

***City of Imperial Beach  
Financial Guidelines and Procedures***



***Administrative Services/Finance Department  
November 6, 2019***

## INTRODUCTION

The Administrative Services/Finance Department of the City of Imperial Beach is responsible for the finance, budgets, audits and financial reports, investments, grant administration, payroll, business license, and risk management functions of the City. The Finance Guidelines and Procedures are specific to the Finance functions of the Department. The guidelines and procedures will increase the likelihood of accurate and dependable information, while reducing the potential for error or oversight. The City of Imperial Beach Finance Guidelines and Procedures have been created for the following purposes:

- To increase transparency and access to financial documents
- To educate and inform the residents, elected officials and staff of Imperial Beach
- To create a system of checks and balances to increase accuracy and reduce errors
- To create a checklist of responsibilities to allow for staff transition without neglecting tasks
- To improve reporting, analysis, measurement and quality of Department information
- To improve efficiency by defining proper amounts of redundancy for accuracy without an overabundance of repeated effort

The City Council has reviewed and provided direction on the guidelines and procedures and how they should be implemented but designated the City Manager as the administrator of the guidelines and procedures and as such are not adopted by Resolution or Ordinance. As the Administrator, the City Manager may adjust or alter the guidelines and procedures as needed to properly implement the finance functions of the Administrative Services Department to be consistent with Federal, State and Local laws, City Council direction, best management practices, audit findings, and other management priorities. Amendments to the guidelines and procedures shall be reviewed by the City Council in conjunction with annual audit report, or adoption of the two-year municipal budget, or as deemed necessary or prudent by the City Manager. As the guidelines and procedures are updated and amended, immaterial changes such as numbering, minor corrections and other clerical items will not be presented to the City Council.

## ***City of Imperial Beach Financial Guidelines and Procedures***

Section 1: Staff and Reporting Structure

Section 2: Budget Preparation, Administration and Amendments

Section 3: Financial Reports and Transparency

## **SECTION 1: Staff and Reporting Structure**

### **SECTION 1.1 Roles and Responsibilities**

- Section 1.1.1 City Council
- Section 1.1.2 City Manager
- Section 1.1.3 Assistant City Manager
- Section 1.1.3 Deputy City Manager
- Section 1.1.4 Finance Director
  - Section 1.1.4.1 Financial Plan
- Section 1.1.5 Finance Staff

### **SECTION 1.2 Department Budgets**

- Section 1.2.1 Department Heads
- Section 1.2.2 Department Budget Coordinator
- Section 1.2.3 Record Keeping and Reports
- Section 1.2.4 Staff Reports

---

### **SECTION 1.1 Roles and Responsibilities**

Effective financial management is an organized process of checks and balances. When all parties understand their role and responsibilities the process can be organized to include double checking without unnecessary redundancy, ensuring that every fiscal transaction is recorded properly without being unintentionally neglected or ignored, and all financial information is readily available for inspection in an understandable manner with complete transparency.

#### **Section 1.1.1 City Council**

The ultimate municipal fiscal responsibility rests with the City Council. The roles and responsibilities of the City Council in relation to the municipal finances include:

1. Through communication with the City Manager, establish all fiscal priorities, investment strategies, revenue and expenditure expectations, and all other citywide financial policies.
2. Adopt a two-year municipal budget for all City and Successor Agency funds.
3. Receive and file the annual independent audit of the City's and Successor Agency's finances and ensure that appropriate actions are taken to address any findings or suggestions offered by the independent auditors.
4. Review all financial, investment, and Treasurer's reports and provide regular guidance to the City Manager on all financial issues.

#### **Section 1.1.2 City Manager**

The City Manager provides direction to the department heads and the finance staff. It is the responsibility of the City Manager to make sure that the policies and objectives of the City Council are reflected in the municipal budget so that funding is available to complete the tasks. The City

Manager is also the link between the elected officials and staff. The financial roles and responsibilities of the City Manager include:

1. Prepare the two-year municipal budget and presentation to the City Council for consideration.
2. Provide a communication link between the elected officials and staff for all financial matters.
3. Remain informed and knowledgeable about the fiscal condition and health of the City, the trends that indicate potential future events, and the financial forecasts that can impact the fiscal health of the City.
4. Remain informed about issues, laws, regulations, and other items that can impact the fiscal health of the City.
5. Hold regular meetings with the Assistant City Manager, Deputy City Manager and Finance Director to review all financial transactions, revenue generation and expenditures.

In consultation with the Assistant City Manager, Deputy City Manager, and Finance Director, the City Manager will periodically review the financial guidelines and procedures to ensure that they do not become dated and to reinforce compliance with the policies of the City Council. Following the consultation with the Management Team, the City Manager will discuss the financial guidelines and procedures with the City Council at least every three years or more frequently, if appropriate and necessary.

### **Section 1.1.3 Assistant City Manager**

Through the existing executive team organizational structure, the Assistant City Manager has oversight of the physical aspects of the City. The Assistant City Manager will ensure that the Departments for which the Assistant City Manager has oversight work together to create budget proposals that include inter-departmental coordination and efficiencies where possible. The financial roles and responsibilities of the Assistant City Manager include:

1. Work with the City Manager, Deputy City Manager, and Finance Director in the preparation of the two-year municipal budget.
2. Remain informed and knowledgeable about the fiscal condition and health of the City, the trends that indicate potential future events, and the financial forecasts that can impact the fiscal health of the City.
3. Remain informed about issues, laws, regulations, and other items that can impact the fiscal health of the City.
4. Attend regular meetings with the City Manager, Deputy City Manager and Finance Director to discuss the financial matters of the City.

### **Section 1.1.4 Deputy City Manager**

Through the existing executive team organizational structure, the Deputy City Manager has daily oversight of the City's finances. The Deputy City Manager is also designated as the City's Treasurer. In collaboration with the City Manager, the Deputy City Manager will provide direction and assignments to the Finance Director and finance staff to ensure that the City's financial system is efficient, accurate and transparent. The financial roles and responsibilities of the Deputy City Manager include:

1. Regular meetings with the Finance Director to ensure the City's financial transactions are accurate and completed in a timely manner.

2. Regular meetings with the City Manager to keep the Manager informed about the financial health of the City.
3. Regular meetings with Department Heads to make sure they are implementing proper fiscal management.
4. Ensure the City's financial statements and records are transparent and readily available to the public in a format that can be understood and analyzed.
5. Hold regular public outreach events to ensure the public has adequate opportunities to participate in the financial aspects of the City.
6. On at least an annual basis, provide the City Council with a comprehensive financial overview of the City's fiscal status.
7. Attend meetings with the City Manager, Assistant City Manager, Finance Director to discuss the financial matters of the City.
8. Report any noncompliance with the financial guidelines and procedures to the City Manager.

### **Section 1.1.5 Finance Director**

The Finance Director is the head of the finance staff. As a skilled financial professional, the Finance Director will implement best financial management practices from other local government organizations as well as applicable strategies from private sector partners. The roles and responsibilities of the Finance Director include:

1. Daily administration of all municipal revenue, expenditures, accounts payable, accounts receivable, cash, encumbrances and all other financial transactions.
2. Ensuring that all finance personnel are completing their tasks accurately and efficiently, have the necessary training and experience to complete their tasks, and fostering a professional and pleasant work environment.
3. Keeping the Deputy City Manager informed about the current state of the City's financial health and identification of issues that could impact the fiscal standing of the City.
4. Maintaining an awareness of the larger financial picture, linking the financial activities of the various departments to identify potential economies of scale, unnecessary redundant purchases, and finding efficiencies in the City's financial management.
5. Providing municipal financial insights to elected officials, staff, and when appropriate the public.

#### **Section 1.1.5.1 Financial Plan**

The Finance Director, under the direction of the City Manager and Deputy City Manager is responsible for the creation and adherence to the City's Financial Plan. The financial health of the City and the ability to provide services and a quality of life for the City's residents depends on the actions that City officials take. The Financial Plan will help guide those decisions.

The Financial Plan will be specific enough to determine whether City Council and staff actions are consistent with the plan. The components of the Plan will include:

1. Strategies to maintain and increase the ability of the City to provide effective municipal services by carefully monitoring expenditures, increasing revenues, improving the City's local economy and identifying efficiencies.
2. Identify methods to address unfunded liabilities and other deferred costs such as maintenance and a strategy to prepare for these impacts.

3. A focus on long-term finances and enhancement of the economic strength of the City to generate more revenues and resources for services.

The plan will be presented to the City Council and will be reviewed and updated no less frequently than every five-years.

#### **Section 1.1.6 Finance Staff**

The finance staff are fiscal professionals that perform the financial transactions for the City. Under the direction of the Finance Manager, the finance staff will complete their tasks with fidelity, accuracy and efficiency. Finance staff will identify tasks for which they are not properly trained and inform the Finance Director of the need for additional training.

### **SECTION 1.2 Department Budgets**

#### **Section 1.2.1 Department Heads**

Each Department Head is responsible for tracking department revenues and expenditures on a regular basis, but no less than a quarterly basis. The Finance Director and the Deputy City Manager provide confirmation of department finances but are not a substitute for effective departmental control. The annual evaluation of each Department Head will include measurement of financial control, demonstration of efficient and effective financial management, and creative solutions to limited financial resources.

#### **Section 1.2.2 Department Budget Coordinator**

Each Department shall assign a budget coordinator (who may be the Department Head) who will meet monthly with the Finance Director and at least quarterly with the City Manager and Deputy City Manager to discuss the fiscal condition of the department and other financial matters. The budget coordinator should have a working knowledge of the department's finances, revenue and expenditure cycles, and all other fiscal aspects of the department.

#### **Section 1.2.3 Record Keeping and Reports**

Each Department Budget Coordinator will keep accurate records of department financial transactions. The transactions need to be retained in accordance with the City's retention schedule. The Budget Coordinator is also responsible to submit all required department reports, on time, and in a professional manner. The Budget Coordinator will provide a complete list of department reports, grant administration, and other required documentation on a schedule that can be reviewed on a regular basis.

#### **Section 1.2.4 Staff Reports**

The City Council should receive information on the actual or potential fiscal impact associated with all staff reports. The staff report template will include consistent identification of the financial impact. The staff report will identify the funding source and all anticipated expenditures and whether the expenditure has been previously budgeted. When appropriate the report will include information about any overall economic impacts to the City.

## **SECTION 2: Budget Preparation, Administration and Amendments**

### SECTION 2.1: Budget Preparation

#### Section 2.1.1 Budget Basics

- Section 2.1.1.1 Budget will be Structurally Balanced
- Section 2.1.1.2 Multi-Year Projects will be included in the Budget Process
- Section 2.1.2.3 Two-Year Budget, Annual Cycle and Mid-Year Analysis
- Section 2.1.2.4 Revenue Projections and Grants
- Section 2.1.2.5 One-Time Revenues and Expenditures
- Section 2.1.2.6 Capital Expenditures
- Section 2.1.2.7 Fund Balances

#### Section 2.1.2 Preparation Schedule

#### Section 2.1.3 City Manager, City Council Proposals

#### Section 2.1.4 Department Proposals

#### Section 2.1.5 Non-Departmental Budgets

### SECTION 2.2: Budget Administration

#### Section 2.2.1 Daily Budget Administration

#### Section 2.2.2 Regular Updates Provided to City Manager

#### Section 2.2.3 Budget Meetings with Department Heads

#### Section 2.2.4 Fiscal Year End Closing Procedures

### SECTION 2.3 Budget Amendments

#### Section 2.3.1 Revenue Related Amendments

#### Section 2.3.2 Expenditure Related Amendments

#### Section 2.3.3 All expenses budgeted, exceptions

#### Section 2.3.4 Year-End Reconciliation

- Section 2.2.4.1 Procedures to Ensure Accurate Closing

### SECTION 2.4 Annual Independent Audit

#### Section 2.4.1 Selection of an Independent Auditor

#### Section 2.4.2 Preparation Schedule

#### Section 2.4.3 Presentation to the City Council

#### Section 2.4.4 Presentation of Audit Findings to the City Council

#### Section 2.4.5 Transparency and Public Outreach of Audit Findings

---

### **SECTION 2.1 Budget Preparation**

The municipal budget is the primary financial policy document of the City. The budget links the priorities of the City Council with the financial resources available to implement those priorities. The process to create and monitor the budget are critical and need to be consistent and accurate. Finally, it is critical to welcome the insights and suggestions that result from a comprehensive and complete independent audit.

## **Section 2.1.1            Budget Basics**

The purpose of this section is to establish a set of basic budgeting principles that will be incorporated into the preparation of the municipal budget. These guiding principles are the framework and underlying values that are reflected in all aspects of the budget. As the municipal budget is prepared, the City Manager, Assistant City Manager, Deputy City Manager and all Department Heads will refer to these Financial Guidelines and Procedures for direction.

### Section 2.1.1.1            Budget will be Structurally Balanced

The municipal budget is structurally balanced if ongoing expenditures do not exceed ongoing revenues. A structurally balanced budget is a critical component of good financial management and discipline that will allow the City to maintain the consistent delivery of services to the residents. The budget for the General Fund will be structurally balanced each fiscal year with the following exceptions. It is not a violation of these guidelines and procedures to exceed revenues in a single fiscal year to fund one-time purchases or projects provided funding can be identified from available fund balance or reserves. Additionally, the second year of the two-year budget may be adopted for planning purposes but must be balanced prior to the beginning of the fiscal year. Finally, it is not a violation of these guidelines and procedures to use fund balance or reserves previously set aside to mitigate temporarily higher costs or lower revenues.

### Section 2.1.1.2            Multi-Year Projects will be included in the Budget Process

Failure to include or carry over multi-year projects into the budget preparation process will lead to unanticipated over-expenditures. During the preparation process, staff will identify all expenditures that need to be identified as expenditures for the upcoming fiscal year(s).

### Section 2.1.2.3            Two-Year Budget, Annual Cycle and Mid-Year Analysis

Although the municipal budget is prepared to address two fiscal years, preparation will be completed for two separate fiscal years, or as an annual cycle. Therefore, each fiscal year will be individually prepared, administered and analyzed. Additionally, the Deputy City Manager or designee will provide a mid-fiscal year analysis to the City Council during the annual cycle. Known or anticipated budget adjustments should occur at when the annual analysis is presented but may, when necessary, be conducted mid-year presentation to the City Council. Altering the normal budget cycle with significant mid-cycle changes can result in poor decision-making due to incomplete information, as well as inefficient and ineffective operations or expenditures.

### Section 2.1.2.4            Revenue Projections and Grants

Revenue projections are critical to budget decisions, but a portion of the City's revenues are subject to economic conditions or other influences beyond the City's control. As a result, revenue should be projected in a conservative manner to avoid a revenue shortfall, but not so conservative that the projection is consistently under actual revenue generation which impacts the financial decisions of the City Council.

Grants are an essential component of City resources. All grants have rules and regulations that must be followed including allowable use of awarded funds. Grants often come with matching funds requirements. Grant applications must be carefully reviewed to determine if the grant is appropriate for the City. Appropriateness shall be determined based on type of match

requirements (cash or in-kind), dollar amount of match required, ability to recover administrative costs, excessive restrictions on expenditures, compliance risk, and compatibility with other City priorities. The City will pursue grants that are consistent with City priorities and when the benefit to the City substantially outweighs the cost of application and administration.

#### Section 2.1.2.5 One-Time Revenues and Expenditures

One-time revenues are a single occurrence, or an accumulation of excess funds over time, that are not annually sustainable or too unpredictable fund City operations because they are not available in the future or cannot be relied on from year-to-year to pay the ongoing costs of operations. Therefore, one-time resources will not be used to fund ongoing operations, but rather for one-time uses including capital and other one-time expenditures, transitional funding of operations (for a limited time period with a planned ending date), increasing reserves, or paying down unfunded liabilities.

#### Section 2.1.2.6 Capital Expenditures

Prior to the approval of any capital expenditure, the City Council will consider both the capital (one-time) and operating (ongoing) components of costs, including the full capital cost of the project, regardless of funding sources, and all City incurred site, design, overhead costs and start-up costs. Projected operating costs and maintenance costs, will also be identified.

#### Section 2.1.2.7 Fund Balances

Maintaining adequate fund balances or reserves is a basic component of a financially strong City. Adequate reserves help sustain City operations when adverse or unexpected circumstances impact the City. Maintaining a reserve balance allows a city to continue operations while responding to short-term financial conditions eliminating the need to reduce service levels when these temporary fluctuations occur. It also provides an organization time to address longer term problems while comprehensive response plans are developed.

The City Council has established a policy to maintain a General Fund Reserve Balance between 30% and 40% of annual General Fund expenditures; an Economic Uncertainty Fund equal to 10% of the annual General Fund expenditures; and a Public Works Reserve of a minimum of \$1 million. Other reserve accounts have been established for capital projects and other municipal functions. These fund balances or reserves are available to fund one-time City Council approved or unanticipated expenditures, local disasters, or immaterial differences in anticipated revenues or expenditures.

### **Section 2.1.2 Preparation Schedule**

Under the Direction of the Deputy City Manager, the Finance Director shall prepare a budget preparation schedule. The budget preparation schedule shall include ample time for each City Department to prepare a two-year budget proposal for initial consideration by March 1 of every odd numbered year. In no case shall the budget preparation schedule be prepared by the Finance Director later than February 1 of every odd numbered year. At a minimum, the budget preparation schedule shall include:

1. The date that each department must submit a two-year initial budget proposal for consideration by the Deputy City Manager and Finance Director. In no case shall the initial budget proposal be submitted later than March 1 of every odd numbered year.

2. The date that a draft budget will be prepared for an internal comprehensive budget discussion by the management team and the department heads. In no case shall draft department budgets be submitted later than March 31 of every odd numbered year.
3. The date of an internal comprehensive budget discussion including the management team and all department heads.
4. The date of an initial budget workshop with the City Council. In no case shall the date of the initial budget workshop with the City Council be later than April 30 of every odd numbered year.
5. The date of a community or public budget open house. In no case shall the open house be later than May 15 of every odd numbered year.
6. The date that the City Council will consider the municipal budget in a public meeting. In no case shall the public meeting/budget workshop be later than May 31 of every odd numbered year.
7. The date of the first regular City Council meeting in June of every odd numbered year at which the City Council will conduct a public hearing and potentially adopt the municipal budget.
8. If the City Council does not choose to conduct a public hearing and potentially adopt the municipal budget at the first meeting in June, it is anticipated that the public hearing will occur no later than the second regular meeting in June of every odd numbered year and a special meeting will be set to adopt the municipal budget by June 30. In no case shall the two-year municipal budget be adopted later than June 30 of every odd numbered year.
9. Although the City of Imperial Beach adopts a two-year municipal budget, there are some actions that need to be conducted annually. A separate schedule shall be prepared annually by the Finance Director, following the closure of Period 13. Annual actions include:
  - a. A review, complete with refined estimates, of the previous fiscal year revenue and expenditure estimates, fund balances, and other relevant financial information presented to the City Council at a regular meeting of the City Council.
  - b. Creation of a Resolution reconciling the budget that accounts for all revenues over expenditures or conversely, expenditures in excess of revenues.
  - c. Preparation of documentation and information necessary to complete the annual independent audit consistent with Section 2.4 Annual Independent Audit herein.

### **Section 2.1.3 City Manager, City Council Proposals**

The City Manager shall consult with each Department Head in the early stages of budget preparation to outline the current economic condition of the City and any specific goals, strategies and expectations of the Department Head in the preparation of the Department Budget. Additionally, the City Manager shall consult with the City Council to prepare the Mayor and Council and City Manager Department budgets.

### **Section 2.1.4 Department Proposals**

Following a consultation with the City Manager, each Department Head will be responsible for the preparation of the Department Budget. Preparation of the Department Budget will require discussion with the Finance Director and potentially the Deputy City Manager to obtain financial information on portions of the budget beyond the control of the Department Head such as personnel related expenses, allocated business costs, capital expenditures, and other complex financial items. The Department Head must be familiar enough with the preparation of the budget to present the budget in detail to the City Manager, Assistant City Manager, Deputy City Manager and Finance Director. Each discretionary expense should include an explanation of why the

purchase is necessary and the ramifications for not purchasing the item. Finally, the Department Head should be able to explain in detail the projected revenue and sources from which revenue will be obtained.

### **Section 2.1.5 Non-Departmental Budgets**

The Finance Director and/or Deputy City Manager shall be responsible for preparing all non-departmental budgets including the internal service funds.

## **SECTION 2.2 Budget Administration**

The municipal budget is an organic document that needs to be attended on a consistent basis. Revenue shortfalls and expenditures in excess of appropriated amounts must be identified early so that appropriate adjustments can be considered. The Finance Director is often the most visible employee in budget matters when in reality the Director is primarily responsible for ensuring the accounting is accurate and recorded properly. Effective budget management requires teamwork and each Department Head being responsible for their financial practices. This section establishes basic guidelines and procedures for budget administration.

### **SECTION 2.2.1 Daily Budget Administration**

The Finance Director shall maintain daily administrative control over the municipal budget. The Finance Director shall remain familiar enough with the revenue and expenditures and the patterns of such, so that the Director is able to generally answer budget related questions at any time and answer specific budget questions with very little research. The Finance Director must be an immediate resource to the City Council and Management Team when considering complex City decisions and actions that require fiscal analysis.

On the Department level, each Department Head should maintain enough daily administrative control to be able to answer general financial questions at any time and answer specific budget questions with very little research. One way to accomplish this task is to engage in regular communication with the Finance Director or key Administrative Services Department personnel.

The Deputy City Manager shall ensure the Finance Director and each Department Head understand the importance of daily budget administration and provide the support and training necessary for them to accomplish the task. Furthermore, the Deputy City Manager will take any action, even disciplinary action, necessary to ensure City budgets are monitored daily.

### **SECTION 2.2.2 Regular Updates Provided to City Manager**

At least two times each month, the Deputy City Manager and Finance Director shall provide a financial update to the City Manager. Municipal revenues will be reviewed at least once per month and municipal expenditures shall be reviewed at least once per month.

The Deputy City Manager and Finance Director will identify any areas of concern, indicate how current finances compare with historic trends and if the finances are on track to be consistent with financial forecasts. Documentation, either written or electronic, shall be provided to the City Manager that can be used to inform members of the City Council, Department Heads, and where appropriate, the general public so that complete transparency and fiscal standing is open honest and accurate.

### **SECTION 2.2.3 Budget Meetings with Department Heads**

On at least a quarterly basis, the City Manager, Deputy City Manager and Finance Director shall meet with each Department Head to discuss the municipal budget in general, and specifically the department budget. At the meeting, department revenues, expenditures, encumbrances, major future expenditures, personnel expenses, and all other financial issues will be explored and discussed. Each Department Head is expected and responsible to answer for department revenue generation, expenditures, forecasts, and potential financial impacts. The City Manager shall take all actions necessary to ensure that all Department Heads are aware of their fiscal responsibilities.

### **SECTION 2.2.4 Fiscal Year End Closing Procedures**

Fiscal Year End Closing Procedures (for the purposes of this section 2.2.4, "Procedures") include reviewing and adjusting all accounts to ensure they accurately reflect the financial activities for the fiscal year. It is the final step in the accounting cycle before preparing a financial statement and conducting the annual independent audit. The goal of the procedures is to ensure the financial statements are accurate and fairly illustrate the City's financial picture. The process includes practices from several sources including, but not limited to the California Government Code, the standards of the Governmental Accounting Standards Board (GASB) and other guidance provided by Federal and State agencies, together with best financial practices used by municipal partners. After closing entries have been made and all revenue and expenditure accounts have been closed, the ending balances for each City fund can be calculated and used for identification of fund balance, starting position, and budget and financial statement adjustments.

#### Section 2.2.4.1 Procedures to Ensure Accurate Closing

The timeframe for closing the fiscal year budget, preparing final financial statements and assembling the information necessary to complete an annual independent financial audit is defined hereby as Period 13 (Periods 1-12 are the 12 monthly periods of each fiscal year, July through June, and Period 13 is the fiscal year end closing period). The following procedures have been identified to ensure accurate closing information:

1. Under the direction of the Deputy City Manager, the Finance Director shall prepare a budget closing schedule. Upon approval of the closing schedule by the Deputy City Manager, the schedule shall be disseminated to each Department Head. At a minimum, the schedule shall include:
  - a. A cut-off date for all discretionary purchases over \$500. The date shall be established by the Director to include enough time to allow as many financial transactions as possible to be completed prior to June 30 of each year. In no case shall the cut-off date be later than August 15 to record revenue and expenditure/expense accruals. The Finance Director and staff should record adjustments (period of availability) necessary to correct year-end totals no later than August 30. All purchases after the cut-off date August 15 greater than \$500, even if included in an approved budget, shall be approved in writing by the City Manager.
  - b. A final budget review date for each department. Each Department Head shall be prepared by the scheduled final budget review date to present the year end revenues and expenditures to the Finance Director. It is the responsibility of each Department Head to review and ensure the accuracy of their final budget. A date

for the submission of a list of all physical department assets. A Fixed Asset is any tangible asset purchased for use in the day-to-day operations of the City from which an economic benefit will be derived over a period greater than one year and has a value of \$5,000 or more. Fixed Assets include items of property and equipment such as land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, 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. Bulk purchases of similar items that have an aggregate value of \$5,000 or more are captured as a fixed asset regardless of individual price of item. Items that are routinely purchased as a set and have a value of \$5,000 or more will be capitalized and depreciated. At the time a fixed asset is acquired, its cost is capitalized and subsequently depreciated annually utilizing the straight-line method over the asset's estimated useful life. Fixed assets with a value of less than \$5,000 are expensed in the period acquired.

- c. A date when all inventories of expenditures for non-departmental and internal service expenditures such as fuel, water, power, fleet services, risk management, and other items will be prepared.
  - d. A date by which all bank, investment, accounts payable, accounts receivable, and cash accounts will be reconciled.
  - e. A final date for any journal entry corrections, adjustments, or other modifications with the exception of any adjustments or corrections determined necessary by the finding of the annual independent audit.
  - f. A date after which any purchase will be expended from or encumbered upon the following fiscal year budget.
2. The Finance Director shall review, compare and contrast the closing information with the previous year and identify any anomalies which shall be reported to the Deputy City Manager. The review shall include prior year accounts receivable and accounts payable, and final bank and investment reconciliations.
  3. The Finance Director shall close out any amounts remaining in the current year receivable or payable accounts. Although a majority of adjustments will occur during the budget year, final adjustments must be made if a balance remains in these accounts.
  4. Various sources of revenues are due to the City at year-end. These amounts will be recorded as accounts receivable to ensure the revenue is recorded in the proper fiscal year.
  5. Amounts due to others at year- end will be recorded as accounts payable to ensure the expenditures are recorded in the proper fiscal year. This includes any payroll, benefits, utilities, contracts and other expenses or services that may partially occur in two different fiscal years. The practice will also be followed for grants that extend beyond a single fiscal year.
  6. All internal transfers, inter-fund and intra-fund transactions, and financial transactions for Internal Service Funds must be reconciled in Period 13.
  7. A final review and reconciliation of less used funds including Successor Agency funds, Housing Funds, Redevelopment Agency Bond funds, and other funds shall be reviewed and closed using similar principles to those identified in this Section.
  8. Fund balances for all funds shall be calculated, reviewed, compared and contrasted with the previous fiscal year closing fund balances.
  9. All final financial statements shall be completed in preparation of the annual independent audit.

## **SECTION 2.3            Budget Amendments**

While every attempt is made to project revenues and expenditures accurately, economic conditions and unexpected expenditures are likely to occur during the two-year municipal budget implementation. When the unexpected changes cannot be accommodated within the adopted budget, it become necessary to complete a Budget Amendment.

### **Section 2.3.1            Revenue Related Amendments**

Whenever possible, revenue reconciliations should be conducted as part of the budget close out procedures. However, when a significant understatement or overstatement of revenue is experienced, the Finance Director under the direction of the Deputy City Manager should prepare a Budget Amendment for consideration by the City Council. Generally, this action should be reserved for when the departure is greater than 5%, but the Deputy City Manager may use discretion in determining when an Amendment is necessary.

### **Section 2.3.2            Expenditure Related Amendments**

Whenever possible, expenditure reconciliations should be conducted as part of the budget close out procedures. However, when a significant anticipated or unanticipated expenditure is experienced, the Finance Director under the direction of the Deputy City Manager should prepare a Budget Amendment for consideration by the City Council. This action should occur when it is determined that a fund of the City, such as the General Fund, will be over budget and cannot be adjusted appropriately by an action of the City Manager or Deputy City Manager through an interfund transfer or other acceptable manner, or generally when the departure is greater than 5%. However, the Deputy City Manager may use discretion in determining when an Amendment is necessary.

### **Section 2.3.3            All expenses budgeted, exceptions**

All municipal expenditures must be included in an approved and adopted municipal budget prior to being spent. If funds must be spent in an emergency or unique situation, the City Manager may spend up to \$45,000 without prior approval of the City Council.

### **Section 2.3.4            Year-End Reconciliation**

As soon as practical following the end of each fiscal year (June 30), the Finance Director will prepare a resolution of reconciliation of the municipal budget. The reconciliation will include estimates of final revenues, final expenditures and estimated fund balances. It is important to note that these numbers are likely to change a small amount upon completion of the annual audit.

In addition to the typical reporting of revenue, expenditures and fund balances, some other items that may be included in the reconciliation include:

1. The balance of payments that have been deemed uncollectable and should be removed or written off the financial documents.
2. Under the direction of the City Manager and Deputy City Manager, the Finance Director will identify where any revenue over expenditure funds will be allocated.
3. The reconciliation should include information about expenditures or projects that will roll over to the following fiscal year and an update on the status of the project.

## **SECTION 2.4 Annual Independent Audit**

An independent audit is an excellent financial management tool. As municipal resources have become increasingly scarce and the financial stability of many communities has been threatened, fiscal responsibility and accountability are now areas of growing concern for both elected and appointed local government officials. These problems can only be addressed through sound financial management and a key element of successful fiscal management is an independent audit.

A financial audit is an examination of the financial records of the City that is conducted in accordance with generally accepted auditing standards. The result is a report rendered by an independent auditor of how appropriately the City's financial statements depict its financial condition and operations. An independent audit is one performed by persons not in any way affiliated with the City to ensure complete objectivity and professionalism. In addition to financial audits, auditors often perform compliance audits in which the auditor reviews operations in terms of compliance with various laws and regulations regarding financial operations.

The City's financial operations and internal controls are improved as a result of an effective audit. Auditors are required to report in writing any significant control weaknesses they find and make recommendations for needed improvements. The auditor is an independent representative of the taxpayer and is expected to report to the public on the financial conduct of management through the City Council.

The annual audit should at least be completed and filed with the State Controller's Office by six-months after the end of the fiscal year.

### **Section 2.4.1 Selection of an Independent Auditor**

The selection of an independent auditor will be conducted by the City Manager, the Assistant City Manager, Deputy City Manager and Finance Director. The selection will occur after a Request for Proposals (RFP) process. The RFP will be developed to ensure all interested auditors can be examined in a fair and unbiased manner. Each RFP for an independent auditor will include:

1. Prior experience in audit of governmental audits, including both financial and compliance audits under Single Audit.
2. Evidence that the auditing firm has knowledge about the City and its financial systems. This will include an understanding of the City's financial funds and account groups, the accounting and reporting practices, a review of recent audits and Financial Statements.
3. Evidence of familiarity with the City's computer program and accounting software.
4. A clear description of the audit scope and expectations of assistance from City staff.
5. A clear description of what financial records will be audited.
6. The schedule for completing the audit.
7. Areas of special attention based on past audits, new regulations or other criteria.
8. General qualifications of the firm and demonstration that the firm has the capacity to complete the audit in the identified timeline.
9. References from other municipalities that have been served by the firm.

### **Section 2.4.2 Preparation Schedule**

The Finance Director will prepare a work plan for audit preparation and inform the City Manager, Assistant City Manager and Deputy City Manager about the details of the plan, the City personnel needed to complete the audit preparation, and the deadlines for completing the work. At a minimum the work plan will include:

1. Methods for measuring internal control of municipal finances.
2. Strategies to protect the City's assets and how the City will conduct a risk assessment to identify potential financial threats.
3. Assignments to compile the financial information necessary to comply with all laws, rules, regulations, policies and procedures proscribed by law to conduct a municipal audit.
4. The schedule for a year-end interview with each Department Head where the Department Head can be provided with a list of information anticipated to be necessary to conduct the audit.

### **Section 2.4.4 Presentation of Audit Findings to the City Council**

Once the independent audit has been completed, the Finance Director will present the audit, together with any findings, to the City Council. The report to the City Council will include the auditor's comments, recommendations and observations about any weaknesses found in the municipality's internal controls. The recommendations will include methods to safeguard assets, ensure accounting accuracy and promote adherence to municipal policies and legal requirements. The report will also contain the auditor's recommendations for correcting any problems or weaknesses that were identified during the audit process. Key items that will be examined include:

1. Is information reported on a timely basis and used for control purposes?
2. Is there compliance with statutes, ordinances, policies and bond requirements?
3. Is there proper segregation of duties consistent with staff limitations?
4. Areas of improvements in operations as well as in internal controls.

### **Section 2.4.5 Transparency and Public Outreach of Audit Findings**

After the City Council has reviewed and accepted the audit, staff will take all actions necessary to make sure the audit and all associated information is available to the public. The audit will be available on the City's website and hard copied may be obtained in the Office of the City Clerk.

### **SECTION 3: Financial Reports and Transparency**

#### **SECTION 3.1: Annual Financial Statement Guidelines and Procedures**

##### **Section 3.1.1 Presentation to City Council**

#### **SECTION 3.2 Other Financial Reports**

##### **Section 3.2.1 Investment Reports**

##### **Section 3.2.2 Monthly Treasurers Reports**

##### **Section 3.2.3 Asset Reports**

---

### **SECTION 3.1 Annual Financial Statement Guidelines and Procedures**

The Annual Financial Statement for the City of Imperial Beach shall comply with all federal, state, and local statutes and regulations. The Statement will conform to generally accepted accounting principles as written by the Governmental Accounting Standards Board (GASB), and the Government Finance Officers Association (GFOA). The Finance Director will:

1. Prepare and present regular reports that analyze, evaluate, and forecast the City's financial performance and economic conditions.
2. When necessary, seek out and employ the assistance of qualified financial advisors and consultants in the management and administration of the City's financial functions.
3. Ensure that an independent audit is performed annually.
4. Prepare and issue annual financial reports in accordance with all applicable laws and regulations using generally accepted accounting principles.

#### **Section 3.1.1 Presentation to the City Council**

The Finance Director shall present the City's Annual Financial Statement to the City Council as soon as practical after the end of the fiscal year (June 30). After the City Council has reviewed and accepted the Financial Statement, the Finance Director shall take all steps necessary to ensure the document is available for public review.

### **SECTION 3.2 Other Financial Reports**

In addition to the Annual Financial Statement, the Finance Director will prepare and present to the City Council any other financial reports deemed necessary or as requested by the City Council. Some, but certainly not all of those reports include:

#### **Section 3.2.1 Investment Reports**

The primary objective of the City's cash and investment management system is to safeguard government funds while providing adequate liquidity to meet the daily cash flow demands of the

City. All investments shall be consistent with the adopted Investment Policy. Key elements of the Investment Policy include:

- a. All funds that are not required for immediate expenditures shall be invested in accordance with State and Federal laws as outlined in the City's Investment Policy. Cash management shall be performed daily to determine how much of the cash balance is available for investment.
- b. The priorities for investment decisions shall be safety – preserving the principal of investments by mitigating risk; liquidity – structuring the investment portfolio with sufficient liquidity to enable the City to meet expected cash requirements; and yield – generating a market rate of return on the portfolio within the investment constraints to provide income to the City.

### **Section 3.2.2            Monthly Treasurer's Report**

On a monthly basis, the Finance Director will prepare a Treasurer's Report as described in the City's Investment Policy.

### **Section 3.2.3            Asset Reports**

Periodic review of the City's assets and infrastructure is necessary to ensure that the items are still efficient, effective and in service. This also allows the departments to determine what assets can be maintained and what needs to be replaced.