



KENSINGTON FIRE PROTECTION DISTRICT

DATE: September 18, 2024
TO: Board of Directors
RE: Board Member "Verifier" for Bank Account Payment Approvals
SUBMITTED BY: Mary A. Morris-Mayorga, General Manager
PRESENTED BY: Julie Stein, Director

Recommended Action

Following presentation of this item, provide staff direction as determined.

Background

The District currently contracts with Krisch & Company Accountancy Corporation to provide financial accounting and reporting services: recording and reporting payments, receipts, journal entries; year-end closing and financial audit; assist with budget and research; account and bank reconciliations; prepare State Controller's Office Annual Report of Financial Transactions and Compensation Reports.

When I returned to the District in 2023, we began implementing additional components: gather and code invoices for General Manager's approval; adding account numbers to QuickBooks general ledger accounts; and enter bill payments for General Manager's approval. With staffing transitions of both the District and Krisch & Company, some of those remain in progress. Now that the District has completed the Public Safety Building renovation, these will get priority focus. In the meantime, District payments have many layers of control and review: budget, financial reporting, audit, Krisch & Company (three staff assigned including partner CPA), Mechanics Bank (will contact the District for payments which are out of the ordinary, Contra Costa County (will not make transmittal payments including replenishment reimbursement without proper invoices). We have made many improvements over the last five years and there are many more that we can strive toward.

Electronic payments are a recommended practice to the extent possible to mitigate fraud as checks can be altered when in the wrong hands. The District has not written a paper check since October 2022 and began using Mechanics Bank Electronic Bill Pay in ~2021. Electronic Bill Pay, Automated Clearing House (ACH), and Debit Card payments are the electronics methods the District utilizes. In reviewing *Policy 8 Checking Account*, the language should be expanded to more clearly define this and that update will be brought back to the Board at the next meeting.

Fiscal Impact

The cost related to this item will depend upon any changes implemented.

Attachments:

Report from Director Stein

Policy 8 – Checking Account

GFOA Recommended Practices on Payments and Purchasing Cards

Supporting material for agenda item regarding board “verifier” of payments (Stein)

[as of 1pm on Wednesday September 11]

At the time of submission of this report, Director Stein is awaiting several public documents that were requested to help clarify the present status of verification of payments (two signatures) on payments made from the KFPD Checking Account at Mechanics Bank.

Pending further clarification and data from the General Manager, the preliminary purpose of this agenda item and recommendations are as follows, but not limited to the following:

Purpose: Learn from the General Manager how Policy 8 requiring two signatures for every payment issued from the KFPD Checking Account is implemented.

- As a member of the Finance Committee from January 2023 – May 2024, I was never asked to sign any payment issued from the KFPD Checking Account.

Preliminary recommendations:

1. Request the General Manager to hire the financial assistant that was requested by the Interim General Manager and authorized by the board in August 2020.

Pending information on the current execution of payments made from the KFPD Checking Account, request:

2. Clear designation on the monthly transmittal of which checks, electronic transfers, credit card transactions, and any other withdrawals from the checking account were paid with a single signature from the General Manager.
3. Attestation that the remaining payments from the checking account were signed by the General Manager and one Finance Committee member or by the two board members on the Finance Committee.
4. Consideration by the board of any needed changes in the current Policy 8 Checking Account (attached.)

Background

Prior to the Covid-19 pandemic, and for much of CY 2020, the following procedure for payments from the checking account was diligently followed:

1. The district manager prepared a folder with supporting documentation for every invoice to be paid from the checking account, along with a printed check prepared for two signatures.
2. The district manager scheduled a meeting with one member of the finance committee to review each invoice and sign the check for payment of the invoice, if the invoice and the work performed appeared to be in order.

3. The district manager then signed the checks and processed the checks for payment to the vendors.

During the period when Regional Government Services (RGS) was staffing the District and there was no manager, both members of the Finance Committee signed every check. The preparation of supporting documentation for each check was taken care of by RGS, who would meet with each member of the Finance Committee to obtain their signatures on the checks.

During the period when RGS was staffing the District (late 2019-mid 2020), strides were made to move to electronic banking and electronic invoicing. At least one, if not both, members of the Finance Committee were added to the electronic banking system at Mechanics Bank as on-line payment authorizers.

In the mid-to-later part of CY 2020, the KFPD board of directors took significant actions related to financial operations, including:

- district staffing related to financial operations,
- checking account payments, and
- the monthly transmittal.

This work was done in collaboration with the Interim General Manager at the time, Mary Morris-Mayorga, who suggested several useful policy and procedure changes for payments from the checking account. Upon approval from the board and appropriate board resolutions, the Interim General Manager and was charged with implementing the changes in policies and procedures.

Timeline of noteworthy changes in CY 2020:

August 12, 2020

- Approve a temporary measure for the Interim General Manager to Pay Recurring Bills and Provide Monthly Reports to the Board of Directors (approved)
- Approve Staffing Plan to Hire Administrative Support and Finance Positions (approved)
- Proposed Amendment to Policy 8 Checking Account

September 9, 2024

- Proposed Amendment to Policy 8 Checking Account (First Reading)

October 14-15, 2020

- Adoption of Resolution 20-18 Approving Amendments to Policy 8 Checking Account (Second Reading) (Resolution adopted, Policy 8 attached.)

Relevant to this agenda item:

“Two signatures are required on every check. Said signatures shall be those of the General Manager and/or the Directors on the Finance Committee.”

KENSINGTON FIRE PROTECTION DISTRICT POLICY MANUAL

Policy Title and Number: 8 Checking Account

8.10 The District shall maintain a revolving fund checking account at a local bank. The balance in said account shall at no time exceed \$200,000. The General Manager or their designee shall request replenishment of this fund from the County through its accounts payable process.

8.20 Checks written on the account must be authorized by the KFPD budget. Two signatures are required on every check. Said signatures shall be those of the General Manager and/or the Directors on the Finance Committee.

8.30 Documentation such as receipts and/or invoices shall be maintained for the amount of each expenditure.

8.40 Voided checks shall be maintained in the District's files with the signature portion removed.



BEST PRACTICES

Payments Made by Governments

The GFOA recommends that governments have policies and procedures and internal controls in place for each payment method and use electronic means to make payments as often as possible.

Governments make payments in a variety of ways including cash, checks, and various electronic payment methods. Governments rarely make payments using cash but a government may have one or more petty cash funds for employee reimbursement. In addition, fewer and fewer payments by governments are being made by check as more electronic options have been made available but check payments still exist and have unique control and fraud prevention requirements.

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Electronic Payment Methods

- **Automated clearing house (ACH)** – movement of funds in a batch process, which is best for high volume, low dollar transactions such as payroll, expense reimbursement, and routine vendor payments, as the cost per transaction is low relative to other forms of electronic payment.

- **Wire transfer** – immediate movement of funds between bank accounts with guaranteed settlement, which is most suitable for high dollar transactions because the cost per transaction is high relative to other forms of electronic payment.
- **Purchasing (procurement) cards** – a credit card transaction designed to reduce the volume of small dollar purchase orders issued, field purchase orders or to eliminate petty cash. Purchasing cards are used at the point of sale, which is convenient for the employee and the customer, and payments are made in aggregate. Vendors that accept the payment will pay a processing fee. There is usually no cost to the government, and the issuing bank may provide a rebate based on transaction volume. In addition, restrictions can be put on the purchasing cards such as a per purchase dollar amount limit, dollar limits per transaction cycle and by MCC (merchant category code).
- **Electronic accounts payable** – – a credit card transaction, often without physical cards, that allows governments to pay invoices electronically. These payments are made during the normal accounts payable process, but the vendor or government has designated a preference to receive funds via the card instead of checks. As with purchasing cards, the vendor pays a processing fee, and the government may receive a rebate.
- **Stored value cards** – generally used for payroll to unbanked employees or for rebate/incentive programs. The card is tied to a bank account and is loaded via an ACH transaction. There are costs associated with activation and use of the card.
- **ACH debits** – withdrawal of funds directly out of the government’s bank account. This type of payment is usually requested by vendors who do repetitive business with the government such as benefit providers who have long term contracts with the government. Generally, a government should have debit blocks in place against ACH debits unless specifically identified by the government as trusted vendors.
- **Cryptocurrency** – governments should not make payments through cryptocurrency vehicles, due to risk and volatility of that market. Cryptocurrency is “any form of currency that only exists digitally, that usually has no central issuing or regulating authority but instead uses a decentralized system to record transactions and manage the issuance of new units, and that relies on cryptography to prevent counterfeiting and fraudulent transactions.” (Merriam Webster)

Benefits to using electronic payments including:

- Eliminating the storage, handling, and processing of paper checks.
- Reducing the time spent on reconciliation.
- Eliminating the occurrence of lost or stolen checks and the cost of check reissuance.
- Reducing security risks, including the visibility of information used in check payment fraud.
- Improve the tracking of payments through enterprise resource planning (ERP) systems and integration with banking technologies.

Cash Payment Methods

- Petty cash and change funds should be covered in the government's cash handling policies and procedures:
 - Establish reconciliation process and timeliness
 - Establish verification procedures to prevent duplicate payments (petty cash)

Check Payment Methods

- Check usage (if not able to be eliminated) should be minimized.
- Physical security over check stock and check copy retainage should be in place and documented.
- Bank fraud prevention tools should be in place (e.g., positive pay).
- Timely reconciliation and escheatment should be practiced.
- Governments should have protocols in place for electronic and facsimile signatures, and may want to consider use of multiple signatures on checks.
- Governments may also want to consider outsourcing the check writing function to a bank or other third-party provider.

Board approval date: Friday, September 28, 2018



BEST PRACTICES

Using Purchasing Cards to Streamline the Purchasing Process

GFOA recommends that governments implement a purchasing card program to improve the efficiency and effectiveness of their purchasing processes.

Purchasing card (also known as procurement card or P-Card) programs provide an efficient, cost-effective method of purchasing and paying for small-dollar and high-volume purchases. Purchasing cards offer an alternative to the traditional purchasing process and can result in a significant reduction in the volume of purchase orders, invoices, petty-cash transactions, and checks processed. Purchasing cards can be used whenever a purchase order, check request, or petty cash would have been processed and with any vendor that accepts credit cards.

Purchasing card programs can provide significant benefits to governments who choose to use them. Benefits of a Purchasing Card Program can include:

- Convenience (simplified purchasing and payment process)
- Efficient payment method
- Lower transaction costs
- Rebate revenue
- Improved purchasing data analytics

- Alternative to petty cash
- Immediate payment to vendors
- Emergency preparedness

Purchasing card programs overall benefit governments, but with any program implementation come some challenges:

- Approval process (ensure policy is set up effectively)
- Duplicate payments
- May shift reconciliation responsibility (addressed in the design of the program)
- Compliance (keeping card users accountable and properly trained)
- Complex spend analysis (reporting can be difficult – upfront discussion with vendor)
- Delays in recording activity (Process / ERP Integration)
- “Front Page” Risk – governments using credit cards (ensuring proper controls exist)

GFOA recommends that governments explore the use of purchasing cards to improve the efficiency of their purchasing procedures. A competitive process should be used to select a purchasing card provider.

Governments need to maintain appropriate controls, in accordance with the purchasing policy, to ensure the ongoing success of a purchasing card program. Governments should also adhere to any state or local laws in place regarding purchasing card use. This should be done through the development of a Purchasing Card Program that should include the following elements:

- Defining the scope of the program (usually for small dollar, high-volume purchasing, and possibly travel)

- Having a Purchasing Card Policy and ensuring that it conforms to the entity's overall procurement policy
- Developing a P-Cards procedures manual that also addresses fraud prevention
- Implementing a training program (include a training manual)
- Developing a process for selecting and managing the right issuer/ card provider (Competitive RFP Process)

Board approval date: Friday, September 25, 2020