Chester Public Utility District

Manual of Policies

POLICY TITLE:	Payroll Processing and Internal Controls
POLICY NUMBER:	3095
ADOPTED:	September 22, 2026
EFFECTIVE DATE:	Upon adoption — September 22, 2026
LAST REVIEWED:	Initial Adoption
NEXT REVIEW DUE:	Annually — each January Regular Meeting
REVIEWED BY:	General Manager
APPROVED BY:	Board of Directors

1. PURPOSE

This policy sets the internal controls for payroll processing. It allows the District to process payroll in-house without concentrating incompatible duties in one position.

2. SCOPE

Payroll submission, general ledger posting, and bank reconciliation have been performed under contract by the District's outside accounting firm and are being brought in-house. Payroll preparation and payroll approval are unchanged. This policy also sets the conditions on which the position may transmit District funds.

Assigning the transmittal of District funds and the bank reconciliation to the same position is a recognized control weakness. The State Controller's Internal Control Guidelines for California local agencies, issued under Government Code § 12422.5, provide that an employee who performs bank reconciliation should not also make disbursements. District staffing does not permit full separation. The same guidelines provide that for small agencies, review and approval by an appropriate second person may be the most important control activity, and that the second person may be a member of the governing body. This policy adopts that approach and makes those controls mandatory.

This policy applies to every payroll disbursement, including regular, off-cycle, retroactive, and final payments. It codifies existing duty assignments and does not alter the duties of any classification represented by Stationary Engineers, Local 39.

3. POLICY

A. Assignment of Payroll Functions

These functions shall not be combined except as expressly permitted below.

Function	Assigned To	Requirement
Preparation	Billing Specialist; General Manager in the Billing Specialist's absence	Assembles the payroll input package. No access to submit or transmit payroll.
Approval	General Manager	Approves the payroll register before submission. The approved register is the sole authorization for the disbursement.
Submission	Accounting Technician	Submits the payroll exactly as approved. No check-signing authority.
Transfers and payroll tax deposits	Accounting Technician	Transmits payroll and payroll tax deposits in agreement with the approved register; initiates account transfers only with the General Manager's prior written approval. See Section 3.C.
General ledger posting	Accounting Technician	Posts payroll using the approved register as source.
Bank reconciliation	Accounting Technician	Prepares the monthly reconciliation. Permitted only with the controls in Section 3.E.
Customer billing, receipts, and deposits	Billing Specialist	Not performed by the Accounting Technician. See Section 3.C.
Independent review	General Manager	Obtains the bank statement independently; traces the payroll disbursement to the approved register and every transfer to its written approval.
Periodic review	Board designee; contracted accounting firm	Quarterly sample review and quarterly independent review of the reconciliations.
Employee master file	General Manager	Sole authority to add or remove an employee, change a rate of pay, or change banking information.

B. Preparation and Approval

- Timesheets shall be signed by the employee and approved by the supervisor before entering the payroll cycle.
- No employee shall approve a payroll transaction affecting that employee's own pay, or initiate any change to that employee's own rate of pay, hours, or banking information. Where a position necessarily submits or reconciles a payroll that includes the incumbent's own compensation, the General Manager shall verify that incumbent's hours, rate, and net pay against the approved register each pay period and shall initial that verification.
- The Billing Specialist assembles the payroll input package. In the Billing Specialist's absence the General Manager may assemble it.
- Where the General Manager has assembled the package, that cycle's register shall be included in the next quarterly sample reviewed by the Board designee under Section 3.E, and the substitution shall be noted on the checklist. Preparation and approval are not otherwise combined.
- The General Manager shall approve the payroll register before submission. The approved register shall be dated, initialed, and retained.

- An off-cycle, manual, retroactive, or final payment requires separate written approval before submission.

C. Submission, Transfers, and Deposits

- Only the payroll as approved may be submitted. No amount, payee, or account may be changed after approval; a correction requires re-approval.
- The Accounting Technician shall have no check-signing authority. Authority to transmit District funds is limited to the transactions described in this Section, and no transaction may be initiated without the approval this Section requires.
- **Payroll and payroll taxes.** The Accounting Technician may transmit the payroll direct deposit file and the related federal and state payroll tax deposits. The payroll register approved under Section 3.B is the authorization for those transmittals, and each shall agree with it in payee, amount, and account. No separate approval is required.
- **Transfers between District accounts.** The Accounting Technician may initiate a transfer between District bank or investment accounts only with the prior written approval of the General Manager for that transfer, stating the amount, the originating account, and the receiving account. Approval may be given by electronic mail and shall be retained with the records for the month in which the transfer is made. A standing or recurring transfer shall be approved in writing when it is established and reconfirmed in writing each fiscal year.
- **Billing Specialist functions are excluded.** The Accounting Technician shall not perform customer billing, receive or post customer payments, or prepare or make deposits of District receipts. Those functions remain with the Billing Specialist.

D. Employee Master File and Banking Changes

- Only the General Manager may authorize adding or removing an employee, a change in rate of pay, or a change in direct deposit or banking information.
- A banking change requires a signed written request from the employee and verification by the General Manager directly with that employee before it is entered.
- Access to modify employee records shall be separate from access to process payroll. Access rights shall be reviewed annually.

E. Bank Reconciliation and Independent Review

These controls are mandatory and are the condition on which one position may both transmit District funds and reconcile the bank:

- The General Manager shall obtain the bank statement independently — by separate delivery, or by read-only access held in the General Manager's name. A statement furnished by the Accounting Technician does not satisfy this requirement.
- The General Manager shall trace the payroll disbursement on the bank statement to the approved payroll register. Agreement between the fund accounting system and the reconciliation alone does not satisfy this requirement.
- The General Manager shall identify every transfer and every electronic payment appearing on the bank statement for the month, trace each to the authorization required by Section 3.C, and confirm that no transfer or payment was made without one. An item without an authorization is a control failure and shall be reported to the Board under Section 4.
- The General Manager shall review, date, and initial the completed reconciliation, and shall retain it as evidence the control was performed.
- Quarterly, the General Manager shall review the employee-level detail register and verify direct deposit information against the personnel files.
- Quarterly, the District's contracted accounting firm shall independently review the reconciliations and payroll registers and report in writing.

- Quarterly, a Board member designated by the Board shall review a sample of approved registers and reconciliations and report to the Board.
- The independent auditor shall review payroll and reconciliation records annually.

F. Banking Controls

- The District shall use an ACH debit filter or positive pay service, and dual authorization for ACH origination, where the bank offers them. Where the bank offers a secondary approver for account transfers or outgoing payments, the General Manager shall be established as that approver.
- Bank alerts for new payees and account access changes shall be directed to the General Manager.

G. CalPERS Reporting and Hour Limits

- The District shall maintain a publicly available pay schedule that complies with 2 CCR § 570.5, adopted by the Board at a public meeting and submitted to CalPERS. A rate of pay not listed on that schedule shall not be reported as pensionable compensation.
- Payroll and payrate information shall be reported to CalPERS each pay period consistent with the adopted publicly available pay schedule.
- Cumulative compensated hours for part-time, temporary, and retired annuitant employees shall be updated each pay period and reported to the General Manager monthly. The report shall show, for each such employee, hours worked, overtime, paid holidays, and paid sick leave both used and accrued and available for use.

H. Continuity

- The Board shall designate a Board member as alternate reviewer to perform the General Manager's review functions during any absence.
- A review step not performed shall be documented with the reason and reported to the Board at its next regular meeting. A missed review is a control failure.

I. Records

- Payroll records, approved registers, reconciliations, and completed checklists shall be retained under the District's records retention policy.
- Requests for District records shall be routed and processed under the District's California Public Records Act response procedures. No employee shall respond directly to a records request.

4. RESPONSIBILITY / AUTHORITY

The General Manager administers this policy, assigns the functions in Section 3.A, performs the reviews reserved to the General Manager, and reports control exceptions to the Board. The Board approves this policy, designates the Board reviewer and the alternate reviewer, and receives the quarterly reports required by Section 3.E.

A deviation from this policy requires prior Board approval. The General Manager shall report any deviation to the Board at its next regular meeting.

5. RELATED DOCUMENTS

- Policy 2325 — Accounting Technician, Part-Time
- Job Description — Billing Specialist / Deputy Clerk of the Board
- Policy 2145 — Records and Retention
- Policy 3020 — Budget Preparation and Administration
- District publicly available pay schedule adopted pursuant to 2 CCR § 570.5
- Memorandum of Understanding between the District and Stationary Engineers, Local 39

- Government Code § 12422.5 (State Controller’s internal control guidelines); Government Code § 20305 (CalPERS membership); Government Code § 21224 (retired annuitant appointments)

6. EFFECTIVE DATE

This policy is effective upon adoption by the Board of Directors, unless a later date is stated. The controls in Section 3.E shall be in place before the first payroll is processed in-house, and before any transfer is initiated under Section 3.C.

Chester Public Utility District
Adoption of Policy Number 3095

This Policy was adopted by the Board of Directors of the Chester Public Utility District at a duly noticed public meeting held September 22, 2026.

Board Chair: _____ Date: September 22, 2026
Stephen Graffweg, Board Chair

Attested: _____ Date: September 22, 2026
Kelly Sanders, Board Clerk

REVISION HISTORY

Date	Action	Meeting / Reference
	Adopted (original)	Regular Meeting — September 22, 2026, Agenda Item ___

Maintained by the District Clerk; mirrors the CPUD Policy & Governance Registry.

EXHIBIT A
Monthly Payroll and Reconciliation Control Checklist

Complete one per payroll month and retain with the payroll records. Where more than one payroll is processed in a month, complete Steps 1 through 6 for each payroll. Steps 13 through 15 are completed quarterly.

Payroll month: _____ Fiscal year: _____

#	Control Step	Performed By	Evidence Retained	Initials / Date
1	Timesheets signed by employee and approved by supervisor	Billing Specialist	Signed timesheets	
2	Payroll input package submitted for approval	Billing Specialist (or General Manager)	Input package	
3	Payroll register approved before submission	General Manager	Initialed register	
4	Payroll submitted exactly as approved	Accounting Technician	Submission confirmation	
5	Payroll posted to the fund accounting system	Accounting Technician	GL posting report	
6	Payroll reported to CalPERS; cumulative compensated hours updated	Accounting Technician	myCalPERS confirmation; hours log, including sick leave accrued	
7	Bank statement obtained independently of the preparer	General Manager	Statement source noted	
8	Monthly bank reconciliation completed	Accounting Technician	Reconciliation workpaper	
9	Payroll debit traced to the approved register	General Manager	Initialed reconciliation	
10	Reconciliation reviewed, dated, and initialed	General Manager	Initialed reconciliation	
11	Transfers and payments traced to their written approvals	General Manager	Approval emails; transfer confirmations	
12	Any direct deposit or banking change verified directly with the employee before entry (mark N/A if none this period)	General Manager	Signed employee request; dated verification note	
13	Quarterly: detail register checked against personnel files	General Manager	Annotated detail register	
14	Quarterly: independent review by contracted accounting firm	Contracted firm	Written review memo	
15	Quarterly: sample review reported to the Board	Board designee	Board minutes	

Payrolls this period assembled by the General Manager in the Billing Specialist’s absence (list, or state None):

_____

Exceptions or steps not performed this period (state the reason):

_____

_____

General Manager: _____ Date: _____

Reported to the Board on: _____