

**MEETING DATE:** December 20, 2018

**TITLE:** Approval of District Financial Management Internal Controls

**RESOLUTION NUMBER:** 18-127

**PREPARED BY:** Cathy Reynolds

**E-MAIL:** Creynolds@minnehahacreek.org

**TELEPHONE:** 952-641-4503

**REVIEWED BY:**  Administrator  Counsel  Program Mgr. (Name): \_\_\_\_\_  
 Board Committee  Engineer  Other: District Auditor

**WORKSHOP ACTION:**

<input type="checkbox"/> Advance to Board mtg. Consent Agenda.	<input type="checkbox"/> Advance to Board meeting for discussion prior to action.
<input type="checkbox"/> Refer to a future workshop (date): _____	<input type="checkbox"/> Refer to taskforce or committee (date): _____
<input type="checkbox"/> Return to staff for additional work.	<input type="checkbox"/> No further action requested.
<input checked="" type="checkbox"/> Other (specify): <b>Final Action on December 20, 2018</b>	

**PURPOSE or ACTION REQUESTED:**

Staff seeks Board approval of the internal controls utilized for financial management processes within the district.

**PROJECT/PROGRAM COST:**

There are no costs associated with this action.

**PAST BOARD ACTIONS:**

The Board approved internal controls in April 2008. The update of the internal controls has been discussed at two OPC meetings, September 13, 2008 and November 8, 2018.

**SUMMARY:**

The Statement on Auditing Standards (SAS) 115 establishes standards, responsibilities and guidance for auditors during a financial audit for identifying and evaluating a client’s internal controls. This standard requires auditors to report in writing to management and the governing body any control deficiencies found during an audit that are considered significant deficiencies or material weaknesses.

The 2008 internal controls were documented to reflect the processes and procedures used by staff at that time. Over the last 10 years the processes utilized by the District have changed and the attached proposed internal controls reflect the changes that have been made and current practices in the District.

These controls have been reviewed by the District Auditor and an external CPA and CGFO and while both say additional steps can be implemented to further improve internal controls, the controls as documented are adequate to meet audit requirements.

Staff recommends adoption of the internal controls to reflect ongoing practices in preparation for the District financial audit.

Attachment I:  
Proposed Financial Management Internal Controls

Attachment II:  
2008 Internal Controls



**Minnehaha Creek Watershed District**  
**Financial Management Internal Controls**  
**Adopted:**

**1. Accounts Payable: Invoices**

- A. Operations Department:
  - 1) Receives invoices via the mail, email, or through online accounts and places the invoices in appropriate Departmental folders for review and initial processing
- B. Department Managers:
  - 1) Distribute invoices to the appropriate staff member for review and approval
- C. Staff Members:
  - 1) Review invoices to determine appropriateness of charges and completion of work being billed, notate any charges not to be paid along with a short justification of why an amount is not being paid
  - 2) The staff member then codes the invoice with the appropriate fund information for payment and returns the invoice to the Department Manager
- D. Department Manager:
  - 1) Receives coded invoices from Staff Members and reviews and approves the expenses and coding
  - 2) The Department Manager forwards the invoices to the District Administrator for review
- E. District Administrator:
  - 1) The District Administrator receives the coded invoices from the Department Managers and reviews approved and disapproved expenses, and the coding
  - 2) The District Administrator then either signs and approves the invoice or returns the invoice to the Department Manager and Staff Member to address any issues the District Administrator notes
- F. Outside Accountant:
  - 1) Enters approved invoices into the accounting software
  - 2) Prints the checks and prepares them for Board of Manager signature at the last meeting of the month
  - 3) Prepares the check register for submission to the Board of Manger including all checks written during the month, payroll deductions, and electronic fund withdrawals
  - 4) Submits monthly list of ACH transactions from bank account to Operations Department for review and pairing with invoices for coding
  - 5) Conducts the bank accountant reconciliation at the conclusion of every month when bank statements are received
  - 6) Prepares monthly General Ledger and Income Statement Reports and submits to District Administrator and Operations Manager
  - 7) Prepares monthly Financial Report for Board of Managers
- G. Board of Managers:
  - 1) Reviews and approves check register at last meeting of the month showing checks, payroll deductions and electronic fund withdrawals
  - 2) Signs checks reviewing invoices and supporting documentation
- H. Operations Manager:
  - 1) Uploads approved check register information in the banks positive pay system
  - 2) Reviews daily positive pay emails and review and approves any items not cleared through positive pay

## **2. Accounts Payable: Wire Transfers**

- A. Outside Financial Consultants
  - 1) Track District financial obligations for loans and bonds
  - 2) Prepare and submit to District, bank and accountant reports showing periodic debt payments
- B. Bank Client Services
  - 1) Verifies Operations Manager debt payment notification against the periodic debt payment report from outside financial consultant
  - 2) Prepares wire transfer documentation in accordance with periodic debt payment report
  - 3) Submits wire transfer documentation to Operations Manager
- C. Operations Manager
  - 1) Notifies bank of upcoming debt payment and date paperwork needed for Board action
  - 1) Receives wire transfer paperwork
  - 2) Provides wire transfer paperwork and supporting documentation to the Board of Managers Treasurer for review, approval and signature
- D. Board of Managers, Treasurer (or other Board Officer in the Treasurer's absence)
  - 1) Reviews the wire transfer paperwork and signs authorizing the transfer
- E. Operations Department
  - 1) Delivers original signed wire transfer paperwork to the Bank to complete the transfer
  - 2) Provides an electronic copy of the signed wire transfer to the Outside Accountant
- F. Outside Accountant
  - 1) Updates accounting software with information on wire transfer
  - 2) Reconciles bank account statements at the end of the month

## **3. Surety Payments**

- A. Permitting Department
  - 1) Conducts Final Inspection and closes permit
  - 2) Completes check request form
  - 3) Permitting Program Manager approves check request
  - 4) Updates permitting database reflecting payment of surety funds
- B. District Administrator
  - 1) Reviews check request and final inspection letter
  - 2) Signs and approves check request or requests additional information on permit
- C. Operations Department
  - 1) Prepares surety check in accordance with check request form
  - 2) Provides check information to the Outside Accountant for inclusion in the check register
  - 3) Updates spreadsheet reflecting payment for internal accounting of surety funds
- D. Outside Accountant
  - 1) Prepares check register for submission to the Board
  - 2) Completes bank account reconciliation at the end of every month
- E. Board of Managers:
  - 1) Reviews and approves check register at last meeting of the month
  - 2) Signs checks reviewing check request and supporting documentation

#### **4. Payroll Processing**

- A. District Administrator:
  - 1) Responsible for approval of all new hires
  - 2) Sets employee salary in accordance with approved pay scale
- B. Employee:
  - 1) Maintains a timesheet tracking hours worked, overtime, compensatory time, vacation and sick leave
  - 2) Submits timesheet to Department Manager for review and approval at the end of every pay period
  - 3) Submits leave request to Department Manager in advance of leave for review and approval
- C. Department Manager:
  - 1) Approves employee overtime, compensatory time, vacation and sick leave in advance
  - 2) Reviews and approves employee timecards and submits time cards to the Operations Department
- D. Operations Department:
  - 1) Reviews timecards to ensure they are completed in accordance with district policies and law
  - 2) Submits payroll for processing
  - 3) Conducts final review of payroll after submission and processing to release for payment
  - 4) Uploads payroll processing file into accounting software
  - 5) Responsible for the resolution of employee payroll inquiries
- E. Payroll Processor:
  - 1) Processes payroll on a bi-weekly basis paying employees via direct deposit
  - 2) Completes electronic fund transfers for PERA, federal and state withholding, benefits and deferred compensation plans
  - 3) Completes federal and state quarterly payroll tax
- F. Outside Accountant:
  - 1) Verifies uploaded payroll and benefits allocation by fund

#### **5. Accounts Receivable: Checks**

- A. Operations Department
  - 1) Receives checks that come in through the mail or over the counter
  - 2) Verifies checks with Departments to ensure proper account funding and departmental recording of payment received (Permitting department notates permit file/database of payment received and notates check for permit number and general account or surety account.)
  - 3) Completes bank deposit on at least a weekly basis using bank remote deposit capability
  - 4) Prepares bank deposit for items not capable of being remotely deposited
  - 5) Emails deposit slip showing details of the deposit and appropriate coding to Outside Accountant once the deposit is completed
- B. Operations Manager
  - 1) Verifies all deposits not capable of being remotely deposited
  - 2) Takes deposits to bank and provides deposit slip to Operations Department
- C. Outside Accountant
  - 1) Inputs all deposits into accounting software ensuring proper fund allocation

- 2) Verifies receivables during bank account reconciliation

## **6. Accounts Receivable: Wire/Electronic Fund Transfer**

- A. Operations Manager
  - 1) Receives notification of fund transfer from state and counties
  - 2) Verifies amount and type of funds (i.e. levy payment, grant payment)
  - 3) Confirms coding for receivable with appropriate Department Head
  - 4) Emails deposit notification with appropriate coding information to Outside Accountant
- B. Outside Accountant
  - 1) Inputs all deposits into accounting software ensuring proper fund allocation.
  - 2) Verifies receivables during bank account reconciliation

## **7. Budget and Levy**

- A. District Administrator
  - 1) Drafts budget and recommends levy
- B. Board of Managers
  - 1) Holds budget hearing in late August or early September
  - 2) Budget must be certified to Hennepin and Carver Counties by September 15.
  - 3) May recertify the budget until December 28 for any changes
  - 4) Holds Public Comment Period on budget in December
- C. Operations Manager
  - 1) Prepares and submits approved levy to Counties

## **8. Interfund Transfers**

- A. District Administrator
  - 1) Recommends fund closures and transfer of remaining funds to the Board of Managers
- B. Board of Managers
  - 1) Reviews and approves recommended fund closures/transfers
- C. Outside Accountant
  - 1) Transfers the funds in accordance with the Board's authorization
  - 2) Closes the fund following all applicable standard accounting principles

## **9. Bank Reconciliation**

- A. Outside Accountant
  - 1) Completes bank account reconciliation at the end of every month
- B. Operations Manager
  - 1) Reviews bank account reconciliation
  - 2) Verifies bank statements against bank records
  - 3) Reconciles any discrepancies with Outside Accountant

## ATTACHMENT II

### Minnehaha Creek Watershed District

Accounting Internal Controls

4/17/08

Prepared by: L. Eric Evenson

This document presents the procedures and internal controls used by Minnehaha Creek Watershed District staff in the processing of payment, deposit of funds received, and processing of payroll. This document is not a complete detailed list of all processing notes maintained by staff, but includes the major steps pertinent to the proper management and accounting of District funds. Steps identified in the processes below are divided by the District staff responsible for the task or series of tasks.

- I. Disbursements & Payables.
  1. Administrative Assistant (A)
    1. Receives all invoices.
    2. Stamps the invoices and routes invoice to the staff member assigned to that vendor.
    3. After staff signs off on invoices, (A) verifies that the vendor was not previously paid and then forwards invoice on to District Administrator (Adm).
    4. Receives the coded checks (including petty cash checks) from (Adm), prints the checks and puts check register on the agenda for board approval.
  2. Staff Member (SM)
    - a. Receives invoices from (A) and reviews invoice and signs off as appropriate.
    - b. Returns invoices back to (A)
  3. District Administrative (Adm)
    - a. Codes all invoices received from (A) after sign off from (SM).
    - b. Meets with the District Treasurer (DT) to review, sign checks, and sign the claim roster prior to board meeting.
    - c. Get board approval from board for all checks and any additional electronic transfer prior to transfer.
    - d. Has authority to issue "petty cash" up to \$1,000 each month. (Items that need to be paid in between board meetings.)
    - e. Gives coding for checks to (A).
  4. Outside Accountant
    - a. Comes to Watershed every third Wednesday of each month to input all invoices into Peachtree system.
    - b. Invoices are only entered into systems if they are approved and coded by (Adm).
    - c. Prints claims roster, checks and e-mails roster to the District to have checks approved by managers at monthly board meetings (3rd Thursday of each month).
    - d. Prepares bank reconciliation after receives bank statements. Bank statements are reviewed by District prior to bank reconciliation.
    - e. Books payables based on what is paid in January and February of the following year.
    - f. Submits monthly financial statements to Adm.

5. District Treasure (DT)
    - a. Meets with (Adm) to review, checks and sign claim roster prior to board meeting.
    - b. Approves the establishment of direct withdraws for rent, credit cards and other recurring payments
  6. Board of Managers
    - a. Approves all claims rosters, direct withdrawals, and electronic transfers at each monthly meeting.
- II. Payroll Processing
1. District Administrator (Adm)
    - a. Hires all new employees.
    - b. Maintains all personnel records for employees.
    - c. Reviews timesheets and submits bi-weekly payroll to OA.
    - d. Signs and mails quarterly/annual reports for federal and state which is received from Outside Accountant.
  2. Board of Managers
    - a. Approves positions for all new employees.
    - b. Approves salary ranges for each position of the District.
    - c. Approves amounts on check register for PERA and federal and state withholdings.
  3. Outside Accountant
    - a. Processes payroll on a bi-weekly basis in CSA. All employees receive direct deposit.
    - b. Makes electronic funds transfer for PERA, federal and state withholding liabilities.
    - c. Does quarterly/annual reporting for federal and state in CSA and delivers to (Adm)
  4. Outside Consultant
    - a. Completes a salary survey to verify salaries/benefits are competitive.
- III. Budget and Levy
1. District Administrator (Adm)
    - a. Drafts budget and recommends levy.
  2. Board of Managers
    - a. Holds budget hearing in late August or early September.
    - b. Budget must be certified to Hennepin and Carver Counties by September 15.
    - c. May recertify the budget until December 28 for any changes. (usually don't recertify)
    - d. If the district wanted to change the budget they could during the year, but they usually don't.
- IV. Receipts
1. Administrative Assistant (A)
    - a. Receives and codes all receipts.
    - b. Sends all coded receipts to Outside Accountant.
    - c. Codes and prepares weekly bank deposits.
    - d. Codes property taxes that are wired to the bank based on the budgeted amounts.

2. Outside Accountant
    - a. Inputs all receipts into Peachtree with a very similar process to that of the disbursement process.
    - b. Makes a journal entry to record all property taxes that are wired directly to the bank.
  3. District Administrator (Adm)
    - a. (Adm) signs off on weekly deposit and then the deposit is taken to the bank.
- V. Operations coding
1. District
    - a. Allocates 10% of operating costs to the General Fund and 90% to the Management planning fund.
- VI. Permit Deposits/Sureties
1. Front desk person/Staff (FD)
    - a. Writes a receipt for all permit deposits dropped off at front desk
    - b. Gives deposits to (A)
    - c. Handles all sureties. Gives surety request form to (A).
  2. Administrative Assistant (A)
    - a. Receives deposits from (FD) and makes the actual bank deposit and record of who the permit was for and send information to Outside Accountant
    - b. When deposit is requested, records are checked and confirmed with Outside Accountant that the deposit is still owed.
    - c. Receives surety request form and issues a refund check.
  3. Treasurer
    - a. Maintains and reviews a surety report.
- VII. Lease
1. District Administrator (Adm)
    - a. Reviews lease annually.
- VIII. Interfund Transactions
1. District Administrator (Adm)
    - a. At end of project, transfers the funds to 1002 or reduces the annual levy and the fund is closed.
- IX. Contracts Payable
1. These are booked at year end based on the contracts going on.
  2. All Pay requests are analyzed to determine correct contracts and retainage payables
- X. Retainage
1. District Administrator (Adm)
    - a. Authorizes the release of payment after a staff member signs off on the completed project/activity.
- XI. Fund Equity
1. The entire balance in the MGMT Planning fund is designated for its purpose.

XII. Compensated Absences

ii. Outside Accountant

a. Books at year end for the financial statements.