single occupancy hotel rate is $220 per night, and the maximum allowable from the Reimbursement Rate Memo for hotel expense is $200.25. The difference of $20 can be claimed as a Capital City Allowance expense, since it is less than the maximum allowed for travel to certain capital and primary cities.

- An employee is traveling to San Francisco for a one-day meeting. While in San Francisco, the employee has lunch with several of the attendees. The cost of the lunch is $21.75, but the County only allows up to $15.75 for lunch. The employee can claim the additional $6 as a Capital City Allowance expense, and be reimbursed for the entire cost of the meal.

Examples of Unallowable Capital City Expenses

- An employee is traveling to Arlington, Virginia and flies into Dulles International Airport. The employee takes a shuttle to his/her hotel in Arlington, and spends the remainder of the trip in Virginia. The employee stays at a hotel with a single occupancy rate of $240 per night. One evening, the employee decides to have dinner in Washington, D.C. The dinner costs $40, and the maximum allowable by the County is $39 for dinner.

  The employee will not be allowed any additional incidental expenses because he/she was **not required** to have a physical presence in a capital and or primary city. The fact that the employee chose to stay at a more expensive hotel, and have dinner in Washington D.C. is not sufficient to reimburse the employee for the higher costs.

- An employee travels to Palo Alto, California for a one-day (Friday) seminar (8:00 a.m. to 4:00 p.m.). The employee is authorized to arrive the night before and spend one night at a hotel because the seminar begins so early. The employee also plans to spend the weekend in San Francisco with a travel companion.

  The employee arrives at San Francisco Airport, (located in Burlingame, CA) and stays at the hotel where he/she will be spending the weekend so a change of hotels will not be necessary. The single occupancy room rate is $275, and the employee pays $320 based on double occupancy. The employee also has a dinner on Friday night costing $60.

  The employee can claim up to $200.25, plus taxes for the hotel. The employee is not entitled to any Capital City Allowance because the employee was not required to physically be in San Francisco in order to attend the seminar. In addition, it was the employee's choice to stay in San Francisco.

Capital City Allowance expenses incurred should be reported on the expense claim form discussed in Section 13.9.0, and are subject to verification by departmental management.

13.9.0 EXPENSE CLAIM PROCESS

13.9.1 Expense Claim Form

Expense Claim Forms should reflect only the actual cost incurred for each item (e.g., lodging, meals, capital city allowance, etc.) up to the maximum allowance.

Expense claims may be disclosed in response to public records act requests. Expense claims are also subject to audit, and it is the employee's responsibility to retain copies of receipts or other documentation to support their claims.

13.9.2 Timing for Expense Claim Completion and Submission

A traveler must file an expense claim as soon as possible, but **no** later than two weeks after completing each trip.

13.9.3 Approval/Authorization Process

Expense Claims must be reviewed by the department for the following:

- Business purpose of the travel

- Supervisory/management authorization

- Correct totals/computations
- Supporting documentation and receipts, where required
- Policy compliance

13.9.4 Documentation Requirements

Travelers must provide the following information to be reimbursed for expenditures:

- Type of Expense (including location where employee traveled and/or location where expense occurred);
- Exact amount and date of the expense

Travelers must submit the following documentation along with their expense claim form:

- Car Rental - original invoice (if available)
- Rail - original passenger ticket stub plus invoice/itinerary.
- Hotel - original hotel bill summary (which separates non-reimbursable expenses, such as personal telephone calls, etc.).

Receipts must include the name of the vendor, location, date, and dollar amount. When a receipt is **not** available, a full explanation of the expense and the reason for the missing receipt is required. Even employees who were given travel advances, and are not owed additional reimbursements, are required to file a complete expense claim. Departments **must** initiate collection of the full amount of the travel advance when employees do not submit a timely expense claim.

13.9.5 Incorrect or Incomplete Expense Claims

Incorrect or incomplete Expense Claims will be returned, and may result in delayed or rejected reimbursement.

13.9.6 Reimbursement of Expenses

Reimbursement for approved expenses will be sent to employees via County warrant.

13.10.0 TRAVEL ADVANCES

Departments are discouraged from providing employees with travel advances because they are labor intensive, and may result in overpayments. After each trip, travelers must complete an expense claim, which will require the department to either generate a second warrant to pay the balance owed to the traveler, or collect from the employee any overpaid advance. Collection of the overpayments creates further work because deposits must be prepared to reimburse the County.

The County is billed directly for most travel expenses. Therefore, there is rarely any need to provide employees with travel advances. Travelers who use their own credit cards to pay their travel expenses can be reimbursed before their monthly statement arrives. Additionally, the County has made arrangements with American Express to have corporate credit cards (See Section 13.11.1) issued to frequent travelers.

If approved by the department head or designee, departments should use the following guidelines when issuing travel advances to travelers:

- Require travelers to book their air, bus, rail, car, and lodging reservations through the Agency. This will limit the amount of advance to airport parking or shuttle, hotel, meals, and incidental expenses.

- Never advance more than 75% of estimated travel expenses. This will minimize additional work to process overpayments issued to travelers

- Initiate collection of the entire travel advance if an employee fails to submit a complete and timely expense claim.

13.11.0 COUNTY CREDIT CARDS

13.11.1 Corporate Credit Card

The County has an arrangement with American Express to issue corporate credit cards to frequent travelers. Travelers should contact their departmental travel coordinator to request an application, and department head approval is required. Corporate credit cards are for business use only, and may **NOT** be used for personal expenses.

Corporate credit cards are issued to avoid paying travel advances. Card holders will receive a monthly statement mailed directly to their billing address. The card provides a “grace period” to pay the balance before interest accrues. Card holders should file an expense claim during the grace period, to be reimbursed for travel before the payment is due, and use the proceeds to pay the balance in full, without penalty or interest.

Failure to pay the account promptly may result in:

- Notification sent to employee's supervisor/manager
- Suspension or cancellation of the credit card

The County will pay annual fees, if any, for corporate credit cards issued pursuant to this section.

For corporate credit card information or application instructions, employees should contact their travel coordinator, who will contact the Auditor-Controller's Disbursements Division at (213) 974-8402.

13.11.2 Reporting Lost/Stolen Cards

A lost/stolen card must be reported immediately upon discovery that it is missing. To report a lost or stolen card, call American Express at 1-800-528-2122.

13.11.3 Cardholder Employee Termination

Upon termination of employment, all corporate cardholders must:

- Cut the corporate card in half and send it to:

  Auditor-Controller Disbursements Division
500 West Temple Street, Room 502
Los Angeles, California 90012
Attention: Transportation Unit

- Promptly reconcile, account for and pay any remaining balance

13.12.0 MISCELLANEOUS TRAVEL NOTES

13.12.1 Extended Travel

Most airlines offer discounted airfares when travel includes a Saturday night stay. The following guidelines have been established to identify circumstances when extended travel will be reimbursed by the County:

13.12.2 Extended Travel Based On Cost Savings

Generally, the County will allow an employee to arrive the evening prior to an event if the employee would otherwise have to depart an airport prior to 7:00 a.m. or the employee's regular start-time, whichever is later. It is acknowledged that travel out of state may involve arrival the night before, regardless of the time the event begins. The decision to allow a traveler to leave early should be documented on the Travel Authorization Form in the dates of travel section. In addition, an employee is expected to return on the last day of the event if the employee can reasonably schedule a return flight that will arrive by 6:30 p.m., or the end of the employee's regular work shift, whichever is later.

A stay can be extended when the airfare savings exceeds the combined, additional total cost for the following:

- Additional hotel costs
- Additional meal costs

- Traveler's salary for his/her paid status on the additional travel day(s)

If **all** of the above conditions are met, the Department Travel Coordinator must include with the travel reimbursement request a signed statement approving the extended stay, and a detailed accounting of the savings.

The department head or designee, at his/her discretion, may authorize travelers to stay an additional night and return the following morning, regardless of the availability or timing of the return flight, if it is determined to be necessary or in the best interests of the County.

13.12.3 Extended Personal Travel

Under no circumstances will the County reimburse an employee for expenses incurred when the employee opts to extend his/her time at the destination for personal reasons. The County will not reimburse any expenses incurred after the end of the business related travel. Hotel and parking expenses must be prorated, and only the portion related to County travel will be reimbursed.

13.12.4 Companion Travel

Travelers who are accompanied by a travel companion are responsible for paying for their companion's travel costs, including airfare, meals, the incremental cost of hotel rates (e.g., single room rate compared to double occupancy rate), and any other charges that result from the companion's travel. Air, bus, and rail reservations for travel companions must **not** be charged to the County's Business Travel Account.

13.12.5 Customer Loyalty Programs

County business travelers may retain benefits from airline, car rental and hotel customer loyalty programs. However, participation in these programs must **not** result in any additional/incremental cost to the County above the lowest available fare or rate, as defined in this policy. Any fees or costs associated with membership in a customer loyalty program are the responsibility of the employee, and will not be reimbursed by the County.

13.12.6 Denied Boarding Compensation

Airlines occasionally offer free tickets or cash allowances to compensate travelers for delays and inconveniences due to overbooking, flight cancellations, changes of equipment, etc. County business travelers must **not** volunteer for denied boarding compensation when traveling during normal County business hours. Travelers may volunteer for denied boarding compensation only if:

- Flying outside normal working hours; and

- The delay in their trip will not result in any County work interruption or additional cost to the County (for example additional hotel, rental car, parking expense, meals, etc.).

13.12.7 Who to Call Regarding Travel Policy Issues

Any questions, concerns or suggestions regarding this travel policy may be directed to the travel coordinator or Administrative Deputy of the traveler's department. These persons, in turn, may contact the Auditor-Controller's office at:

countytravelmanager@auditor.lacounty.gov

13.12.8 Glossary of Travel Terms

ELECTRONIC TICKET (E-TICKET)

Also referred to as an E-Ticket, an Electronic Ticket is a digital ticket in which no physical ticket is generated. Travelers are typically issued paper itineraries and must present the itinerary and proper identification when checking-in for travel.

CUSTOMER LOYALTY PROGRAM

A program offered by an airline, hotel, car rental agency or other travel service provider to promote customer loyalty. Participants earn incentives, including credits, rebates, upgrades, amenities, and access to special services. Participation is optional.

ITINERARY

A summary of the traveler’s mode and route of transportation, including departure and arrival times and locations, and flight, train or bus number(s).

LOWEST LOGICAL AIRFARE

The lowest fare that is consistent with the County's travel policy.

NONSTOP FLIGHT

Transportation comprising of a single segment without intermediate stops.

REFUNDABLE FARE/TICKET

A refundable ticket can be cancelled or changed without additional charge.

RESTRICTED (NON-REFUNDABLE) FARE/TICKET

A lower-priced ticket that typically carries a change fee, and cannot be canceled.

13.13.0 MILEAGE

13.13.1 Authority

The Los Angeles County Code, Sections 5.40.190 - 5.40.290, provides for the reimbursement of expenses incurred by County employees who use their private vehicles to travel on County business and who are not Transportation Allowance Program participants. County Code Section 2.10.010 provides the Auditor-Controller the authority to audit any mileage claim submitted for reimbursement.

13.13.2 County Employee Permittee Status

If, in the opinion of the department head, the duties of an employee are such that he/she will drive a privately owned vehicle on County business, the department head shall so certify to the person designated to approve mileage in the department. Such employee shall be known as a "permittee." The department head or designee must approve all employees certified as permittees (See County Code Section 5.40.240). The permittee must hold a valid and appropriate driver's license at all times. Employees with expired driver's licenses cannot claim mileage and are prohibited from driving on County business. A job classification which requires a "Class C" driver's license as a condition of employment is **not**, in itself, justification for authorizing mileage permittee status. The duties of each employee should be used as a basis for determining whether an employee needs permittee status.

In addition to his/her salary, a permittee shall be paid for all reimbursable miles driven on County business (See Section 13.13.8 for the calculation of reimbursable miles) in a privately owned vehicle at the rate in effect at the time the miles are driven. An employee will **not** receive any payment for use of a privately owned vehicle unless he is a permittee and in **no** event for a time more than sixty days prior to the certification required by Section 5.40.240 (See County Code Section 5.40.260).

When duties of a permittee change so that he/she will **no** longer drive a privately owned vehicle on County business, the department head must remove the certification of the permittee. Each department must review the status of all permittees annually to verify the continued need for permittee status.

Pursuant to County Code Sections 5.42.020 G. and 5.42.050 C., an employee headquartered in the Civic Center who is required to use his/her automobile occasionally, i.e., an occasional driver may be reimbursed for parking and mileage expenses. For the purposes of this chapter, the terms "permittee" and "occasional driver" are used interchangeably.

13.13.3 Non-County Employee Permittee Status

County Code Section 5.40.130 allows some Commissioners and Advisory Board members to receive mileage reimbursement. The Code section allows reimbursement for occasional parking, in the same manner and amount and upon the same basis as other employees. These persons may include round-trip mileage from their homes to place of transaction of official business.

Commissioners/Advisory Board members who travel from home to headquarters to home only need to show dates driven, and total number of miles driven for the claim period on the mileage claim form. They do not have to show addresses for each trip. All other trips must be shown as instructed on the reverse of the mileage claim form.

Non-compensated volunteer workers are **not** eligible for mileage reimbursement, except for retired Deputy Sheriff volunteers who conduct background investigations for the Reserve program.

13.13.4 Permittee Headquarters

The department must ensure that any employee claiming mileage for driving a private vehicle on County business complies with CFM requirements and departmental rules and regulations. Each department is responsible for assigning a permanent headquarters to each mileage permittee. It is presumed that the department facility or field office where the employee spends most of his/her work time or receives his/her supervision will be the assigned headquarters.

Establishing headquarters should be compatible with the intent of the mileage program. The intent of the program is to reimburse an employee who is required to travel away from his or her main work location office to perform work. It is **not** intended to reimburse an employee for commuting to and from a normal work location.

Department heads may also allow permittees to travel for County business to the nearby counties of Kern, Orange, Riverside, San Bernardino, San Diego, San Luis Obispo, Santa Barbara and Ventura on a mileage-reimbursement basis.

Permittees should make every effort to plan their trips in advance, and select the most economical and direct route.

13.13.5 Mileage Rates (County Code Section 5.40.190)

Effective July 1st of each year, the mileage reimbursement rate shall be based upon a formula using the standard mileage rate established by the Internal Revenue Service in effect June 1st, and the private transportation and automobile insurance rates for all urban consumers. The new rate is computed by the Chief Executive Office (CEO) and distributed to each department head prior to July 1st each year. Mileage rates and other minimum or pro-rata reimbursement formulas are approved by the Board of Supervisors. Departmental mileage clerks or supervisors should maintain and distribute information to each permittee concerning current reimbursement rates and/or formulas.

13.13.6 Reporting of Vehicle Accidents

County drivers should be aware of the State Financial Responsibility Law. This law (Section 16000-16560 of the California Vehicle Code) requires drivers of motor vehicles involved in accidents resulting in any bodily injury or death, or damage to property of any one person in excess of $750, to report the accident to the State Department of Motor Vehicles.

The "County of Los Angeles Report of Vehicle Collision or Incident" form must be carried by the permittee in his/her vehicle at all times. Whenever a permittee is involved in a vehicle accident while using his personal vehicle on County business, the permittee must report the accident in accordance with instructions on this form.

13.13.7 Claims for Reimbursement of Mileage or Parking Expenses

A permittee's claim for reimbursement of mileage or parking expense must be prepared using the Mileage Authorization Reimbursement System (MARS), except in cases where the permittee does not have access to MARS. Mileage Claims must be verified for accuracy and approved by the employee's supervisor and/or by the person designated by the department head.

If the permittee does not have access to MARS, a hard-copy claim form must be submitted to the department's mileage clerk. The mileage clerk is responsible for ensuring the accuracy and completeness of claim forms. The mileage clerk is also responsible for forwarding claim forms to departmental staff for entry into eHR for payment. The employee should retain a copy for his/her personal files. To eliminate any end of the month guessing or estimates, the claim is to be completed on an "as you go" basis.

Information entered in MARS or on the hard-copy Mileage Claim form must include:

- The mileage permittee's name, as it appears on employment records.
- Permittee's complete home address (i.e., the street address and city), and the distance between home and the headquarters address.
- Permittee's complete headquarters address (i.e., the street address and city).
- Department code (2 digits alphabetic) in the appropriate blank spaces.
- The claim period and last date driven must be shown as complete dates.

All vehicle travel on County business must be reported by day, on the Mileage Claim. The first entry for each day traveled will show the date, starting location and city. Additional entries each day will show the address and city of the destination, the miles traveled, and the purpose of trip. Each line used must be completed with all information requested.

Parking stubs or receipts must support any parking expenses claimed. Employees should upload an electronic (scanned) copy of the stub or receipt into MARS for claims filed on the System. No support, other than the purpose of the trip, is needed for parking meter expenditures.

Note: Incomplete or improperly completed claims must be rejected and returned to the permittee for correction.

- MARS Claims – MARS will not accept a mileage claim unless all required fields are completed. MARS automatically calculates the mileage for each trip and the total miles claimed for the entire claim period using County-sanctioned mapping software.

Hard-Copy Claim Forms

The mileage permittee should enter (in appropriate locations) the total miles claimed for the entire claim period, the appropriate mileage rate(s), and the total dollar amount claimed (The dollar amount claimed is the result of the total miles driven times the appropriate mileage rate(s)). The mileage rate to be used depends on the claim month. The current mileage rate can be obtained from each department's mileage clerk. After indicating total mileage and amount claimed, the permittee must sign on the "Permittee Signature" line, and legibly enter their employee number (six digits including leading zeroes) on the "Employee Number" line of the form. If more than one page is used, the page with the last date driven will be left complete. The remaining pages will be cut off at the dotted line just above, “If more than one sheet is used.” Mileage permittees will also be reimbursed for parking expenses incurred while performing official County business at a facility other than the permittee's headquarters. Parking expenses are allowed **only** if non-fee County/guest parking is **not** available. Parking stubs or receipts are to be attached to the original mileage claim.

Each amount claimed for parking must be recorded in the "Purpose of Trip" column on the same line as the address of the facility visited. If the department is using a revised Mileage Claim form with a column for “Parking,” the amount claimed should be entered in this column. The total parking expense is to be shown separately from the total mileage reimbursement in the summary section of the claim.

Regardless of whether claims are filed manually or on MARS, the mileage permittee and the department authorizing payment of the claim are responsible for accurately reporting the mileage claimed. Falsification of any claim is grounds for disciplinary action, including discharge and/or prosecution.

Claiming Period

It is the responsibility of each permittee to submit claims timely.

- For mileage and parking expenses incurred before October 1, 2012, the permittee must submit a claim for reimbursement within 365 calendar days of the end of the claim period.

- For mileage or parking expenses incurred on or after October 1, 2012, the permittee must submit a claim for reimbursement within three months following the end of the month in which the expense was incurred.

Late claims will be evaluated on a case-by-case basis by the permittee's department management. To have a late claim considered, the permittee must provide evidence that he/she could not complete and submit the claim timely, and that the reason(s) were beyond the permittee's control (e.g., an extended, unplanned medical or other involuntary absence). Forgetting to submit a claim or excess workload will not be adequate justification for processing a late claim.

Authorized Permittee Vehicles

For safety reasons, the County restricts employees to the use of passenger automobiles as permittee vehicles. Requests to use personal vehicles other than automobiles (e.g., aircraft, motor-driven two-wheeled vehicles, trailers, etc.) for County business must be submitted in advance by department management, and approved by the CEO.

13.13.8 Calculation of Mileage Incurred During a Permittee's Regular Working Hours

A mileage permittee is reimbursed for all mileage driven while conducting County business during the employee's regular working hours except in certain circumstances when mileage is incurred from home to the first point of contact (other than headquarters) or from the last point of contact (other than headquarters) to home. A mileage permittee will not be reimbursed for mileage between home to headquarters and from headquarters to home.

Mileage will be allowed from the permittee's home to the first point of contact that is equal to or less than the distance from the permittee's headquarters to that location. In **no** case is the mileage allowed from home to the first point of contact to be greater than the amount that would be allowed from the permittee's headquarters to that point of contact. Similarly, mileage will be allowed from the last point of contact to home that is equal to or less than mileage from the last point of contact to the permittee's headquarters.

Variances in mileage between what is claimed by a permittee and what is determined by internet mapping programs for individual trips may be allowable, if the variance was necessary or unavoidable. MARS automatically allows for variances up to 10% of the mileage calculated by the mapping software. Permittees are allowed reimbursement for all actual miles driven on County business, and departments should not restrict reimbursement based solely on the mileage calculated by the mapping software. However, variances in excess of 10% of the mapping software distance must be reviewed and approved by the employee's supervisor or an alternate to verify they were necessary or unavoidable.

13.13.9 Extra Trip Mileage (County Code Section 5.40.230)

In certain instances, a mileage permittee may be able to claim mileage if he/she is required or ordered to return to his/her duties from home after regular working hours. This "Return to Duty" is termed an "Extra Trip." Extra Trip mileage may be claimed under the following circumstances:

- After completing a regular work shift and returning home, an employee is required to go directly from home to the field and then return home. The employee is entitled to mileage from home to the field and return home.

- After completing a regular work shift and returning home, an employee is required to go from home to headquarters, then to the field and return home. The employee is entitled to mileage from home to all points of contact and back to home.

No reimbursement is allowable to any employee for trips made only from home to headquarters to home, whether such trips are before, during, or after normal working hours or are on days off, if the employee has not already made a round trip commute to work on the same day. For example:

- If an employee is absent on a regularly scheduled workday and then is required to go to his/her headquarters, the employee will **not** be entitled to Extra Trip mileage.

- If an employee is required to work on an unscheduled workday and travels to his/her headquarters, the employee will **not** be entitled to Extra Trip mileage.

- If a telework employee is required to travel to his/her headquarters during or after a telework shift, the employee will **not** be entitled to Extra Trip mileage.

For any Extra Trip mileage claimed, a notation stating that the mileage claimed was pursuant to County Code Section 5.40.230 must be entered on the Mileage Claim in the "Purpose of Trips" field. Mileage may **not** be claimed for personal trips taken during a workday (e.g., lunch, doctor's appointments, etc.). Mileage may **not** be claimed for trips to other County offices to seek employment, **or** to participate in any aspect of the Civil Service examining process, except when the mileage claimant is requested to serve as a Civil Service interviewer.

13.13.10 Internal Controls

Department management must:

- Ensure that the department head or the departmental designee(s) approves each Mileage Claim.

- Exercise sound judgment in the authorization and control of mileage costs.

- Determine if acceptable alternatives are available (e.g., a regular messenger) before sending an employee to deliver or pick-up material.

- Require employees to ride together, to the extent feasible, when two or more employees travel to the same location simultaneously.

- Instruct employees to submit completed Mileage Claims on a regular basis, as soon as practical after the end of the claim month, in compliance with the time limits in Section 13.13.7.

- Furnish and instruct all permittees to carry the "County of Los Angeles Report of Vehicle Collision or Incident" form in their vehicles.

- Establish procedures and controls to ensure that all permittees and occasional drivers maintain a valid and appropriate driver's license at all times. These procedures should include a monthly review of the employees whose driver's licenses have either expired or will expire within two months, and controls to ensure that all employees are contacted for updated driver's license information, and that such information is updated in eHR. In addition, departments must establish controls to ensure that employees with expired driver's licenses cannot claim mileage and are prohibited from driving on County business.

- Instruct the permittee's immediate supervisor to review Mileage Claims to ensure the following:

  a. Claims are not submitted for unauthorized trips.

  b. Claims for excessive mileage are not paid (For example, an employee who makes unnecessary stops to/from home, or claims excessive mileage from contact point to contact point).

  c. Claims do not include mileage from home to headquarters and vice-versa.

  d. Claims do not include mileage for days **not** worked.

  e. Claims are for trips consistent with the employee's position.

- In addition, for hard-copy mileage claim forms, the supervisor should ensure:

  a. Mileage is calculated correctly from home to first point of contact, or from last point of contact to home.

  b. Mathematical calculations are accurate.

  c. The headquarters designation is correct.

  d. After reviewing the Mileage Claim, the supervisor must sign (approve) the claim, and forward the original to the department's mileage clerk in accordance with procedures developed by the department.

Management should establish procedures to periodically review departmental copies of mileage claims to verify that County policies are being followed.

13.13.11 Departmental Mileage Clerk Responsibilities

Prior to authorizing payment of a hard-copy Mileage Claim through eHR, departmental personnel must ensure that the Mileage Claim is complete and has been approved by the appropriate supervisor, and the department head or designee.

The departmental mileage clerk(s) is also responsible for answering all general questions from permittees regarding mileage rules and regulations. Mileage Clerk questions relating to payment problems on claims should be directed to the Auditor-Controller's Countywide Payroll Division's Inquiry Unit at (213) 974-8431 **(Mileage permittees are NOT to be referred to the Countywide Payroll Division for questions).**

13.13.12 Mileage Claim Payment Process

Mileage and occasional parking reimbursement will be made **only** to authorized mileage permittees (driving personal vehicles on County business) who submit a proper, and accurately completed Mileage Claim form in accordance with the rules and regulations established by the Auditor-Controller for the preparation, filing, and payment of such claims. Claim periods begin on the first and end on the last day of each month.

Permittees will be paid according to the eHR deadline dates established for payroll processing. Any questions concerning disputed or unpaid claims should be directed to the permittee's departmental administration.

13.13.13 Record Retention

For claims submitted on a hard-copy claim form, a scanned copy of the Mileage Claim should be electronically attached to the TADJ Document when processed in eHR by the department's payroll section. Current certification of the permittee's status should be retained in the employee's personnel file.

13.13.14 Underpayments

If an employee does not receive full reimbursement for mileage/parking expenses and notifies the department, departmental payroll/mileage staff are responsible for the timely processing of any verified underpayments. These corrections shall be processed in eHR on the Mileage and Parking Claims TADJ screen per established procedures.

13.13.15 Overpayments

Mileage/parking overpayments can occur when an employee has claimed too many miles and/or excessive parking. When an overpayment is discovered, a "Mileage/ Parking Overpayment Letter" must be prepared (See a sample "Mileage/Parking Overpayment Letter" in Section 13.13.16.). The treatment of these overpayments is similar to salary overpayments. The overpayments will be recovered through the eHR Payroll System as reductions to employee earnings for in-service employees. The mileage/parking repayment will be recovered as a fixed amount over a predetermined number of paydays, or an employee may be required to repay the County via a cashier's check, money order, or personal check. Once a recovery plan has been agreed upon, a copy of the letter should be sent to the Auditor-Controller's Countywide Payroll Division, Attention: Overpayment Desk.

Upon receipt of the Mileage/Parking Overpayment Letter, the Auditor-Controller's Countywide Payroll Division will adjust the applicable earnings amount, and reduce departmental expenses once the overpayment is collected. The Countywide Payroll Division will recover the amount of the overpayment per the repayment plan for employees who are **not** out-of-service. Any balances due upon or after termination will be referred to the Treasurer and Tax Collector for collection.

If an employee is in the process of terminating County service, and a mileage/parking overpayment is discovered prior to the issuance of the final terminating County check, the department should recover the overpayment amount from the employee's lump sum earnings (as Deduction Code 132 in the Deduction Detail area of the Outgoing Report). A copy of the Mileage/Parking Overpayment Letter must also be attached to the Outgoing Report. In addition:

- On the Outgoing Report, note in the Remarks area that the Mileage/Parking Overpayment Letter is attached.

- On the Mileage/Parking Overpayment Letter, note that the amount was deducted from the final check as Deduction Code 132.

If the employee does not have sufficient lump-sum earnings to recover the overpayment, or if the overpayment is discovered after an employee has terminated, and the final check has been issued, a Mileage/Parking Overpayment Letter (See 13.13.16 below) must be prepared and sent to the employee via certified mail. An inactive employee will only have the option of repayment via cashier's check or money order.

- If the amount of the overpayment is less than $50.00, it is the department's responsibility to recover the overpayment. However, in some cases an overpayment that is greater than $50.00 may be collected by the department. Once collected, the department should forward the overpayment and a copy of the overpayment letter to the Auditor-Controller's Countywide Payroll Division (Attention: Overpayment Desk) for the adjustment to applicable earnings records and to reduce the department's expense.

- If the amount is greater than $50.00 and is not repaid by the out of service employee, the department should send a follow-up letter to the employee advising the employee that the overpayment is being referred to the Treasurer and Tax Collector's Collections Division.

13.13.16 Sample "Mileage/Parking Overpayment Letter"

Date
John Q. Employee
1234 W. Any Street
Los Angeles, CA 90001

Employee No: 172346
Dept. Code: PL

Dear Mr. Employee:

This is to inform you that you have been overpaid for Mileage in the gross amount of $80.85. A recent audit of our payroll records revealed that on the June 15, 2012, payday, the amount of the mileage reimbursement was overstated due to a clerical error resulting in the overpayment. The breakdown of the overpayment is as follows:

Mileage Claim Period	Reimbursement Paid	Reimbursement Should be Paid	Overpayment Amount
May 1 – 31, 2012	$315.85	$235.00	$80.85

You may elect one of the following repayment options:

A. Resolve this overpayment by remitting payment in full via cashier's check, money order, or personal check payable to Los Angeles County Auditor-Controller. Please send the payment to:

Office of Public Library
2222 N. Broadway Blvd.
Los Angeles, CA 90016
Attention: S. August, Payroll Clerk

B. Repay this amount through one payroll adjustment of $80.85 on the October 15, 2010, payday.

Please sign and date this agreement and select a repayment option. If you do not respond by September 15, 2012, you will have waived any rights to select the collection method, and we will forward this matter to the Auditor-Controller for recovery under Option B, above, beginning with the October 15, 2010, payday.

Employee's Signature of Agreement:___________________________Date:________

Selected Repayment Option: Please Check A______ or B______

If you have any questions, please contact Jane Q. Employee in the Payroll Unit at (213) 555-1212.

Sincerely yours,

Payroll Manager
c: Auditor-Controller Payroll Division

13.13.17 Metro ExpressLanes FasTrak Transponder Fees

Metropolitan Transportation Authority (Metro) FasTrak Transponders allow drivers to use the Metro ExpressLanes on the Harbor (110) and San Bernardino (10) Freeways. Users' prepaid transponder accounts are charged a fee (toll) for use of the ExpressLanes based on the distance traveled, time of day, traffic congestion, etc. A single transponder may be used in any vehicle that is registered with Metro under that transponder account.

This County Fiscal Manual (CFM) Section establishes policies and procedures for three different situations for departments: 1) Purchasing transponders for County-owned vehicles; 2) Purchasing transponders for employees' personal vehicles; and 3) Reimbursing employees for ExpressLane tolls incurred for County-related travel using the employee's own transponder.

Purchasing Transponders for County-owned Vehicles

County departments may purchase ExpressLane transponders for County-owned vehicles. Because ExpressLane tolls for County-purchased transponders will be charged directly to the County, departments must review the monthly on-line transponder statements to verify (based on travel time/tolls) that the lanes were only used for County-related travel, and were not used for travel to or from work, or for other non-County-related travel. If it appears a transponder was used for non-County-related travel, the department must discuss with the employee to determine if the lane use was County-related or personal use by the employee, and recover any personal use ExpressLane tolls from the employee. Employees assigned a County vehicle with a transponder must sign a written agreement that they will not use the transponder for <u>any</u> personal travel, including travel to and from their home, unless the travel was for an "extra trip" as defined by the CFM Section 13.13.9. Employees should also be informed that misuse of a County-purchased transponder is grounds for progressive disciplinary action.

Purchasing Transponders for Employee-owned Vehicles

In general, the County will only buy transponders for County-owned vehicles. County departments may only buy a transponder for an employee's personal vehicle with the approval of the department head, and if the employee signs a written agreement that they will not use the transponder for <u>any</u> personal travel, including travel to and from their home, unless the travel to/from home was for an "extra trip" as defined by the CFM Section 13.13.9.

Because tolls for County-purchased transponders will be charged directly to the County department's account, departments must review the monthly on-line transponder account statements to verify that the lane use and tolls were reasonable and related to County business. If it appears (based on travel time/tolls) that the lanes were used for travel to or from work, or for other non-County-related travel, the coordinator/supervisor should discuss the lane use with the employee, and recover any personal use

ExpressLane tolls from the employee. Employees should be informed that misuse of a County-purchased transponder is grounds for progressive disciplinary action.

ExpressLane Tolls for County-related Travel on Employee-owned Transponders

Employees who use their own transponders to use the ExpressLanes for County-related travel may claim the tolls through the Mileage Authorization and Reimbursement System (MARS)/mileage claim process, recording the ExpressLane tolls in the same way as parking expenses. Employees must submit a copy of their transponder statement as documentation of the expense. Departments must verify that the travel and lane use were for County business, and disallow any claims for ExpressLane tolls for non-County, personal travel. Again, employees should be informed that claiming ExpressLane tolls for personal travel is grounds for disciplinary action.

The County will not reimburse employees for ExpressLane tolls for travel between an employee's home and headquarters, unless the travel was for an "extra trip" as defined by CFM Section 13.13.9.

Transponder Internal Control Plan (ICP)

Departments are required to develop an Internal Control Plan (ICP) of their procedures for purchasing transponders and monitoring transponder usage/tolls to ensure the County only pays fees for appropriate, County business-related travel. The ICP should include procedures for complying with Section 13.13.17, and should be approved by the department head or designee.

ExpressLane Violation Fines

Drivers who use the ExpressLanes without a transponder or use a transponder in a vehicle that is not on file with Metro are subject to a toll evasion penalty assessed by Metro, or be cited by the California Highway Patrol. Because the violations are issued based on the vehicle license plates, the County will be billed for any penalties for County-owned vehicles/transponders.

As with other traffic fines, except as discussed below, the County will not pay any ExpressLane violation penalties, and employees will be required to pay the fines. If a department receives a notice of penalty for an employee's improper use of an ExpressLane or transponder, the department should require the employee using the vehicle/transponder to pay the penalty.

Departments may only pay FasTrak penalties if an employee receives a penalty for using the ExpressLanes to respond to a valid emergency, or if there is delay in the employee receiving the ExpressLane notice of violation from the department, which results in a delinquent penalty from Metro. Payment of an employee's ExpressLane violation penalty or delinquent penalty by the County must be approved by the department head.

13.14.0 TRANSPORTATION ALLOWANCE PROGRAM

13.14.1 Eligibility/Authorization

The Los Angeles County Code, Section 5.40.465, provides that all County officers and management positions authorized for vehicle assignment by the department head may elect to receive a monthly transportation allowance in lieu of an assigned or leased County vehicle. Only Members of the Board of Supervisors and department heads ("L" item subs) are automatically eligible to participate in the Transportation Allowance program. However, the Chief Executive Office may authorize other designated management personnel to receive a transportation allowance when warranted by the responsibilities of their position.

Officials receiving an allowance (and who do **not** lease a County vehicle as provided for in County Code Section 5.12.200) must have a personal vehicle available which is suitable and appropriate for business use. The use of a County vehicle is **not** allowed. Each employee receiving this allowance must have a valid California Driver's License and proof of liability insurance which meets California State Law requirements.

13.14.2 Allowance Payment

Transportation Allowance payments will be included in the participant's regular salary payment beginning on the 15th of the month after eligibility is approved. Current Transportation Allowance rates are available from the Chief Executive Office.

13.14.3 Transportation Allowance Processing

The CEO will send a letter notifying the Auditor-Controller that an employee is eligible to receive the Transportation Allowance. The letter will indicate the effective date of the allowance and the allowance amount. A copy of this authorization is also sent to the affected employee. The Auditor-Controller has the sole responsibility to process all payroll forms required to start or stop the allowance, coordinate the allowance with the civic center parking allowance and parking deduction, and start or stop the auto lease deduction, if applicable.

13.14.4 Claiming of Mileage - Transportation Allowance and Lease Agreement Participants

Managers who are receiving a monthly transportation allowance may **not** claim business mileage reimbursement for business miles driven in the Counties of Los Angeles, Kern, Orange, Riverside, San Bernardino, San Diego, Santa Barbara, and Ventura. However, the actual cost of all parking expenses for business is reimbursable by submitting an Expense Claim form. The Expense Claim must be retained by the department and entered into CWTAPPS for payment by departmental personnel.

When a Transportation Allowance participant uses their personal vehicle for travel to counties other than those listed above, or for overnight business trips, reimbursement may be requested using the Expense Claim forms and procedures.

13.15.0 COUNTY VEHICLES ASSIGNED TO EMPLOYEES

Employees who have County vehicles assigned to them must ensure that they are in compliance with the Auditor-Controller's Handbook for the Reporting of the Personal Use of County - Provided Vehicles, and the Chief Executive Office's County Vehicle Policy.

Chapter 14 – Reporting and Reimbursement of Losses

14.1.0 LOSSES

14.1.1 General

The Auditor-Controller is responsible for approving and processing claims for reimbursement of losses resulting from burglary, robbery, misappropriation and other mysterious disappearances/losses of County funds, resources, and personal property held for safekeeping in the ordinary course of departmental business. For reporting losses of County equipment, see Section 6.9.0.

Requests for reimbursement of losses, except for personal property losses, must be submitted in writing to the Auditor-Controller. The request must be signed by the department head or chief fiscal officer and must state the circumstances and amount of each loss. For all instances of theft, burglary or robbery, a copy of a police report must be attached. A police report should be obtained in those instances of mysterious disappearance when the circumstances warrant it, (i.e., the dollar amount of the loss is large or criminal activity is suspected).

The Auditor-Controller will review the circumstances and notify the department of the results of its review. If reimbursement is approved, a warrant drawn on the County's Uninsured Loss Trust Fund will be issued to the department. The department's Services and Supplies appropriation will be charged periodically with the total of such shortages reimbursed by the Uninsured Loss Trust Fund. The Accounting Division will forward a copy of the Journal Voucher reflecting this charge.

Cashiering shortages of $100 or less should be handled in accordance with Section 1.4.2 of this Fiscal Manual.

14.1.2 Reporting Procedures

Incidents of burglary, robbery, or theft of money or securities must be reported to the Sheriff or local city police department that has jurisdiction and these agencies should be requested to furnish two copies of their investigation reports. In County facilities for which the County provides security, a report of an incident should first be made to the agency that provides security for the facility. The agency to be notified will vary according to the location of the County office in which the burglary, robbery or theft has occurred.

For all losses, a letter stating the circumstance and amount of loss segregated by type (e.g., revolving fund, itemized list of personal property losses) must be submitted to the Auditor-Controller at:

Auditor-Controller
Office of County Investigations
500 W. Temple Street Suite 515
Los Angeles, California 90012

For all instances of burglary, robbery, or theft, a copy of the police report must be attached to the letter. The Auditor-Controller's Office of County Investigations will examine these reports and make independent investigations when necessary.

In situations where losses involve negotiable instruments, such as checks, received by a department for services rendered, departments must contact the parties that issued the checks; notify them to put a stop payment on the original checks and request that they issue replacement checks. Stop payment service charge assessed by banks may be deducted from the amount of the replacement checks. Amounts deducted to cover stop payment charges must be reported to the Auditor-Controller and will be reimbursed from the Uninsured Loss Trust Fund in the same manner as other reimbursable type losses.

Upon approval of the Auditor-Controller, a warrant reimbursing the department's loss will be issued. When the department receives the warrant, it must be receipted for and deposited.

Under certain circumstances/conditions losses due to employee dishonesty or losses of County owned personal property may be recoverable under the County's commercial insurance programs. The Auditor-Controller will forward the information on these types of losses to the CEO's Risk Management Branch for review.

14.2.0 LOST, STOLEN OR DESTROYED CHECKS

Many County departments maintain commercial checking accounts for petty cash purchases, emergency aid payments, etc. If a department is notified by a payee that a check has been lost, stolen or destroyed, the department must have the payee complete and sign an Affidavit in the presence of a designated departmental employee.

If the Affidavit cannot be signed in the presence of a departmental employee and is mailed to the payee, the payee should be instructed to obtain the signature of a witness below the date on the form. The department should also determine if the bank has paid the original check by reviewing paid checks or by contacting the bank.

14.2.1 If the Lost, Stolen or Destroyed Check Has Not Been Paid

- Place a stop payment with the bank. Stop payment charges may be paid out of the revolving fund and reimbursed as Miscellaneous Charges.

- Obtain a copy of the stop payment document for your files. Under no circumstances should a replacement check be issued prior to confirmation of an effective stop payment action, or prior to receiving credit for the original check. In this way, account shortages and duplicate payments will be avoided.

- After confirming the stop payment was effective, issue a replacement check.

- Retain and file the Affidavit completed by the payee.

14.2.2 If the Lost, Stolen or Destroyed Check Has Been Paid

- Obtain paid checks from your files or from the bank and have the payee examine the endorsement.

- If the payee states the endorsement is not his/hers, direct him/her to the Auditor-Controller's Warrant Investigation Section (WI) for review and to complete an "Affidavit Alleging Forgery of Endorsement" form. A replacement check cannot be issued until the individual completes and signs this affidavit, and the County has been reimbursed for the forged check by the bank.

- Once the investigation is complete, WI will submit the completed "Affidavit Alleging Forgery of Endorsement" form and the paid check to the bank for reimbursement.

- For missing, lost or stolen payroll warrants procedures refer to the CWPAY manual.

14.3.0 REIMBURSABLE AND NON-REIMBURSABLE LOSSES

Reimbursement may be obtained on the following items upon proof of loss:

- Money and securities accepted in the course of normal departmental business kept in a safe, vault, locked cabinet, locked desk or other safekeeping receptacle (e.g., the Sheriff accepts money for inmates and the hospitals holds money for patients, etc.). Money and items not related to County business should not be accepted for safekeeping.

- Jewelry and articles of personal adornment, which are held in safekeeping in the ordinary course of departmental business (e.g., clothing or jewelry of prisoners, court exhibits of value, etc.)

- Counterfeit currency. See Section 1.7.0 for detailed procedures for reporting counterfeit currency.

A warrant will be issued to departments for reimbursement of these types of losses. When the department receives the warrant, a receipt is to be prepared, cross-referencing it to the original receipt(s), and the reimbursement deposited in accordance with the normal departmental deposit procedures.

The following items are not reimbursable:

- Damage to equipment or premises. This exclusion applies to the costs of repair or replacement of safes, doors, windows, locked cabinets, etc.

- Theft of equipment such as safes, typewriters, calculators, personal computers, etc.

- Theft or damage to office supplies (e.g., postage stamps, bus tokens, computer diskettes, etc.) or personal property that an employee might leave on or in their desk or in their office, such as picture frames, clocks, and other decor.

- Theft of funds or theft or damage to equipment provided by donated resources.

14.4.0 LOSS OR DAMAGE TO EMPLOYEES' PERSONAL ITEMS

Section 53240 of the Government Code (subject to the procedures, limitations and exceptions in this chapter,) states the County will pay a portion of the cost of replacing or repairing property or prostheses of County employees, such as eyeglasses, hearing aids, dentures, watches and articles of clothing necessarily worn or carried by County employees, when any such items are damaged in the line of duty without fault or negligence of the employee. (Chapter 5.80 of the Los Angeles County Code provides for reimbursement to County employees for the replacement of certain personal property damaged or destroyed in the line of duty without the fault of the employee).

14.4.1 County Employee Defined

As used in Chapter 5.80 of Title 5 of the Los Angeles County Code, the term "County employee" is not confined to persons holding positions provided for in the current salary ordinance of the County but includes every person referred to by the words "employee" as used in Section 53240 of the Government Code in conjunction with a County, including: (1) employees whose positions are listed in the current salary ordinance or in any other ordinance which creates a County office or position, whether compensated or not, (2) inspectors, judges and clerks of precinct boards at elections conducted by the County, and (3) trial jurors in municipal courts in the County who have been sworn as jurors.

14.4.2 Amount of Reimbursement

If a County employee is entitled to reimbursement under this chapter, the amount of reimbursement is calculated by subtracting $5 and also subtracting the amount the employee actually received from other sources, if any, for the reasonable repair cost of the property. However other than for repairs for prostheses, hearing aids or glasses, the repair cost cannot exceed the current market value of the property and repair costs for prostheses, hearing aids or glasses cannot exceed the replacement cost of the property.

14.4.3 Employee Claim Procedures

- The following are requirements for processing an employee claim for reimbursement:

- A County employee requesting reimbursement must submit his/her approved claim form to his/her department head.

- A member of a board, commission or committee, including the Board of Supervisors, or a department head must submit claims to the Auditor-Controller.

- Inspectors and clerks of precinct boards at elections conducted by the County, in addition to trial jurors in Superior Courts in the County who have been sworn as jurors, must submit claims to the Auditor-Controller for approval and final resolution.

Employees must file a claim within five (5) working days after becoming aware of the damage or destruction of the property or prosthesis, unless prevented by disability, act of God, or other good reason, and the department head agrees. Claims filed more than five days after the damage to or destruction of the property or prosthesis because the employee was not aware of the damage or destruction must state in the claim the facts explaining why they were unaware.

Damaged property or prosthesis must accompany the claim if possible. If not possible the claim must state the reason why not.

The date of filing of a claim is considered to be the date of the filing of the claim with the county.

14.4.4 Claims - Approval or Denial by the Department Head

Claims approved by the department head cannot exceed $1,000. Department heads may consult with the CEO and the Purchasing Agent as may be appropriate when acting upon a claim, department heads must determine the cost of repair, cost of replacement, or market value of the property or prosthesis, as the case may be, and state the cost or value on the claim. If a department head finds that the cost to repair, cost of replacement, or market value does not exceed $5 after deducting for any amount the employee has received, if any, the department head must deny the claim and notify the employee.

If the department head finds that the cost of repair, cost of replacement, or market value of the property or prosthesis, as the case may be, is greater than $5.00 but not more than $1,000 after deducting the amount of reimbursement which the employee received, if any, the department head must calculate the amount due to the employee and must request the Auditor-Controller to issue a warrant to reimburse the employee.

If the department head finds that the cost of repair, cost of replacement, or market value of the property or prosthesis, as the case may be, exceeds $1000 after deducting the amount of reimbursement which the employee received, if any, the department head must calculate the amount due to the employee and deliver the approved claim to the Auditor-Controller for further review and, where appropriate, approval.

If the department head determines that the claim is to be based on market value or cost of replacement, and not on cost, the department head may demand as a condition of the approval that the employee transfer title of the damaged item to the County. If the department head makes such a demand, the department head must not approve the claim until the employee delivers the damaged article or prosthesis to the department head.

If the department head finds that the County employee is not entitled to any reimbursement, the department head must notify the County employee in writing of the decision. The denial of the claim by the department head is final and not subject to review.

For the purposes of this Section, where the claimant is a member of a board or commission, or is a department head, the Auditor-Controller will act as the department head.

14.4.5 Claims - Approval or Denial by the Auditor-Controller

When required the Auditor-Controller will either approve or deny the claim and notify the department head. If approved, the department head must request the Auditor-Controller to issue a warrant. The denial of a claim by the Auditor-Controller is final and not subject to review.

14.4.6 Loss or Damage to Employees' Vehicles

The County will reimburse permittees for the cost to repair their vehicle and for other incidental expenses when their vehicle is damaged while driving on County business. To be eligible for this coverage, permittees must be driving on County business or parked on County business. In addition, employees who may be designated as occasional drivers are also eligible for damage reimbursement.

To obtain reimbursement for damage to his or her vehicle, a permittee must complete the form entitled, "Claim for Damage to Personal Vehicle".

14.5.0 LOSS OF NON-COUNTY EMPLOYEES' PERSONAL ITEMS

For losses of non-County employees' personal property (e.g., citizens, custody inmates, hospital inpatients, etc.) held for safekeeping in the ordinary course of departmental business, the departments must instruct the citizen whose property is damaged or lost to obtain, complete and submit a "Claim for Damages to Person or Property" form to the department responsible for safekeeping the property. Forms should be obtained from the Clerk of the Board, Room 383, Kenneth Hahn Hall of Administration. Custody inmates held by the Sheriff Department should obtain a copy of the form at the Sheriff's Inmate Reception Center.

Claims must be submitted within five days after the department or the person that sustained the loss becomes aware of the damage, destruction, or loss of personal property.

The department head should forward the request for reimbursement of personal property losses to the Board of Supervisors' Executive Office. Depending on the size of the claim the Board of Supervisors' Executive Office will refer the claim to the Chief Executive Office’s Risk Management Branch’s Small Claims Unit or to County Counsel. The appropriate department will investigate the claim and determine an appropriate settlement and notify the claimant of the proposed settlement. Upon agreement of the settlement and a signed Settlement Letter, a warrant will be issued to the claimant.

Chapter 15 – Employee Misconduct

15.1.0 EMPLOYEE MISCONDUCT

15.1.1 Introduction

Because every organization will likely deal with employee misconduct at some time, every manager needs to be prepared to recognize and address employee misconduct. However, frequent changes in employment law and policies can make even the best managers uncertain on how to proceed. The guidelines in this chapter were developed to aid all County managers in preventing, detecting and properly reporting employee misconduct. These guidelines incorporate current County policies and procedures and should be referred to before taking any action against employees, vendors or contractors.

15.1.2 Preventive Measures

There are a number of steps managers can take to help prevent or minimize employee misconduct.

- Supervisors and managers should make a sincere effort to get to know their employees. Supervisors/managers should be alert to changes in employees' actions, work hours, attitudes towards their co-workers and supervisors, etc. Management must follow up on changes in employee behavior/actions and must be prepared to take immediate action.

- Departments need to take greater precautions in hiring. Agencies that routinely check references at all levels have been able to eliminate potentially serious employee problems by not hiring individuals whose resume or application otherwise made them appear eligible for the job.

- Management should establish an employee misconduct policy. Handling employee misconduct requires a planned approach developed by management, in conjunction with personnel staff and legal counsel. If developed before a crisis occurs, the policy will guide management through the process to reduce both the emotional and business impact of the misconduct and the chances of successful litigation against the department by employees alleged to have committed wrongdoing. Key elements of an employee misconduct policy are the clear delineation of responsibility for detecting and reporting misconduct within the department. The policy should also include procedures to be followed once misconduct has been reported as well as an outline of disciplinary action to be taken.

- Once an employee misconduct policy has been established, employees should be informed about the policy.

- In conjunction with the employee misconduct policy, departments should also establish an Employee Awareness Program in which employees are encouraged to report abuses and misconduct. Employee reporting is still the best method of detecting employee misconduct. Management systems and internal controls are not designed to detect or prevent collusive employee misconduct. Statistically, more than 95% of illegal actions that are discovered are detected by the organization itself. Facilitating the legitimate reporting of employee misconduct reduces employee misconduct and serves as a strong deterrent. However, department management must be prepared to listen and take action once employees begin to report misconduct. If employees believe management does not take these reports seriously or does not take action, they will stop reporting misconduct and an important prevention resource will be lost.

Aggressive training and education programs on employee misconduct detection and prevention for both employees and managers are key components in preventing employee misconduct. These programs are available from a variety of sources. The Auditor-Controller has developed two programs: Fraud Awareness Training and the Internal Control Certification Program (See Sections 15.1.3 and 15.4.0) to assist departments.

Disciplinary action is also an important part of an employee misconduct policy, including the aggressive prosecution of criminal charges and termination of employees where warranted. People are less willing to be dishonest when organizations seek prosecution for all offenders, no matter how large or small the crime. A strong prosecution and termination policy has a proven deterrent effect.

15.1.3 Fraud Awareness Training

The Auditor-Controller's Office of County Investigations conducts training classes to assist line supervisors in recognizing potentially criminal or fraudulent situations and other areas of employee misconduct. These classes provide an overview of County policies regarding investigations, what to do when you suspect fraudulent activity and a discussion on management's role and responsibilities in the prevention and detection of employee misconduct.

15.2.0 REPORTING MISCONDUCT

By order of the Board of Supervisors (Board Policy Manual #9.040), the department head, District Head or Director of any County agency, department, commission or special district is responsible for reporting all allegations of employee, vendor and contractor misconduct or other improprieties to the Auditor-Controller’s Office of County Investigations.

An online form may be used to report incidents at:

www.LaCountyFraud.org

You may also write, call, fax, or email your report to:

County Fraud Hotline
500 W. Temple Street, Suite 515
Los Angeles, CA 90012
(800) 544-6861
(213) 633-0991 FAX
hotline@auditor.lacounty.gov

Other types of specific incidents should be reported to the appropriate Agency/Department as follows:

- Welfare fraud where no County employee is implicated should be reported to the Department of Public Social Services at (213) 749-4266.

- Physical security incidents defined as an incident placing a person or property at risk that required action by law enforcement, should be reported to the Office of Security Management.

- Allegations of Living Wage violations should be reported directly to ISD's Countywide Contract Compliance Section at:

  Living Wage Hotline: (888) 550-9243 or
  email: LWO-Construction-info@isd.lacounty.gov

- Allegations of discrimination, sexual harassment, unlawful harassment (other than sexual), retaliation and inappropriate conduct towards others based on a protected status, should be reported to the Countywide Equity Oversight Panel at:

CEOP: (855) 999-2367

15.2.1 General Policies

The actual reporting may be delegated to subordinate staff. However, it is recommended that managers at the level of Administrative Deputy or above be thoroughly familiar with these guidelines. Personnel Officers should also find the guidelines helpful in dealing with employee disciplinary actions.

Departments should report any known or suspected matter of impropriety by a County employee or individuals or firms providing goods or services under contract. Although the following are types of allegations which should be acted upon, they are meant as examples only and do not constitute the entire range of misconduct which should be reported:

Theft	Misappropriation of resources (including IT)
Embezzlement	Personnel improprieties
Substance abuse	Conflict of interest

Nepotism	Filing fictitious claims
Kickbacks	Unauthorized use of County equipment
Work hour abuse	Workers' Compensation abuse

County departments, districts and agencies must report all complaints of abuse of authority by law enforcement, security or safety personnel, including those that are provided under contract.

A department should not hesitate to act even if facts are sketchy or do not meet certain perceived standards for evidence. The best course is to ask for assistance as soon as there is a hint of a problem. Upon suspecting or discovering a reportable offense, the initial step a department should take is to contact the Auditor-Controller's Office of County Investigations.

Informants may remain anonymous. Department personnel making referrals should have all the information readily available for Office of County Investigations staff. It is critical that the name(s) of any employee(s) involved in misconduct and the type(s) of misconduct be documented. To ensure proper handling of such matters, departments are instructed:

- **NOT** to investigate the matter;
- **NOT** to contact any employee or other individual(s) under suspicion;
- **NOT** to disturb or otherwise compromise any physical evidence.

Because of the sensitive nature of investigations, departments should avoid taking any action that will alert the suspect employee to any impending investigation. Since preservation of evidence is critical, any action affecting the employee and his/her job surroundings may compromise the investigation, void a potentially successful prosecution, and jeopardize possible restitution.

Upon receiving notifications of irregularities from departments, the Office of County Investigations will advise departments on the course of action to be taken. In certain situations, departments may be directed to complete their own investigations and report the results in writing to the Office of County Investigations. In all other situations, the Office of County Investigations will assign staff to conduct a preliminary investigation and, as appropriate, advise the department on a recommended course of action, and/or make referrals to the proper law enforcement agencies.

15.2.2 Reporting Misuse of Information Technology

Internet, e-mail and other technology based hardware and software resources provided to County employees are to be used for business purposes only. Every employee has a responsibility to maintain and enhance the County's public image and to use technology resources in a productive, professional manner. The Board of Supervisors has adopted several policies for using technology based resources.

The following Board policies specifically cover misuse of County information technology resources as well as address preventative security measures and guidelines: *(Note: For a comprehensive overview of all Countywide information technology policies, see Chapter Six of the Board Policy Manual).*

BOS Policy #6.101 – *Use of County Information Technology Resources.*
BOS Policy #6.104 – *Use of Electronic Mail (e-mail) by County Employees.*
BOS Policy #6.105 – *Internet Usage Policy.*
BOS Policy #6.109 – *Security Incident Reporting.*
BOS Policy #6.110 – *Protection of Information on Portable Computing Devices.*

Examples of violations of the Board Countywide Information Technology Policies include:

- Revealing your password to others.

- Using the County's Internet services for illegal purposes, such as:

    a. The unauthorized copying of copyrighted materials

    b. The posting or e-mailing of scams such as pyramid schemes

    c. The posting or transmitting of any message or material which is libelous or defamatory

    d. The posting or transmitting of any message, data, image, or program which is indecent, obscene, or pornographic

    e. Posting or e-mailing charity requests, petitions for signatures, chain letters or advertising except where approved and authorized County business is involved

    f. Threatening bodily harm or property damage to individuals or groups

    g. Posting or e-mailing any offensive material or remark, including but not limited to remarks about an individual's race, age, disability, religion, national origin, physical attributes, or sexual preference

The County has the right to administer any and all aspects of County information access and use including the right to monitor Internet, e-mail and data access to ensure compliance with the County information technology policies. Suspected violation of these policies related to abuse must be reported to OCI in accordance with the provision covered in these policies.

15.2.3 Dealing With Employees Under Investigation

Dealing with employees under investigation is one of the most difficult tasks that departments face and the proper handling of the suspect employee is critical. Some investigations can be conducted while a suspect employee remains in the assigned work area. If the suspect employee is unaware of the investigation, department management should not take any action that might alert the employee.

In some situations, an employee under investigation must be removed from the normally assigned work area. This may become necessary to stop any unlawful activity or misconduct and to protect possible evidence. When removal is required, it is important that it be done expeditiously and with minimal disturbance. The department should follow the advice of County Counsel, the Department of Human Resources and the Auditor-Controller's Office of County Investigations Unit in considering the following options:

- **Reassignment**

  The reassignment of an employee is usually the most appropriate option when it is least likely to raise a question and/or disrupt the productivity of other employees. However, if reassignment will not clearly limit the employee's access to the original work area, or if the seriousness of the matter under investigation is significant, then other options should be considered. In some circumstances it may be in the best interest of the County to relieve the employee of all job assignments.

- **Suspension**

  Under Civil Service Rule 18.01, an employee may be suspended without pay for up to 30 days pending completion of an investigation or filing of charges. Where the basis of the suspension becomes a criminal charge, the suspension may extend up to 30 days beyond the period of adjudication (that is, up to 30 days after the case is resolved in the courts, etc.). This can be many months or, in some cases, years. For this reason and because suspension requires certain disclosures to the employee that may compromise an investigation, it must be a very carefully considered option.

  Except in special circumstances, suspension with pay is not recommended. It is preferable to reassign a suspected employee to another work area and/or assign other duties. If necessary, employees under investigation may be given assigned duties to be performed at home.

- **Discharge**

  Discharge before the completion of an investigation is generally not a viable option because documentation supporting such action may not be obtained until after the completion of the investigation. In addition, ongoing criminal investigations could be seriously jeopardized by such action because the grounds for discharge must be disclosed at the time of termination.

- **Resignation in Lieu of Prosecution**

  This is **not** an option. Department personnel are prohibited from negotiating a resignation in lieu of initiating an investigation with employees suspected of committing a crime. This can cause subsequent problems if the specific circumstances are not properly investigated or documented because these employees can return to County employment in another department. Unaware of the previous misconduct, the new department may place these employees in positions where that misconduct can be continued. Additionally, resignation in lieu of discharge does not prevent prosecution for criminal acts. The District Attorney is the only agency empowered to determine if a complaint should be prosecuted. Therefore, departments must notify the Office of County Investigations, even if an employee resigns prior to a formal investigation being requested.

15.2.4 Rights and Duties of Employees Under Investigation

Employees under investigation are afforded a variety of rights and protections. Some are basic to all employees, such as the right against self-incrimination. Others are specific to a group of employees, such as those rights covered in Memoranda of Understanding or laws pertaining to law enforcement personnel.

There are laws and regulations regarding the number of interrogators who may be present during an interview, when representation is permitted, and how much information must be divulged to the employee during the interview. The laws and regulations regarding these rights are complex and their application is modified frequently by court decisions.

Disciplinary actions or criminal prosecution may be jeopardized if these rights are not observed. Because of the complexity of these laws and regulations, only a trained investigator should conduct a discussion of alleged improprieties with the employee, particularly if the investigation involves criminal matters. Additionally, depending on the nature of the investigation (i.e., criminal vs. administrative), trained investigators can define the limits of lawful search and seizure and control the amounts of information disclosed to the employee. A proper interrogation will ensure that both the employee's rights and the County's best interests are safeguarded.

15.3.0 EMPLOYEES REPORTING FRAUD OR OTHER IMPROPRIETIES

15.3.1 Protections

Employees reporting employee misconduct (whistleblowers) have certain protections that departments need to be aware of and observe. County Code Section 5.02.060

commonly referred to as the "Whistle Blowers' Ordinance" contains two important protections for employees:

- It prohibits the use of threats, official authority or influence to restrain or prevent employees who are acting in good faith from reporting employee misconduct or other improprieties.

- It also prohibits reprisals against employees who have already reported employee misconduct or other improprieties.

Managers or supervisors who violate this ordinance may themselves be subject to disciplinary action up to and including discharge. Government Code Section 53296, et. seq., provides additional protection for employees reporting fraudulent activities. This State law permits employees to sue local agencies and individuals for retaliation once administrative remedies have been exhausted.

There may be instances where those who have reported employee misconduct or mismanagement are themselves accused of unrelated misconduct. In those cases, departments should take extra precautions before attempting disciplinary actions against those employees. Even if allegations of misconduct or disciplinary action are not an issue, departments should still take care that any action involving an employee who has reported employee misconduct or mismanagement is not viewed as retaliatory.

15.3.2 Fraud Reward Program

The County's Fraud Reward Program authorizes rewards of up to $1,000 for information resulting in a criminal conviction of a person or persons committing fraudulent activity against the County. The Auditor-Controller, Chief Executive Officer and County Counsel will review any applications for payment of rewards and make recommendations to the Board of Supervisors. The Board of Supervisors will review these recommendations and under its sole discretion may order payment as deemed appropriate.

15.4.0 INTERNAL CONTROL CERTIFICATION PROGRAM

The maintenance of a good system of internal controls is a key component of any system established to prevent and/or detect instances of employee misconduct or fraud. The Auditor-Controller developed the Internal Control Certification Program (ICCP) to assist County departmental managers in evaluating and improving internal controls in all fiscal areas, thereby reducing the risk of error, fraud and other improper activities.

Under the ICCP, each department/district is required to annually review (unless a biennial review has been approved by the Auditor-Controller) and evaluate controls in key areas and certify that action is being taken to correct any deficiencies or weaknesses noted. A written certification of such review and evaluation must be filed annually with the Auditor-Controller utilizing a prescribed method.

The areas subject to review include:

Cash Controls	Payroll Controls
Expenditure Controls	Trust Controls
Capital Assets Controls	Revenue Controls
Supplies Inventory Controls	Information System Controls
Journal Voucher Controls	

Chapter 16 – Departmental Foundations/Support Groups

16.1.0 DEPARTMENTAL FOUNDATIONS/SUPPORT GROUPS

16.1.1 Description

A number of departments are affiliated with private foundations/support groups. These entities provide support to departments in the form of monetary or equipment donations, research, education, volunteer labor, etc. On January 4, 1994, the Board of Supervisors adopted guidelines regarding the relationship between a department and foundations or support groups. These guidelines define the types of organizations that must be considered “reportable foundations,” and establish the requirements for a County department to monitor, account for, and report on its relationship with each reportable foundation.

16.1.2 Definition of Reportable Foundation

Departments should adhere to the requirements of this section and consider a support organization to be a "reportable foundation" when:

- The organization donates funds, services, equipment, or supplies to the department or the department's clients.

<u>and</u>

- County costs are incurred in maintaining the relationship with the organization. Costs can include County staff time spent working with the organization, and/or office space, supplies, etc., provided to the organization.

Departments should also consider an organization to be a reportable foundation (whether County costs are incurred or not) if the organization was established by the department and/or the organization's primary purpose is to directly or indirectly benefit the department and its mission or clients.

- **Examples of Reportable Foundations**
  - The Public Library Foundation solicits donations from the public to enhance and promote programs of the County Public Library. The Foundation uses library office space, and County employees perform certain accounting functions for the foundation, on County time, free of charge.
  - The Los Amigos Research and Education Institute seeks grants to conduct research and educational activities designed to advance the quality and diversity of health care services offered by the Rancho Los Amigos National Rehabilitation Center. The Institute uses Medical Center office space and supplies free of charge.

Both of these organizations meet the criteria for reportable foundations since they were established primarily to benefit the departments' missions and their clients, and County costs are incurred in maintaining the relationships.

Examples of Non-reportable Organizations

- The United Way
- Boy Scouts and Girl Scouts
- March of Dimes

These organizations do not meet the reportable foundation criteria since they are not specifically designed to support a County department's mission or clients. In addition, County costs are generally not incurred in maintaining relationships with these types of organizations.

Questions as to whether organizations with which departments are affiliated should be considered reportable foundations should be directed to the Auditor-Controller's Audit Division.

16.1.3 Reportable Foundation Requirements

Departments affiliated with reportable foundations shall adhere to the requirements below. It is emphasized that County departments (not foundations) are responsible for implementing the following requirements.

1. Board Approved Agreements

Departments should establish Board approved agreements with their affiliated foundations. The agreements should specifically define the roles and responsibilities of each party and be approved as to form by County Counsel. Each agreement should include, at a minimum:

a. A description of the services/benefits the organization will provide the department.

b. A description of activity and financial reports that the organization will provide the department.

c. A description of the support and facilities the department will provide the organization (e.g., County staff support, work space, supplies, etc.). The agreement should identify any County costs that will be reimbursed by the organization to the department.

d. A requirement that foundation boards and other key foundation positions are filled by individuals who are not County employees (unless prior approval has been obtained from the Board of Supervisors).

e. A statement that the organization shall make their financial records available to representatives of the department and the Auditor-Controller for review and audit.

f. Other information deemed appropriate by County Counsel depending on the size of the organization and the types of services the organization will provide.

Some departments may be affiliated with small, informal groups that are not incorporated or chartered and may not have the legal capacity to enter into written agreements. In these situations, departments should develop written guidelines which define the roles and responsibilities of each party and which incorporate the information included in the items above. These guidelines do not need to be approved by the Board or County Counsel. However, departments must report on their affiliations with informal groups as described below. Departments should provide the guidelines to the informal groups and monitor to ensure the guidelines are followed.

2. Independence of Operations

Departments should ensure their operations are as independent as possible from the operations of their reportable foundations. County employees should not be involved in directing foundation operations. Foundation board members and other key foundation positions should not be County employees. If, because of unique operating circumstances, this separation of responsibilities is not possible, Board of Supervisors approval shall be obtained prior to County employees being designated to positions where they can exercise direction and control of foundation operations.

3. Employee Disclosure Requirements

County employees (1) who receive compensation from a foundation, (2) who are in an official decision making position in a foundation (such as a member of the board of directors or in an executive or administrative position), or (3) who, on County time perform administrative or support functions for foundations on a recurring basis, must disclose this information when completing the annual **Report on Outside Employment Activities**. Department management should review the reports for potential conflicts of interest.

In situations where County employees are paid by foundations for performing foundation work on County time, departments shall ensure foundations follow the approval and reporting requirements specified in County Code Section 5.44.

4. Accountability for Costs

Departments should account for all County costs incurred to support and monitor their affiliated foundations.

a. County services and supply costs such as office space, office supplies, utilities, etc., that are attributable to (incurred on behalf of) foundations shall be accounted for (i.e., identified and tracked) separately from other County services and supply costs.

b. County salary and employee benefit costs that are attributable to foundations shall be accounted for (i.e., identified and tracked) separately from other County salary and employee benefit costs. Where practical, employees should separately record on their timecards any foundation functions performed on County time.

c. Foundation cost accounting systems should be designed such that the costs incurred by the department on behalf of individual foundations can be separately identified.

The departmental effort expended in identifying and accumulating foundation related costs should be commensurate with the significance of the amount of costs incurred. In situations where the costs are not significant, and it is not practical to establish a system to account for exact costs, estimates should be used.

5. Accountability for Benefits

Departments should account for the benefits received from reportable foundations.

a. Tangible benefits such as funds, supplies, and equipment which foundations donate to the department or the department's clients must be budgeted and accounted for in accordance with the donation procedures outlined in Chapter 2 of this manual, Section 2.4.0.

b. Intangible benefits should be accounted for only in terms of the number and types of services received, and/or in a narrative form that describes the program or service provided by the foundation. For example, departments could account for the hours of volunteer services received from foundations, the number of clients served by foundations, etc. **Departments should <u>not</u> place a dollar value on intangible benefits.** Departments should consider having their foundations periodically report intangible benefits to department management for review and verification.

c. Departments should not account for administrative costs incurred by foundations as donations to the County.

d. Foundation benefit accounting systems should be designed such that foundation benefits received from individual foundations can be separately identified.

As in accounting for County costs incurred on behalf of foundations, the departmental effort expended in identifying and accumulating foundation related benefit information should be commensurate with the volume and significance of the benefits received. **However, as noted below, there must be some means to identify benefits (and costs) of foundation affiliations and ensure that the benefits (tangible and intangible) outweigh the County costs incurred in maintaining the relationship.**

6. Monitoring of Foundation Activities

Departments must monitor to ensure foundation activities are in the best interest of the County and the public. The extent of departmental oversight will vary depending on the size and types of foundations with which the department is affiliated. At a minimum, departmental monitoring should assure that:

a. Relationships with foundations are cost-beneficial or, if the County costs incurred in maintaining the relationship with the Foundation exceed the tangible benefits received from the foundation, it is critical that the department document that the intangible benefits received from the foundation outweigh the costs incurred by the County. <u>In cases where the benefits received do not outweigh the costs incurred, department management must reevaluate/justify continuing the relationship with the foundation.</u>

b. Foundations disclose to potential donors or other funding sources the types of items, activities, programs, etc., for which foundation proceeds will be used. Departments should periodically follow up to ensure that proceeds are used as disclosed. This assurance and follow up could, for example, be accomplished by reviewing annual foundation reports to the federal, State, or local licensing authorities.

c. If the foundation will solicit monetary donations from the public, departments should ensure the foundation has obtained its tax-exempt status, **and** the foundation has obtained a business license from the city in which it will conduct business or from the County if business will be conducted in unincorporated County areas (See County Code Title 7 for detailed requirements).

To the extent practical, monitoring should be performed by County employees who are independent of the foundation. Foundations should not be monitored by employees who are foundation board members or who have day-to-day involvement with the foundation.

7. Annual Reporting on Cost/Benefit of Reportable Foundations

On an annual basis, Departments must submit to the Board of Supervisors a benefit/cost report on each reportable foundation. This report is to be filed within 90 days of the close of the fiscal year (by approximately September 30 of each year) in conjunction with the donations report described in Chapter 2 of this manual, Section 2.4.2.

A separate report must be completed and submitted for each reportable foundation. If a department is not affiliated with any reportable foundations/support groups, the department head is required to submit a statement attesting to the fact that the department is not affiliated with any foundations.

The annual report requires departments to provide information on each foundation and the foundation's activities including the following:

a. The name of the foundation and date chartered/incorporated, if applicable.

b. A brief description of the purpose of the foundation.

c. Identification of department employees directly involved in the policy making by serving as members of the board of directors or officers of the foundation.

d. A summary of the County costs incurred in maintaining the relationship with the foundation.

e. Estimates of the tangible and intangible benefits provided by the foundation to the department.

f. The foundation's operating budget and assets.

g. Assurance from the department head that the benefits received from the foundation outweigh County support costs.

Departments affiliated with multiple small neighborhood groups supporting specific facilities or activities (e.g., small informal local groups which provide support to a particular park, recreational activity, local library, or to a youth activity such as a boys club, etc.) may submit a single combined report for these types of support groups (i.e., one combined report for each different type of group). The combined report should list each of the informal groups and summarize their objectives, major activities, the benefits provided to the department, and the departmental costs incurred on behalf of the groups.

The Auditor-Controller will periodically review foundation benefit/cost reports as part of its departmental audits.

Chapter 17 – Retreats

17.1.0 PURPOSE OF CHAPTER

The purpose of this chapter is to provide departments with a policy and guidelines specific to the use of retreats, including cost control measures, which are intended to maintain and enhance appropriate standards and levels of accountability.

17.2.0 DEFINITION OF A RETREAT

According to Section 5.40.510 of the County Code, a retreat is a meeting of two or more County employees at a site or facilities not owned by the County, where:

- The meeting is called by a department for the purpose of discussing issues related to departmental management, administration or operations or similar issues affecting the department, or for receiving training or conducting practical exercises with respect to such issues;
- Persons conducting the meeting, training or similar activity are invited by the County or are County employees;
- There is at least an overnight stay by persons participating; and,
- The County assumes all or part of the costs and expenses.

17.3.0 POLICY

It is the policy of Los Angeles County to support the retreat process as a valuable and necessary tool for both management and non-management personnel. Departments are encouraged to engage in the retreat process to improve their missions and the goals of the County. Section 5.40.510 of the County Code provides the legal authority for departments to conduct retreats subject to specified provisions. Included with this policy is a formal mechanism for departments to report to the Chief Executive Office on each retreat as required by Section 5.40.510 of the County Code. The Auditor-Controller may review documentation maintained by departments to determine compliance with these guidelines.

17.4.0 GUIDELINES

17.4.1 Objective

Retreats must specifically assist departments in meeting their goals or the goals of the County.

17.4.2 Planning

Each retreat should be formally planned, including, but not limited to, such things as: problems(s) to be approached; goals to be achieved; other issues to be discussed; agenda; and a detailed budget for meals, lodging, facilitator(s), conference room rental, and other incidental expenses. A list will be provided to each department by the Internal Services Department of hotels, conference centers, and university retreat facilities that offer favorable government or other rate structures for meals and lodgings, as well as a contact from the County's travel vendors for further location choices.

17.4.3 Location

Retreats should be held within the County of Los Angeles whenever possible. If the retreat is held outside the County, the department head must provide written justification to the Chief Executive Office (CEO).

17.4.4 Follow-Up Analysis/Report

Departments must prepare a follow-up analysis/report on each retreat after the conclusion of the retreat. A summary report is to be submitted to the CEO, Human Resources Branch, c/o the Assistant CEO, at the end of each calendar year and each fiscal year. A sample format for the follow-up analysis/report is provided in section 17.5.0. Departments must keep retreat documentation for a period of three years from the date of the retreat.

17.4.5 Costs

The following are specific guidelines for costs:

- Retreat spending must not exceed departmental budget allocations.
- The amounts spent for meals and lodging cannot exceed the amounts authorized by Section 5.40.060 of the County Code as adjusted annually by the Auditor-Controller.
- Recreation and other costs not directly related to the purpose of the retreat are not reimbursable.
- Departments using outside consultants, facilitators, or planners must require them to provide billings in advance with breakouts of rates for lodging, meals, and all other details of the total retreat expense.
- Departments must identify cost-control methods that were utilized in the planning and execution of the retreat on the CEO Report of Retreat. Cost control suggestions include the following:

    a. Exploration of funding for retreats through foundation grants, State and federal grants, and "good citizen" corporate donors. However, any arrangement that involves a corporate donor cannot involve or give the appearance of involving solicitation of County business.

b. Pursuit of corporations which might be willing to offer their training sites, staffs and facilitators to assist in leading County retreats. If not feasible on a no-cost basis, corporations should be approached to share costs of their in-house services as a means of reducing overhead.

c. In order to minimize conflict of interest problems, County Counsel has provided the following general guidelines which should be followed whenever such funding arrangements are pursued. Questions regarding specific arrangements should be directed to County Counsel <u>before</u> the funding arrangements are explored:

    1) The donor must intend to make the donation to the County, not to the employees.

    2) The County, not the donor, exercises control over the use of the donation.

    3) The donor does not limit who can go on the retreat to specified or high level employees.

    4) The making and use of the donation are formalized in advance of the retreat in an action of the Board of Supervisors.

d. Contacting faculty members at local universities having schools of administration or management to conduct County retreats as outside facilitators, providing package deals for a fee. Area university departments such as the USC Schools of Public Administration and Social Work, UCLA Extension Division, Pepperdine School of Business and Management, and California University Los Angeles Extension specialize in public sector management and technical development.

e. Other suggestions to decrease cost may include:

    1) Employees' option to share rooms.

    2) Employees paying part of the retreat cost.

    3) Planning retreats, especially those including non-management employees, during regular work hours.

17.4.6 Consultants

On the CEO Report of Retreat, a consultant's specific skills, including qualifications and reason for selection, should be documented, as well as the breakout of costs associated with the consultation fee.

17.4.7 Participants

Retreats should include both management and non-management personnel to the maximum extent practical. Departments should keep a record of each participant attending the retreat. It should be decided in advance whether the employee's participation is on his or her personal time or paid by the County. Retreats should be structured so that overtime, for both FLSA exempt and non-exempt employees, is minimized.

17.4.8 Approval

Retreats must be approved by the department head.

17.5.0 REPORT OF RETREAT

Page 1

CHIEF EXECUTIVE OFFICE

Report of Retreat

Purpose: Section 5.40.510 of the County Code states that departments must routinely develop a follow-up analysis and report on each retreat. Semi-Annually the Chief Executive Office (CEO) is required to report to the Board of Supervisors on the retreat activity by County departments. This form will be used by the CEO to gather necessary information.

This form should be prepared and submitted to the CEO, Human Resources Branch, c/o the Assistant Chief Executive Officer, at the end of each fiscal year and each calendar year.

Department: ______________________________

Retreat Dates: ______________________________

Starting and Ending Times
(Attach Retreat Agenda): ______________________________

Purpose of Retreat: ______________________________

____

____

Location (Address) of Retreat: ______________________________

____

Number of employees attending retreat (Attach list of attendees):

	Number	**Percentage**
Management	________________	_____________
Non-Management	________________	_____________
Total	________________	_____________

CHIEF EXECUTIVE OFFICE

Report of Retreat

RETREAT COST:	**Total Budget**	**Total Actual**	**Total Per Employee**
Lodging:	___	___	___
Number of Nights:	___		
Meals:	___	___	___
Breakfast:	___	___	___
Lunch:	___	___	___
Dinner:	___	___	___
Conference Room(s):	___	___	
Taxes: (Federal, State, Local, etc.)	___	___	
Consultant Fee:	___	___	
Facilitators:	___	___	
Speaker(s):	___	___	
Other (Describe):	___	___	___
Total Retreat Cost	___	___	___

CHIEF EXECUTIVE OFFICE

Report of Retreat

Cost control methods used:

____

____

____

Reason consultant used:

____

____

____

Was the objective of the retreat accomplished? (Describe)

____

____

____

Did the costs for meals and lodgings exceed reimbursement amounts authorized by Section 5.40.060 of the County Code, thus requiring subsidy by individual employees? If so, please explain.

____

____

____

____

Chapter 18 – Fiscal Manual Administration

18.1.0 FISCAL MANUAL ADMINISTRATION

The purpose of this chapter is to describe policies and procedures for maintenance of the County Fiscal Manual (CFM), including how County departments and agencies may submit suggestions for changes, additions, and deletions.

18.2.0 CHANGES, ADDITIONS, AND DELETIONS

The CFM is intended to be a continual work in progress. Changes are made by Auditor-Controller staff on an on-going basis. As conditions and the accumulation of changes warrant, the online version that is available to County departments and agencies is replaced with the latest version.

- Departments may request changes to the CFM by completing the form on the following page, and attaching a Microsoft Word document that includes the suggested changes. The Strikethrough feature should be used to identify any deletions and the Track Changes feature should be used to identify any proposed new language. The suggested changes should be sent via e-mail to cfm@auditor.lacounty.gov. The e-mail will allow the Auditor-Controller's Audit Division to begin evaluating the request quickly.

- Departments will be notified via e-mail of the results of the evaluation.

County Fiscal Manual
Change Request

This Section for Auditor-Controller Use Only

________	Approved: ____		____________	____________	______
No.	Disapproved: ____		Approver's Name	Title	Date

Description of Change: ______________________________

____
____
____
____
____
____
____
____

Section No(s). Affected: ________ ________ ________ ________

Background: ______________________________

____
____
____
____
____
____
____

____________	____________	____________	________
Name of Requestor	Title	Signature	Date
____________	____________	____________	________
Name of Supervisor	Title	Approving Signature (Supervisor)	Date

____

Requesting Department