

HISTORICAL REFERENCE & BACKGROUND:

The 2008 audit identified two significant deficiencies in internal control.

- *-Accounting and Financial Reporting / Segregation of Duties – This deficiency is inherent in an entity of this size and is not a newly reported deficiency. The report went on to say that it would not be practical for the entity to devote the resources required to overcome this limitation. This deficiency will continue to be reported annually. The only action we can take is to constantly be aware of this and realize the concentration of duties and responsibilities in a single individual is not desirable from an accounting point of view. We have segregated the duties and implemented cross checks in our practices to the degree we can with the resources we have.*

This document was created in 2009 in response to the second deficiency that was identified.

- *Documentation of Accounting Policies and Procedures – The City should document its accounting policies and procedures in a written policy manual which spells out the accounting policies and procedures that make up the City's internal control system. The documentation should describe the procedures as they are intended to be performed and indicate which employees are to perform which procedures.*

The audit comment from Smith Schafer and Associates was that during their audit they became aware of a matter that was an opportunity for strengthening internal controls and operating efficiency.

In response to this opportunity, the accounting internal control practices have been documented.–The first section provides background information from the State Auditor's office as well as from the City's Code. This purpose of providing the background information is to provide a point of reference for expectations and to provide a basis to measure compliance in order to ensure our practices are sound.

General Overview Statement for City of Chatfield Internal Control Procedures

The City of Chatfield strives to perform daily operations with practices that strike a balance of sound internal accounting control that fulfill statutory requirements, while also maintaining operational efficiencies, and managing the costs of providing the control in order to safeguard funds, manage assets and that financial statements are in conformity with generally accepted accounting principles, and that finances are managed with responsible stewardship ensures public confidence and maintains the integrity of the financial systems

All personnel with a role in the management of the City of Chatfield's fiscal operations are expected to uphold the policies in this manual. It is the intention of the City of Chatfield that this accounting manual serve as our commitment to proper, accurate financial management and reporting.

THE PURPOSE OF DOCUMENTING THESE PRACTICES IS TO:

- *Enhance employees' understanding of their role and function in the internal control system;*
- *Establish responsibilities;*
- *Provide guidance for employees;*
- *Improve efficiency and consistency of transaction processing*
- *Improve compliance with established policies;*
- *Help prevent deterioration of key elements in the entity's internal control system;*
- *Maintain consistency in procedures from year to year and during employee transitions; and*
- *Help decrease circumvention of the entity's policies.*

HISTORICAL REFERENCE & BACKGROUND (CONT.):

INTERNAL CONTROL TOPICS:

STATE AUDITOR & CHARTER REFERENCE INFORMATION

SEGREGATION OF DUTIES

REVENUE MANAGEMENT | RECEIPTS

EXPENSE MANAGEMENT | DISBURSEMENTS

US BANK ONE CARD & FUEL CARD PRACTICES

RECONCILIATIONS

PETTY CASH FUND

FIXED ASSET MANAGEMENT

PAYROLL

COMPUTER SYSTEM BACKUP PROCEDURES

ANNUAL CHECK LIST

HISTORICAL REFERENCE & BACKGROUND (CONT.):

INTERNAL CONTROL TOPIC: STATE AUDITOR & CHARTER REFERENCE INFORMATION

STATE OF MINNESOTA – OFFICE OF THE STATE AUDITOR – STATEMENT OF POSITION –

THE IMPORTANCE OF INTERNAL CONTROLS 2007-1010 –REVISED: FEB 2014 REVIEWED: FEB 2014

Internal controls are designed to protect a local government unit from loss or misuse of its assets. Internal controls also ensure that all transactions are properly authorized, and the information contained in financial reports is reliable.

This Statement of Position will provide public officials and employees with practical answers to some of the questions most frequently asked about internal controls.

What is the purpose of internal controls?

An internal control is a process by which an entity attempts to prevent or minimize the likelihood of accounting-related errors, irregularities, and illegal acts. Internal controls help safeguard funds, provide efficient and effective management of assets, and permit accurate financial accounting. Internal controls cannot eliminate all errors and irregularities, but they can alert management to potential problems.

How much will this cost?

The cost of internal controls should never exceed their expected benefit. When adopting policies and procedures on internal controls, maintain a balance between what is needed to ensure public confidence and to maintain the integrity of the financial systems, and the cost of providing the control in terms of money, time, and efficiency. Many simple and cost-effective internal control procedures are available.

Does someone need to review every transaction?

No. It is not practical or profitable to attempt to independently review every transaction. Instead, management should be alert to “red flags” that could indicate potential problems. Looking into “red flags” will not only detect irregularities, but it will also prevent them from occurring in the first place because an environment of accountability will have been established.

What are some “red flags”?

When an alert is raised, follow-up is critical. Too often we see “red flags” continue unabated long after they were first detected and reported. Here are some examples that would merit further review:

- *Any unusual discrepancy between actual performance and anticipated results (for example, a major budget overrun in “supplies” or an unexplained decline in user fees);*
- *Receipts not matching deposits;*
- *Disbursements to unknown and/or unapproved vendors;*
- *One signature on checks or pre-signed blank checks;*
- *Gaps in receipt or check numbers;*
- *Late reports; or*
- *Disregard for internal control policies and procedures.*

What types of control policies and procedures should be implemented?

The control policies should be adequate to ensure that:

- *All transactions are properly authorized;*

HISTORICAL REFERENCE & BACKGROUND (CONT.):

INTERNAL CONTROL TOPIC: STATE AUDITOR & CHARTER REFERENCE INFORMATION (CONT.)

- *Incompatible duties are segregated;*
- *Accounting records and documentation are properly designed and maintained;*
- *Access to both assets and records is controlled; and*
- *Accounting data are periodically compared with the underlying items they represent.*

Extra care needs to be taken where cash transactions are involved (for example, liquor stores, park and recreation programs, or petty cash funds).

What does it mean to segregate incompatible duties?

Simply put, no employee should be in a position to commit an irregularity and then conceal it. An example taken from everyday life is a movie theater where one person sells tickets and another person collects the tickets. This helps prevent the person selling the tickets from: (1) collecting the price of the ticket, but allowing entry without a ticket (allowing the ticket seller to pocket the ticket payment without being detected); or (2) allowing entrance without the purchase of a ticket.

Duties can be segregated by department or by individual. Examples of incompatible duties that should be performed by separate individuals are:

- *Receipting collections, posting collections to registers, and making bank deposits;*
- *Signing checks, and reconciling the bank accounts;*
- *Receipting collections, and posting collections to the accounts receivable records; and*
- *Approving receivable write-offs/write-downs, and posting adjustments to the accounts receivable records, adjusting accounting codes, and reviewing the monthly detailed report of receipts and disbursements for accuracy.*

What if we are too small to be able to segregate duties?

If it is not practical to segregate duties, management should be aware of the lack of segregation and implement oversight procedures to ensure that employees are following other internal control policies and procedures. In addition, management may want to implement other controls. For example, a mandatory vacation policy or periodic rotation of duties among employees would allow management to observe if there is any noticeable change (for example, a marked increase in cash receipts) while another person is performing the duties. These alternative controls also help lessen potential disruptions caused by employee turnover.

Do some statutes require internal control procedures?

Yes. For example, the statutory requirement that more than one person must sign a check is designed to ensure a deliberate decision about who to pay, how much to pay, and when to pay bills. Pre-signing checks and signature stamps defeat those controls. Statutory requirements should be incorporated in the internal control policies and procedures.

HISTORICAL REFERENCE & BACKGROUND (CONT.):

INTERNAL CONTROL TOPIC: STATE AUDITOR & CHARTER REFERENCE INFORMATION (CONT.)

What sort of accounting documentation is needed?

Accounting records need to be complete. Key documents (for example, invoices, receipts, checks) should be sequentially numbered. Voided documents should be retained. Record retention schedules should be followed. Employee timesheets should be reviewed and countersigned by a supervisor or other third- party.

How do we “compare accounting data with the items represented”?

Bank statements should be routinely reconciled with the cash balances recorded in the books of the account. Check amounts should be compared with the claims approved, as recorded in the minutes. Any differences should be reconciled and documented. An annual inventory of fixed assets will ensure that all recorded items are still in your custody. Similar checks can be made of other accounts (for example, petty cash counts). Explanations of discrepancies should be corroborated by supporting documentation and evidence.

Do we have to write down our procedures?

Proper documentation of control procedures is essential. Written policies and procedures outline the specific authority and responsibility of individual employees, providing for accountability. Written policies serve as a reference and training tool for new employees and ensure that procedures remain in place despite employee turnover. To be effective, an accounting policies and procedures manual must be complete, up-to-date, and readily available to all employees who need it.

Who is responsible for internal controls?

The governing body (county commissioners, city councils, and town boards) and management are responsible for establishing and maintaining internal controls. The governing body sets the tone, educates employees about the importance of internal controls, and provides funding to implement the controls. The governing body must ensure that internal controls remain a top management priority. Management is responsible for evaluating the effectiveness of internal controls on an on-going basis. Even the best- designed internal controls cannot be effective without the active involvement of management. Management can develop a favorable control environment by setting a positive tone, communicating to all employees the importance of internal controls, and taking appropriate action against staff who are not complying with approved internal control policies and procedures. Management should also encourage staff to communicate situations not addressed by the policies and procedures, so that policies and procedures may be adopted as necessary. Finally, management should try to make employees feel comfortable when reporting potential wrongdoing or violations of policies and procedures.

REFERENCE: CITY OF CHATFIELD – CHARTER

CHAPTER 4 SECTION 16.5 – CITY ADMINISTRATOR –

- *To keep the city council fully advised as to financial conditions and needs of the city, and to prepare and submit to the city council for its consideration an annual budget and capital improvements program;*

HISTORICAL REFERENCE & BACKGROUND (CONT.):

INTERNAL CONTROL TOPIC: STATE AUDITOR & CHARTER REFERENCE INFORMATION (CONT.)

REFERENCE: CITY OF CHATFIELD – CODE OF ORDINANCES

CHAPTER 2 ADMINISTRATIVE CODE* ARTICLE V – FINANCE –
DIVISION 1. GENERALLY

SEC. 2-75. DISBURSING FUNDS; PAYMENT OF BILLS.

All fund disbursements shall be by order signed by the mayor and city clerk, duly authorized by the city council, and every such order shall specify the purpose for which the disbursement is made, and indicate that it is to be paid out of the proper fund; but no such order shall be paid until there is money to the credit of the fund out of which it is to be paid sufficient to pay the same together with all then- outstanding encumbrances upon such fund. No claim against the city shall be allowed, except as otherwise provided in this Code, unless accompanied by an itemized bill and voucher, payroll, or timesheet signed by a responsible officer who has personal knowledge of the facts in the case, together with a certificate verifying the correctness and reasonableness of the claim. However, the city council may provide for the regular payment without specific individual authorization or the filing of an itemized bill and voucher, payroll, or timesheet of the salaries and wages of regular employees or laborers, and any other fixed charges which have been previously and duly regularly authorized.

(Code 1999, § 2.7)

SEC. 2-76. PURCHASES AND CONTRACTS

The City Administrator is the chief purchasing agent of the city. Purchases and contracts exceeding \$20,000 are subject to the city council's advance approval. Unless otherwise provided in this Code. All contracts shall be made in accordance with law.

(Code 1999, § 2.8)

State law references: Uniform municipal contracting law, Minn. Stat. § 471.345.

SEC. 2-77. SELLING REAL ESTATE.

No real property of the city shall be disposed of except by ordinance, except that any property transferred involving tax-increment financing shall be handled in accordance with the provisions set up for such transfers. The proceeds of any such sale shall be used as far as possible to retire any outstanding indebtedness incurred by the city in the purchase, construction, or improvement of this or other property used for the same public purpose; but if there is no such outstanding indebtedness, then the city council may by a resolution adopted by a four-fifths majority designate some other public use for such proceeds.

(Code 1999, § 2.9)

SECS. 2-78--2-95. RESERVED.

DIVISION 2. SPECIFIC FUNDS

HISTORICAL REFERENCE & BACKGROUND (CONT.):

INTERNAL CONTROL TOPIC: STATE AUDITOR & CHARTER REFERENCE INFORMATION (CONT.)

SEC. 2-96. GENERAL FUND.

The city shall maintain a general fund into which shall be placed or credited all moneys and from which shall be paid all city expenses, not otherwise appropriated or provided for in other funds created in the city Charter or this article.

(Code 1999, § 2.3.1)

SEC. 2-97. BOND, CERTIFICATES, AND WARRANT FUNDS.

Separate funds shall be maintained for each issue of bonds, certificates, or warrants in the resolution or ordinance authorizing such issuance and into each such separate fund shall be placed and credited all moneys received from taxes and assessments levied and revenues pledged for the payment of each such issue, together with any other moneys appropriated by the city council for their payments. From such funds shall be paid the principal and interest and fiscal agent's fees for making such payment as such become due.

(Code 1999, § 2.3.5)

SEC. 2-98. LIBRARY FUND.

A library fund shall be maintained into which shall be placed and/or credited all moneys received from revenues of public libraries, from taxes levied therefore or from transfers from other funds. All disbursements shall be made pursuant to law.

(Code 1999, § 2.3.4)

State law references: Disbursements from library funds, Minn. Stat. §§ 134.11, 134.12.

SEC. 2-99. PUBLIC UTILITY FUND.

A public utility fund shall be maintained into which shall be placed and credited all moneys received from the operation of all public utilities or appropriated by the city council thereto, and from which shall be paid all expenses incurred through the operation of such public utilities.

(Code 1999, § 2.3.2)

INTERNAL CONTROL TOPIC: SEGREGATION OF DUTIES

REFERENCE

Avoiding Pitfall 04/13/2018

When employee responsibilities are arranged so that the work of one employee is checked by another, it is called "segregation of duties."

Ideally, no single official or employee should be able to:

1. Authorize a transaction;
2. Record the transaction in the entity's books; and
3. Obtain custody of the item resulting from the transaction.

Examples of incompatible duties that should be performed by separate individuals include:

- Receipting collections, posting collections to registers, and making bank deposits; or
- Signing checks and reconciling the bank accounts.

To put it another way, a person should not be in a position to commit an irregularity and cover it up.

Due to the limited number of personnel in smaller cities and towns, the segregation of accounting functions necessary to ensure adequate internal control is not always possible. In those situations, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a single individual is not desirable from an accounting point of view. Example of incompatible duties that should be performed by separate individuals include: receipting collections, posting collections to registers, and making bank deposits; and signing checks and reconciling the bank accounts. To put it another way a person should not be in a position to commit an irregularity and to cover it up.

INFORMATION:

CITY OF CHATFIELD SEGREGATION OF DUTIES PRACTICES:

No financial transaction (authorization, recording & custody) shall be handled by only one person from beginning to end.

The following is a list of personnel who have responsibilities within the clerk's department:

City Council

1. Review detailed claim listing in each agenda packet showing the vendor to be paid, the amount, the fund being charged along with a brief description of the expense.
2. Review and approves quarterly financial reports.
3. Review and adopt annual levy and budget.
4. Reviews and approves all contracts for goods and services that exceed \$20,000.
5. Authorizes all interfund transfers.

Mayor

1. Signs all checks for city council approved expenditures, except for ACH payroll checks and EFT vendors (IRS, State of Minnesota, PERA, Investments, HSA, administrative processing fees, and debit transactions for lodging associated with approved departmental training).

City Administrator

1. Reviews monthly Revenue and Expenditure Guidelines and Monthly Bank Reconciliation spreadsheet.
2. Prepares annual levy and budget.
3. Prepares listing of interfund transfers.
4. Has access to Root River State Bank On Line banking to provide enhanced internal control (along with City Clerk / Deputy Clerk/Payroll/ Utilities and Finance Director).

Finance Director

1. Processes daily online banking / fund accounting batch posting reconciliation.
2. Processes disbursements into Fund Accounting to generate claims listing report for City Council Agenda Packets.
3. Generates monthly revenue and expenditure guideline reports.
4. Processes monthly / quarterly and annual sales and use tax
5. Reconciles the bank accounts.
6. Prepares quarterly finance report (1st, 2nd & 3rd – Annual Financial Statement serves as 4th quarter).

REFERENCE INFORMATION:
When the segregation of accounting functions is not possible due to the size of the entity, management should constantly be aware of this condition. The concentration of duties and responsibilities in a single individual is not desirable from an accounting point of view. Additional internal control policies and procedures should be used to compensate for the lack of segregated duties.

Additional policies and procedures could include:

- A formal, numbered receipt book should be used for all receipts;
- Minutes should include the claim number of bills approved for payment;
- Invoices should be canceled to ensure they are not paid twice
- Town supervisors or city council members should determine that reports are submitted promptly, and are in agreement with cash balances and grant expenditures; and
- The town board or city council should adopt a formal conflicts of interest policy.

Date this Avoiding Pitfall was most recently published: 04/20/2018

CITY OF CHATFIELD SEGREGATION OF DUTIES PRACTICES (CONT.)

7. Assists Department Heads and City Clerk with annual budget.
8. Adds capital goods to fixed assets data base.
9. Processes quarterly water department sales and use tax.
10. Generates monthly Revolving Loan Fund receipt of payment and Payment Due report for EDA Consultant.
11. Has access to Root River State Bank On Line banking to provide enhanced internal control (along with City Clerk, Deputy Clerk, Assistant Deputy Clerk (s)).
12. Verifies ACH deposit amounts for Root River State Bank with

City Clerk

1. Processes receipts.
2. Processes utilities.
3. Processes the payroll, including payroll tax statements.
4. Has access to Root River State Bank On Line banking to provide enhanced internal control (along with City Clerk, Assistant Deputy Clerk(s) and Finance Director).
5. Provides receipt report for Revolving Loan Fund payments.

Deputy Clerk

6. Processes receipts.
7. Processes utilities.
8. Processes the payroll, including payroll tax statements.
9. Has access to Root River State Bank On Line banking to provide enhanced internal control (along with City Clerk, Assistant Deputy Clerk(s) and Finance Director).
10. Provides receipt report for Revolving Loan Fund payments.

Assistant Deputy Clerk

1. Processes recurring / utility disbursements into Fund Accounting.
2. Mails all checks for payments.
3. Routinely process payroll cycle for staff cross training.
4. Routinely process utility receipts & monthly billing cycle for staff cross training.
5. Receives and distributes all incoming mail.
6. Reconciles petty cash fund monthly.
7. Files claim vouchers.

All Department Heads

1. Review all bills for appropriateness / receipt of services or merchandise, initial for authorization and provide expenditure code for process according to where the service or merchandise was budgeted (or forward electronically with notations to Finance Director).
2. Review detailed claim listing in each agenda packet showing the vendor to be paid, the amount, the fund being charged along with a brief description of the expense.
3. Develops first draft of departmental budgets.

4. Accountability to approved departmental budgets in purchasing decisions and in preparing check request vouchers / invoices with the proper account code.

INTERNAL CONTROL TOPIC: REVENUE MANAGEMENT POLICY

REFERENCE INFORMATION:

Internal control is necessary for cash receipts to safeguard the assets of the city and to ensure that all cash funds intended for the city is received, promptly deposited, properly recorded, reconciled, and kept under adequate security.

CITY OF CHATFIELD RECEIPT | REVENUE MANAGEMENT PRACTICES

SEGREGATION OF DUTIES –

No financial transaction shall be handled by only one person from beginning to end.

1. The Deputy Clerk is the primary person and is backed up by the Assistant Deputy Clerk(s) to receive all incoming mail.
2. The Deputy Clerks are responsible for receiving all payments to the city, whether by mail or in person. Physical receipts will be provided on all cash sales. In the absence of the Deputy Clerks, the Finance Director or City Clerk may receive cash payments.
3. The Deputy Clerk and Assistant Deputy Clerk(s) are responsible for coding and keying the receipt batches in the accounting software, processes the deposits by preparing the deposit slip and delivering the deposit to the bank. In the absence of the Deputy Clerk or Assistant Deputy Clerks, the deposits are delivered to the bank by the Finance Director, or the City Clerk.
4. The Finance Director makes sure each receipt batch is balanced in the accounting software and posts the receipt batches.
5. Financial reports (Revenue & Expenditure Guideline Reports) are prepared by the Finance Director and distributed to the heads of each department monthly. The Revenue & Expenditure Reports and the Bank Reconciliation Spreadsheet showing the cash balances of each fund are distributed to the City Administrator each month. A quarterly report is prepared and distributed to City Council, which provides the Budget to Actual comparisons of the Revenues and Expenditures, the investment maturity and performance information as well as the cash balances in each institution (1st, 2nd & 3rd quarter, the Audited Financial Statement fulfills 4th quarter/ year end reporting).

CITY OF CHATFIELD RECEIPT | REVENUE MANAGEMENT
PRACTICES (CONT.)

SEGREGATION OF DUTIES (CONT.) –

6. Invoices for utility billing are prepared by the City Clerk, Deputy Clerk or Assistant Deputy Clerk through the Utility Billing Software. Invoices for Chatfield Ambulance Services are prepared by the Assistant Deputy Clerk through coordination with the contracted billing service (ExperT billing). Invoices for Fire Services provided are prepared by the City Clerk, Deputy Clerk or Assistant Deputy Clerk through the Fund Accounting invoicing module, tickets / citations serve as the invoice for the Police Department. Annual Rural Fire and Ambulance invoices are prepared by the Finance Director, City Clerk, Deputy Clerk or Assistant Deputy Clerk utilizing the Fund Accounting invoicing module and distributed by the Fire Chief at the annual Rural Fire Board Meeting. Other receivables invoicing is processed by the City Clerk, Deputy Clerk, Assistant Deputy Clerk or Finance Director utilizing the Fund Accounting invoicing module. Electronic copies of the Fund Accounting invoices are saved to the accounts receivable folder on the network. Revolving Loan Fund payments are process via ACH transactions through Root River State Bank on a monthly basis (only a couple of the loans continue to pay via check as they were in place prior to the new required ACH process).
7. Utility billing is done monthly. The City Clerk, Deputy Clerk or Assistant Deputy Clerk calls for the electronic reads of the meters and downloads the information. Banyon software is used for utility billing. Exception reports are generated for readings out of the normal range (too low, too high). The Deputy Clerk or Assistant Deputy Clerk works with the Public Works employees to recheck each of these accounts. Invoices are generated out of the Banyon Utility Billing software. Payments come through the mail, a drop box, in cash at the counter, EFT payments as well as electronic submission through the web store and are handled as described below.

CITY OF CHATFIELD RECEIPT | REVENUE MANAGEMENT
PRACTICES (CONT.)

ACCOUNTING CONTROLS —

1. All payments made to the city are keyed into the Banyon software by the Finance Director, City Clerk, Deputy Clerk or Assistant Deputy Clerk (Utility Billing or Fund Accounting). The Fund Accounting software generates transaction numbers for each transaction and batch. The Finance Director posts and clears the batches according to daily transaction report from the Root River State Bank on line banking inquiry.
2. Receipts batches for each deposit are keyed into the accounting software which includes, receipt date, the amount of the receipt, a description of the item or service being paid for, and the revenue account the revenue is being allocated to. Each receipt batch matches a deposit on the bank statement and is cleared by the Finance Director during the daily reconciliation.
3. All cash receipts (other than utilities) contain a signature, or at least the initials of the staff member receiving the payment (typically the Deputy Clerks). A sequentially number two part receipt is provided. The first part is given to the payer; the second part is retained by the City. An accounting of cash or check received will be recorded on the receipt and include the check number if applicable.
4. A signed or initialed copy of a utility billing invoice is provided by staff to utility bill payers paying in cash. The City Clerk, Deputy Clerk or Assistant Deputy Clerk, keys the payments into the Utility Billing software crediting each account and prepares a deposit for each batch. The Utility Billing software passes a batch electronically to the Fund Accounting software. These batches match the deposits on the Bank Statement and are cleared by the Finance Director during the daily reconciliation.
5. Receipts are typically deposited in the city's bank account on a daily basis. Under no circumstances shall payments, whether by cash or other instrument, be kept longer than one week.

REFERENCE COLUMN

CITY OF CHATFIELD RECEIPT | REVENUE MANAGEMENT
PRACTICES (CONT.)

ACCOUNTING CONTROLS (CONT.) –

6. A receipt drawer is kept for cash receipts in a locked cabinet at the counter in the main City Clerks Office. This office is also locked after hours.
7. The Finance Director, City Clerk, Deputy Clerk or Assistant Deputy Clerk is responsible for processing the receipt of funds received via electronic payments (RevTrack Webstore, MyRec pool payments, Minnesota Management & Budget, County Settlements, Revolving Loan Fund Payments, Utility Bill payments, etc.) Transactions are processed on a daily basis. These deposits are reconciled like the other utility receipts matching deposits daily to the Root River State Bank transaction report.

Cash disbursement credit card / fuel card into merged into Expense Management Jan 2023-----

INTERNAL CONTROL TOPIC: EXPENSE MANAGEMENT POLICY

REFERENCE INFORMATION:

Internal control is necessary for cash disbursements to safeguard the assets of the city and to ensure that all cash funds are disbursed only upon proper authorization of management for valid government purposes, and that all disbursements are properly recorded.

MN State Auditor: 2023 Avoiding
Pitfall: Electronic Funds Transfers

CITY OF CHATFIELD GENERAL DISBURSEMENT | EXPENSE MANAGEMENT PRACTICES

SEGREGATION OF DUTIES –

No financial transaction shall be handled by only one person from beginning to end.

1. Each department makes purchases for the operational needs of their department on behalf of the City of Chatfield in compliance with the departmental practices, statutory requirements, as well as opinions and recommendations of the State Auditor and according to the League of Minnesota Public Purchase Expenditures publication.
2. All checks shall require two signatures with the exception of ACH payroll checks administered by automatic deposit ACH and EFT transactions for the IRS, State of Minnesota, PERA, payroll vendor liabilities, and administrative fees: preferably the Mayor and either the City Administrator, City Clerk, Finance Director, or Deputy Clerk. Due to administrative requirements, in the absence of the Mayor, or Vice-Mayor, the City Clerk may use the Mayor's signature stamp along with authorizing initials and another authorized signer. Infrequently, but in order to meet routine administrative processes, two authorized representatives from the Clerk's department may sign a check for such items as postage, or an administrative transaction previously approved by council for a deposit or delivery, in the absence of the City Administrator.
 - a. Electronic Fund Transfers: Local governments may use electronic fund transfers to pay vendor claims, instead of checks. Electronic funds transfers may also be used to purchase and sell investments.
 - Those authorized to process payments & investment activity by electronic fund transfers are the authorized signers for each institution.
 - The individual initiating the transfer must be identified and documented in the transactions audit trail paperwork and receive a second authorization from those on the authorized signers for the banking institution the funds are being disbursed from.
 - Documentation confirming the transaction, must be made within one business day of the transaction; and
 - A list of all electronic funds transfers (e-checks in Fund Accounting) must be included in the claims listings at the next regular meeting.

Reference column

3. Invoices are received through central mail at the City Clerks office. The Assistant Deputy Clerk distributes the invoices to the appropriate Department Head. Utility / recurring monthly vendor invoices are coded and keyed by the Assistant Deputy Clerk.
4. Invoices shall be reviewed, and appropriate general ledger codes applied by the department head and or designated staff member.
5. Upon timely submission of claims by each department (by Wednesday morning prior to the second and fourth Monday of the month), the Finance Director and Assistant Deputy Clerk will review all claims for accuracy and record them into the accounting system. In the absence of the Finance Director or Assistant Deputy Clerk, the Deputy Clerk or City Clerk may record payments. Most claims submitted for payment shall be authorized (physically signed off on, or by e-mail notifications) by the appropriate department. Exceptions to this include local operating supply vendors, and the utility / monthly recurring bills.
6. All claims batches are reviewed by the Finance Director or Assistant Deputy Clerk and reports of claims to be paid are prepared for the City Council packets. Expenditures that were administratively authorized and processed in order to meet a payment deadline, were previously approved by Council display with a preprinted electronic check number on the claims listings.
7. The department heads review these claims listings for accuracy and the City Council will approve all claims paid and to be paid. Claims listings reports are submitted at each City Council meeting.
8. The Finance Director prints the checks. In the absence of the Finance Director, the Assistant Deputy Clerk, Deputy Clerk or City Clerk may print checks. Pre-numbered checks are kept in the main office of the City Clerk and signed out by payables batch.
9. The Finance Director prepares and endorses the checks with the first signature. The checks are placed in the Mayors mailbox for endorsing after approved by City Council. If any claim is not approved for payment the Mayor pulls the check and does not sign it.
10. The Finance Director voids any checks in the software that were not approved.
11. Properly signed and approved checks and remittance advice are prepared for mailing by the Assistant Deputy Clerk, the Finance Director, or the Deputy Clerk and the vouchers with supporting documentation area filed alphabetically by vendor name.

REFERENCE COLUMN

CITY OF CHATFIELD GENERAL DISBURSEMENT | EXPENSE
MANAGEMENT PRACTICES (CONT.)

SEGREGATION OF DUTIES (CONT.) –

12. The Finance Director reconciles the bank statements monthly.
The bank reconciliation spreadsheet is distributed to the City Administrator with the Revenue & Expenditure Reports and the spreadsheet showing the cash balances of each fund.
13. Financial reports (Revenue & Expenditure Guideline Reports) are prepared by the Finance Director and distributed to the heads of each department monthly.
14. A quarterly report is prepared and distributed to City Council, which provides the annualized budget to actual comparisons of the revenues and expenditures, the investment maturity and performance information as well as the cash balances in each institution. This is completed for first, second and third quarter. The annual financial reports prepared by the external auditor is the fourth quarter report.

CITY OF CHATFIELD GENERAL DISBURSEMENT | EXPENSE
MANAGEMENT PRACTICES (CONT.)

ACCOUNTING CONTROLS –

The following common internal controls relate to paying bills;

1. All disbursements, except those from petty cash, will be made by pre-numbered checks, or ach banking methods.
2. It is not permissible to draw checks payable to Cash.
3. Under no circumstances will blank checks be signed in advance.
4. A disbursement claim voucher shall be prepared for each invoice or request for reimbursement. Detailed receipts are required for all purchases (dates and description of all merchandise or services purchased) that details the payee, amount to be paid, description of expense account to be charged, authorization signature (most invoices), and be accompanied with related source documents. *If a receipt is not provided, is misplaced or lost, staff will provide an e-mail or create a detailed memo receipt listing the merchandise or services purchased with an explanation of the missing receipt. This practice is expected to be an exception but is an accommodation for times when receipt printers are out of paper or e-mails are not received.*

Reference Column

CITY OF CHATFIELD GENERAL DISBURSEMENT | EXPENSE
MANAGEMENT PRACTICES (CONT.)
ACCOUNTING CONTROLS (CONT.) –

5. Expenditures must be approved in advance by authorized persons.
6. All signed checks will be mailed promptly by the Assistant Deputy Clerk, Finance Director, Deputy Clerk or City Clerk.
7. The check number and date will be recorded on each claim voucher (with attached invoices) as the checks are prepared for mailing and the check stub will be attached.
8. Invoices and requests for reimbursement are reviewed for accuracy and reasonableness as they are reviewed within the department or as they are keyed into the accounting system. Employee reimbursable expenses must contain itemized receipts or documentation of trip purpose and date for mileage reimbursement.
9. The monthly bank reconciliation details the check number, check date and amount for all cleared and outstanding checks for the month and is filed along with the Bank Reconciliation spreadsheet and a copy of each bank statement.
10. Unpaid invoices are routed by each department to the Finance Director or Assistant Deputy Clerk where they are maintained in an unpaid claim file. Unpaid invoices shall be processed promptly as to avoid incurring late or past due charges.
11. Advance payments to employees or vendors shall be recorded as receivables in the general ledger.
12. Expense reports for travel related expenses shall be submitted on a timely basis.
13. Checks by which claims are paid shall have printed on the reverse side, above the space for endorsement: “The undersigned payee, in endorsing this order check, declares that the same is received in payment of a true, just and correct claim against the City and that no part has heretofore been paid.

Reference Column

MN State Auditor Statement of Position (State of Minnesota – Office of the State Auditor-2007-1005, February 2014)

Cities have authority to make purchases using credit cards issued to the public entity. The statutes authorizing credit card use by public entities restrict the use of credit cards to purchases for the public entity. No personal use of the credit card is permitted.

According to Minnesota law, credit cards should only be used by those employees and officers otherwise authorized to make purchases. If the public entity does not authorize a credit card purchase, the officer or employee who made the purchase becomes personally liable for the amount of the purchase.

Purchases made with the credit card must be consistent with other state law. For example, under Minnesota law, claims presented for payment must be in writing and itemized. Monthly statements received from a credit card company lack sufficient detail to comply with these statutory requirements. As a result, public entities using credit cards must retain the invoices and receipts needed to support the items charged in the bill from the credit card company. Similarly, listing only the credit card company on a claims list would merely identify the method of payment. It does not identify the vendors providing the goods and services, as required by law.

The authority to use credit cards does not authorize the creation of a new form of debt for the public entity. The statutes governing the issuance of debt by a public entity add a number of restrictions to the issuance of any obligation. The credit card statutes simply authorize another method of payment. Therefore, the public entity's governing board must adopt a policy of paying off the credit card charges on a monthly basis.

Some public entities have obtained debit cards instead of or in addition to credit cards. While entities have the authority to make purchases using credit cards, the authority to use debit cards is less clear. Debit cards allow funds to be immediately withdrawn from the entity's financial account, provide fewer protections than credit cards provide, and circumvent statutory claims approval safeguards. We recommend that entities use credit cards, and not debit cards, to make purchases for the public entity.

The ability to use a credit card for small purchases in the ordinary course of business offers many advantages. However, the ability of the card holder to make the public entity liable for an improper or illegal purchase in an inherent risk associated with credit cards. Compliance with statutory requirements and the adoption of and adherence to a policy implementing further internal controls will greatly reduce the public entity's exposure to loss of public funds through theft or misuse of the credit card.

CITY OF CHATFIELD GENERAL DISBURSEMENT | EXPENSE MANAGEMENT PRACTICES (CONT.)

GENERAL CREDIT & FUEL CARD PRACTICES

(US BANK ONE CARD PROGRAM PRACTICES | PROCEDURES IN NEXT SECTION)

Credit cards, (and/or fuel cards) are issued for use by staff, for official company use only on an as needed basis.

This policy applies to all employed staff of the City of Chatfield. Additionally, this policy applies to all usage of the company issued credit/debit and fuel cards

This policy specifies the use of, eligibility, responsibilities, and restrictions on the use of credit cards, debit card and fuel cards issued by the City of Chatfield.

The city utilizes;

- the Cenex Voyager Fleet fuel program
- the US Bank One Card Purchasing (Credit) program
- and also has a Kwik Trip house account (card is on site in Chatfield) for water, and other work-related food purchases, and pet food purchases for the pound

ROLES | RESPONSIBILITIES

MANAGEMENT –

The City Council, department heads and staff are provided with a detailed listing of expenditures in the agenda packets as a review process. The claims listing details the charges that have been made to Cenex, Kwik Trip, & US Bank. These vendors issue itemized monthly statements, and the city makes payment in full by check.

- The Finance Director, Deputy Clerk or Assistant Deputy Clerk issue and track the cards to departmental employees/city vehicles and the department heads provide training on authorized uses.
- Ensure correct accounting, procurement and taxation practices are applied.

Reference Column

CITY OF CHATFIELD GENERAL DISBURSEMENT | EXPENSE
MANAGEMENT PRACTICES (CONT.)

GENERAL CREDIT & FUEL CARD PRACTICES (CONT.)

(US BANK ONE CARD PROGRAM PRACTICES | PROCEDURES IN NEXT SECTION)

STAFF –

- Staff will be accountable for expenditures and must keep cards secure while on their person.
- Report any loss or theft immediately to Department Head and City Clerk's office.
- Staff will ensure correct procedures for use of all cards issued and that all receipts for purchases are returned to Finance at the City Clerk's office.
- Cards are to be returned to Department Heads immediately upon termination or notification to terminate employment.
- Violation of this usage policy may result in cancellation of the credit/debit card, formal reprimand and/or termination.

AUTHORIZED USES-

- Cards should only be used where it is necessary to pay for goods and services immediately rather than on an established account with the supplier.
- The Cenex program is the Voyager Fleet Card Account. The account limit is \$10,000 (verified 08/08/2023 – increased when PD transitioned from Wright Express). The cards are issued to a vehicle and drivers are set up with PINS. The cards are able to be used for fuel at any Voyager network participant.
- The account limit at Kwik Trip is \$2,600 (verified 2023 per statement) and alcohol and tobacco purchases are prohibited. There is an instore card which requires a pin for purchases.
 - Two gas/convenience store accounts are maintained to serves as redundancy for emergency situations where one account works and the other doesn't or one or the other stations is not available).
- Typical uses of the company issued cards are for; gas for city vehicles and equipment, gas for personal vehicles when used and documented usage is for official company business. lodging, on line payments for training, licenses/fees and vendors that do not establish accounts or will not be used frequently and require immediate payment or other expenses when the PO process is not possible due to timing.

Reference Column

CITY OF CHATFIELD GENERAL DISBURSEMENT | EXPENSE
MANAGEMENT PRACTICES (CONT.)

GENERAL CREDIT & FUEL CARD PRACTICES (CONT.)

(US BANK ONE CARD PROGRAM PRACTICES | PROCEDURES IN NEXT SECTION)

UNAUTHORIZED USES

- Any personal charge whatsoever, including but not limited to personal meals, personal telephone usage and movie rentals included in lodging bills associated with official business purposes.
- Purchases where an existing account with the supplier exists.
- In the case of fuel cards, restricted purchases include.
- Anything other than fuel, oil and or emergency mechanical repairs for the vehicle or department assigned to the fuel card, (note that the departments are authorized with the use of a pin to make in store purchases at Kwik Trip for water, and other work-related food purchases, and pet food purchases for the pound).
- Not to be used for any private purchases such as fuel, oil and/or emergency mechanical repairs for the employees personal or any non-work-related vehicle.
- Alcohol and tobacco products are prohibited.
- Cash advances on all credit cards are prohibited.
- If an employee who is authorized on behalf of the city has charges that are disallowed and are not repaid prior to the credit card billing date, the city will have a lien on the employee's wages, including final pay.

Violations

Violations of this usage policy may result in cancellation of the credit/debit card, formal reprimand and / or termination.

Documentation

Cenex Receipts

Transactions at the pump using the departmental vehicle card with a pin print on a detail report from Cenex.

In store purchases on the general city card require a signature and a notation of the department the expense gets allocated to.

Purchases from the AG store for lime and fertilizer need to be turned into accounts payable as CHS does not provide a copy of these receipts with the monthly statement.

Kwik Trip Receipts

Kwik Trip is used for high octane gas for specialty equipment, water and food purchases for authorized departmental needs. These purchases are made using the in store account card with a departmental pin. All receipts for Kwik Trip purchases must be submitted to accounts payable in order to fulfill documentation requirements.

Reference Column

CITY OF CHATFIELD GENERAL DISBURSEMENT | EXPENSE
MANAGEMENT PRACTICES (CONT.)

GENERAL CREDIT & FUEL CARD PRACTICES (CONT.)

(US BANK ONE CARD PROGRAM PRACTICES | PROCEDURES IN NEXT SECTION)

Procedure / Practices

1. The City has credit cards.
2. Public Works, Police, Ambulance, and Fire Department use credit cards for gas purchases at Kwik Trip and Cenex Greenway. Each department / vehicle as individual Cenex Voyager Fleet Cards. The Kwik Trip card is kept in the store and requires a departmental pin code to be entered.
3. The cards are to be used for official city business only; no personal purchases/charges are allowed.
4. Department Heads are responsible for verifying and approving purchases for their departments. They are asked to get printed confirmation / detailed receipts of all purchases.
5. Department Heads are then responsible for appropriately processing each invoice with the expense codes and submitting the invoice in a timely manner for processing.
6. The Deputy Clerk I, or Finance Director / Accounts Payable processes the credit cards like any other invoice.
7. Lost or stolen credit cards or numbers are to be reported to the Department Head immediately.

Reference Column

CITY OF CHATFIELD GENERAL DISBURSEMENT | EXPENSE
MANAGEMENT PRACTICES (CONT.)
US BANK ONE CARD PROGRAM PRACTICES | PROCEDURES

US BANK ONE CARD PURCHASING CARD OVERVIEW

The US Bank One Card provides staff with a method of payment where a tax exempt house account does not exist, or where on line payment is required.

US Bank One Card Benefits

The One Card concept is to offer a means to charge purchases to the City using a secure process with authorization and security levels pre-determined for each cardholder.

Cardholders will be able to obtain goods and services in a quick and convenient way within the system's controls.

US Bank One Card Definitions

The System Administrator is: The City Clerk

The Alternate Administrator: The Deputy Clerk

The Program Administrator: The Finance Director

Statement Cycle End Date: 25th day of the Month

Settlement Method: To be paid by check

US Bank Card Program Responsibilities

The success of the US Bank One card system depends on both cardholders and supervisors.

The following are several key areas that are required of **cardholders**:

- Responsibility lies with the cardholder to be informed of the City's expense management policy and procedure.
- Ensure that the US Bank One Card is used for appropriate City purchases and that the purchase meets the public purpose requirement (must benefit the community as a whole, be directly related to functions of the government, and does not have as its primary objective the benefit of a private interest.
- Cardholder should be cognizant of the annual departmental budget and understand the limitations of the City expense management policy.
- Sign the back of the card.
- Ensure that the US Bank One Card is kept secure and that all transactions are signed by the Card holder.
- Ensure that charges are not split to avoid the single-purchase dollar limit.
- Ensure that problems with a billing are resolved with the vendor.

Reference Column

CITY OF CHATFIELD GENERAL DISBURSEMENT | EXPENSE
MANAGEMENT PRACTICES (CONT.)

US BANK ONE CARD PROGRAM PRACTICES | PROCEDURES (CONT.)

US BANK ONE CARD PURCHASING CARD OVERVIEW (CONT.)

US Bank Card Program Responsibilities (Cont.)

- Complete the below process for purchases:
 - On the 26th of the month log on and print the transaction summary report for the prior months purchases (or use the US Bank Excel expense form), attach the detail receipts, document the appropriate expense code on the summary report, and a brief description of the purpose of the purchase. Turn the paperwork into the Finance Director.
 - Sign the claim.
 - Have supervisor sign/approve the claim (when purchase made by non-supervisor).
 - Ensure that the original detailed itemized receipts are attached to the claim form.
 - The transaction summary report or expense forms for purchases are to be turned in monthly to Finance Director on the 26th of the month.
 - If possible sign in on a weekly basis to verify charges to the account are valid and that no unauthorized charges are being made. This will be accomplished by signing onto the cardholder's online account and viewing current activity and statements. See "How Do I View Purchases /Statements Online?" in the Table of Contents for directions on how to access your online account.

Reference Column

CITY OF CHATFIELD GENERAL DISBURSEMENT | EXPENSE
MANAGEMENT PRACTICES (CONT.)

US BANK ONE CARD PROGRAM PRACTICES | PROCEDURES (CONT.)

US BANK ONE CARD PURCHASING CARD OVERVIEW (CONT.)

US Bank Card Program Responsibilities (Cont.)

The following are several key areas that require supervisor |
department head support:

- Review and approve US Bank claim forms to ensure that all transactions and charges are accurate, appropriate, and serve a public purpose. Note any account code reclassifications or changes in account distribution.
- Ensure that the Card is not used to make personal purchases.
- Ensure that the Card requirements contained in this User Manual are met.
- Ensure that the Card is used only by the Cardholder.

REQUESTING A NEW PURCHASING CARD OBTAINED?

- A Department Head is required to approve the issuance of a Purchasing Card. An e-mail must be sent to the Program Administrator by the approving supervisor with the following information:
 - Employee Name
 - Department
 - Date of Birth
 - Last 4 of social security
- Once the Program Administrator (Finance Director) receives the card, the employee must meet with the Finance Director to go over the Card User Manual/Policy. The policy must be signed by the cardholder before the card is given to the employee.

All billing, account coding, and card changes questions/ requests should be referred to the Program Administrator | Finance Director.

Reference Column

CITY OF CHATFIELD GENERAL DISBURSEMENT | EXPENSE
MANAGEMENT PRACTICES (CONT.)

US BANK ONE CARD PROGRAM PRACTICES | PROCEDURES (CONT.)

US BANK ONE CARD PURCHASING CARD OVERVIEW (CONT.)

Does the purchasing card need to be activated?

Yes, by calling 1-800-344-5696. The ID code is the last four digits of the cardholder's SSN.

Does my purchasing card have a PIN?

After issuance of the Card, the cardholder will receive a PIN number in the mail. Note that Cards are not debit cards and will not allow the cardholder to get cash back. Purchasing Cards issued after October 2015 have the EMV Chip technology. The pin number is for the sole purpose of utilizing the EMV Chip technology. At merchant terminals that accept EMV Chip technology, you will be instructed to "dip" the card in the terminal. The card is inserted and left in the terminal as you complete the purchase. There are two ways in which the transaction can be authenticated, either through using the PIN number or by signature.

Your PIN cannot be changed. If you forget or lose your PIN, you will have to contact customer service and request a reminder be sent. Until you receive the reminder, you will be allowed to conduct transactions using your signature.

Reference Column

CITY OF CHATFIELD GENERAL DISBURSEMENT | EXPENSE
MANAGEMENT PRACTICES (CONT.)

US BANK ONE CARD PROGRAM PRACTICES | PROCEDURES (CONT.)

US BANK ONE CARD PURCHASING CARD OVERVIEW (CONT.)

For whom can a cardholder make purchases?

The cardholder may make City business-related purchases within their department or division.

What commodities/goods or services can be purchased using a purchasing card?

The card may be used to purchase only goods or services that are for the express use by the City of Chatfield. In addition, certain products or services may be excluded when the card is programmed by the System Administrator. Purchase of alcohol and tobacco is strictly prohibited.

Is personal use of the purchasing card allowable?

No, use of the purchasing card for personal purchases is strictly prohibited. If the card is inadvertently used for a personal purchase, call the Program Administrator | Finance Director immediately.

Can the Card be shared?

The only person entitled to use a card is the person whose name appears on the face of the card. Do not lend the card to another person for use. Card transactions can only be signed for by the cardholder. Use by anyone other than the cardholder is prohibited.

Which Vendors May I Use?

The card is a Visa Card product. Any supplier or merchant who accepts Visa can accept the Purchasing card. The City has the ability to restrict purchases from certain vendors, based on merchant category codes, which would result in the card being declined at that vendor's place of business. The card may be used for in-store purchases, as well as phone, internet or mail orders.

Where economically feasible, local vendors should be used.

Reference Column

CITY OF CHATFIELD GENERAL DISBURSEMENT | EXPENSE
MANAGEMENT PRACTICES (CONT.)

US BANK ONE CARD PROGRAM PRACTICES | PROCEDURES (CONT.)

US BANK ONE CARD PURCHASING CARD OVERVIEW (CONT.)

What if the Vendor Does Not Accept credit cards?

If a supplier or merchant does not accept the card, use another method of procurement such as a purchase order or invoice/claim form.

What are the Guidelines for Sales Tax?

The City qualifies for the local government sales tax exemption; therefore, purchases are tax exempt. If there are questions regarding sales tax, contact the Program Administrator | Finance Director.

The cardholder is responsible for making sure sales tax is not charged on exempt purchases. If necessary, the cardholder should provide the merchant with a Certificate of Exemption (or ST3 form); this document can be obtained from the Forms / Applications section of the city website (<https://www.ci.chatfield.mn.us/forms>) and clicking on ST-3 Certificate of Exemption under Sales Tax | Tax Payer Forms.

What about receipts for Memberships, Dues, Subscriptions, and Conference Registrations?

For purchases in which a receipt is not normally given, use a copy of the completed application or order form as a receipt. It should clearly indicate payment was made using the card. The receipt must be itemized.

If the agency will send an invoice and allow payment by check that method should be utilized rather than incur a fee for utilizing a credit card.

How are charges paid?

Actual payment will be made by monthly by check. Each billing cycle ends on the 25th of each month.

Reference Column

CITY OF CHATFIELD GENERAL DISBURSEMENT | EXPENSE
MANAGEMENT PRACTICES (CONT.)

US BANK ONE CARD PROGRAM PRACTICES | PROCEDURES (CONT.)

US BANK ONE CARD PURCHASING CARD OVERVIEW (CONT.)

What if there is an incorrect billing?

If you have a problem with a billing, try to reach an immediate resolution with the supplier or merchant that provided the item. Your receipt will be the key document. The supplier or merchant should issue credit for a billing correction. This credit may appear on the next weekly statement.

If an agreement cannot be reached with the supplier or merchant, the next step is to contact the Program Administrator | Finance Director.

What if a receipt is lost?

On the rare occasion that a receipt is lost, a written US Bank claim form describing the transaction in detail and reason for no receipt should be sent through the claims process identified above under cardholder responsibilities. Repeated loss of itemized receipts can result in loss of purchasing card privileges.

Can telephone orders be charged?

Order may be made by telephone but be as cautious as you would be if you were giving out your personal credit card number. Request an itemized receipt from the merchant.

What about purchases on the internet?

Using purchasing cards to make transactions over the Internet has risks associates with it. Therefore, when making purchases on the internet be sure to order using a secure site. Request an itemized receipt from the merchant.

What if the card is lost or stolen?

Keep the card in a secure location. It needs to be accessible only to the cardholder. If the card is lost or stolen, contact U.S. Bank immediately by calling the 24-hour telephone number (1-800-344-5696). Immediately after reporting the loss to U.S. Bank, you must inform the Program Administrator | Finance Director and your supervisor. It is extremely important to act promptly in the event of a lost or stolen card to avoid City liability for fraudulent transactions.

Reference Column

CITY OF CHATFIELD GENERAL DISBURSEMENT | EXPENSE
MANAGEMENT PRACTICES (CONT.)

US BANK ONE CARD PROGRAM PRACTICES | PROCEDURES (CONT.)

US BANK ONE CARD PURCHASING CARD OVERVIEW (CONT.)

What if the cardholder is no longer employed by the City?

The cardholder must turn in the card to their department head, who is responsible for canceling the card by calling the Program Administrator | Finance Director and returning the card to the System Administrator (supervisors or cardholders should not destroy cards – cards must be given to the Program Administrator | Finance Director to destroy).

How are purchases returned?

If a purchased item is to be returned, follow the supplier or merchants return procedures.

How do I view purchases / statements online?

You will need to register for an online account in order to view your statement:

1. Go to <https://access.usbank.com>
2. Click the “Register Online” link
3. When asked your company short name, enter **CHAT**
4. Your account number is the 16 digit number on your credit card
5. Enter the remaining required information
6. Click register this account
7. You will then be asked to create a username (7-12 characters in length) and password (8-20 characters in length with at least one alpha, one numeric, and one symbol). Keep this information in a secure location.
8. Complete the user authentication questions. These will be used to authenticate your account if you forget your User ID or Password.
9. Enter your contact information; use your City information and the City Hall address.
10. You should now be registered to view your account activity online.

To view account activity:

1. Go to <https://access.usbank.com>
2. Enter your information to sign in:
 - a. Organization Short Name: **CHAT**
 - b. User ID and Password will be those that you created when you registered.
3. Once you are signed into your account you will have the option on the right to view your statement.
4. Check your account activity frequently so unauthorized charges can be identified as soon as possible.

Reference Column

CITY OF CHATFIELD GENERAL DISBURSEMENT | EXPENSE
MANAGEMENT PRACTICES (CONT.)

US BANK ONE CARD PROGRAM PRACTICES | PROCEDURES (CONT.)

US BANK ONE CARD PURCHASING CARD OVERVIEW (CONT.)

Will use affect personal credit?

Use of the card will not have any impact on the cardholder's personal credit rating.

What transactions are unauthorized?

Cards may not be used for excluded categories of goods and services or purchases split to remain under the single transaction dollar limit amount. The issuer provides the City with detailed transaction reports of exceptions by cardholder. These reports list purchases that attempted to exceed the set limits and failed the electronic authorization at the merchant's register. These reports also list purchases with may have been split to avoid dollar control limits. See purchasing policy for detailed information on authorized/unauthorized purchases and purchasing limits.

Per state statute, all purchases by credit card must comply with all statutes, rules or City policies. If a cardholder makes or directs a purchase by credit card that is not approved by the City Council, the employee is personally liable for the amount of the purchase.

What would cause loss of privileges?

Failure to comply with the provisions of this user manual may result in-revocation of card privileges. The following are some examples of violations:

- Splitting of charges to avoid the single purchase dollar limit
- Loaning the card to another employee for use
- Failure to submit charges for payment in a timely manner
- Failure to provide itemized receipts for charges
- The second time an inadvertent personal purchase occurs
- The second time the attached receipts do not match the item description or dollar amounts listed on the monthly statement of account

Intentional misuse of the card for personal purchases is considered theft and will be punishable up to and including termination and/or criminal prosecution.

US BANK ONE CARD PROGRAM PRACTICES | PROCEDURES (CONT.)

US BANK ONE CARD PURCHASING CARD OVERVIEW ACKNOWLEDGEMENT FOR FILE

.....

Acknowledgement

Cardholder Printed Name: _____

I have read the City of Chatfield Purchasing Card System User Manual / Policy. I understand the contents and agree to comply with the said policy.

Cardholder Signature: _____

Date: _____

Program Administrator Signature: _____

INTERNAL CONTROL TOPIC: RECONCILIATIONS

Reference Column

CITY OF CHATFIELD SEGREGATION OF DUTIES —

No financial transaction shall be handled by only one person from beginning to end.

1. The daily deposits and withdrawals are retrieved from the Root River State Bank on line banking application by the Finance Director. The on line banking transactions are also accessible by the Deputy Clerks and the City Clerk
 - a. The daily ACH deposits are routed to the Assistant Deputy Clerks for receipt processing in fund accounting software.
 - b. The Finance Director, posts and clears deposits and withdrawals daily in Banyon Fund Accounting based on the daily transaction report from Root River State Bank on line banking and is reconciled on a daily cash balance spreadsheet.
2. On the first (or first business day) of the month Bank Statements are retrieved electronically from the on line banking systems. to reconcile the bank accounts using the approved reconciliation spread sheet by the Finance Director. Paper copies are also received in the mail from Root River State Bank in the main office of the City Clerk by the Deputy Clerks and distributed to the Finance Director a few days later.
3. The Finance Director reconciles each bank account by the 5th of the month. . In the event it is not possible to reconcile the bank statements in this period of time, the City Administrator should be notified.
4. Daily reconciliation / transaction review includes the following;
 - a. Matching the activity dates and amounts of deposits and withdrawals on the daily transaction report from Root River State Bank online banking transaction report with the corresponding transactions in the Fund Accounting software. Matching receipts are posted and checks / withdrawals are cleared in the Fund Accounting bank reconciliation app and on the Check register with cash balance spreadsheet.
 - b. Outstanding transactions on the bank report or unmatched receipt batches or withdrawals are investigated.

Reference Column

INTERNAL CONTROL TOPIC : RECONCILIATIONS (CONT.)

CITY OF CHATFIELD SEGREGATION OF DUTIES –(CONT.)

5. At month end when reconciling the bank accounts, the following items are reviewed:
 - a. A comparison of the monthly totals of amounts of daily deposits and withdrawals as shown on the banks statements with the corresponding transactions in the Fund Accounting software.
 - b. An accounting of the sequence of checks both from month to month and within a month.
 - c. Review check images on the monthly statement for authorized signatures, irregular endorsements and alterations.
 - d. Investigate checks which have been outstanding over six months.
 - e. The completed monthly bank reconciliation spreadsheet along the revenue and expenditure guideline reports are distributed to the City Administrator from the Finance Director.

INTERNAL CONTROL TOPIC: PETTY CASH

Internal control is necessary for petty cash to safeguard the assets of the city and to ensure an appropriate level of fiduciary responsibility by providing guidelines for the use, safekeeping and reporting standards of petty cash funds, while allowing for small purchases or reimbursements to be made from the petty cash funds.

SEGREGATION OF DUTIES –

A petty cash fund of \$150.00 is available to City staff to make small purchases or reimbursements, in cash, for items such as postage due, shipping costs, office supplies, etc., using the following guidelines:

1. The City Clerk / Deputy Clerk will act as the custodian of the Petty Cash Fund, backed up by the Assistant Deputy Clerk, the Finance Director, or City Clerk. The City Clerk staff are the only people to have access to the cash as custodians of the fund.
2. The City Clerk / Deputy Clerk maintains primary custody of the petty cash and the Assistant Deputy Clerk is responsible for reconciling the fund monthly and processing a payables voucher to replenish the fund.
3. The Assistant Deputy Clerk will cash the reimbursement check and validate the balance of the fund when replenishing the funds.
4. The Department Heads and City Council approves all withdrawals from the Petty Cash Fund as part of the accounts payable process by reviewing the Claims Listings. The funds are replenished with a check payable to the City of Chatfield – Petty Cash, signed by the Finance Director and Mayor (two acceptable signatures) and endorsed by the Deputy Clerk.

Note: Use of the petty cash fund is uncommon. The US Bank Card program accommodates most of the transactions that this fund was previously used for.

ACCOUNTING CONTROLS –

The following guidelines will govern the use and keeping of the Petty Cash:

1. The City Hall Petty Cash will not exceed the amount of \$150.00.
2. The Petty Cash Fund will be kept in a cash box at the front desk.
3. Payment for items costing over \$25 should be made by check rather than reimbursed through petty cash.
4. Withdrawals from the Petty Cash Fund will be made only by completing a Petty Cash Claim Voucher. The voucher must state the date and amount of the withdrawal, the reason the cash was withdrawn, the expenditure account to which the expense should be charged, and the name and signature of the person receiving the cash.
5. Supporting documentation (receipts, invoices) must be attached to each voucher.

6. The Assistant Deputy Clerk will reconcile and replenish the Petty Cash Fund monthly.
7. No staff member shall be allowed to cash personal checks, including pay checks, in the petty cash or change funds of the city.
8. Under no circumstances shall staff members be permitted to borrow from petty cash or change funds for personal use.

INTERNAL CONTROL TOPIC: FIXED ASSET MANAGEMENT

Reference Column

Internal control is necessary for fixed assets to safeguard the assets of the city and to ensure an appropriate level of fiduciary responsibility by providing guidelines for the use, safekeeping and reporting standards of fixed assets.

A Capital Goods policy was adopted September 8, 2008 which establishes \$2,500 / greater than one year life threshold for capitalizing the fixed asset purchases. The recommendation is to increase this threshold to \$5,000 upon the next policy review in January of 2023.

ACCOUNTING CONTROLS –

The following guidelines will govern the use and tracking of the City's fixed assets:

1. Each department will maintain a log or database of the fixed assets purchased for their use.
2. The log should contain the following information
 - a. Date of purchase
 - b. Description of item purchased
 - c. Received by donation or purchased
 - d. Cost or fair market value on the date of receipt
 - e. Donor of funding source, if applicable
 - f. Funding source restrictions on use or disposition
 - g. Identification / serial number (if appropriate)
 - h. Items with a cost / value of \$5,000 or greater will be entered in the Fund Accounting Fixed Asset module for depreciation purposes.
 - i. Vendor name and address
 - j. Warranty period
 - k. Inventory tag number (all fixed assets should be tagged with a unique identifying number).
3. At least annually, each department will conduct a physical inspection and inventory should be taken of all fixed assets. Disposition of items need to be reported to the Finance director for removal / disposition from the City's fixed assets.

INTERNAL CONTROL TOPIC: PAYROLL

Reference Column

SEGREGATION OF DUTIES –

1. The City Administrator is charged with the responsibility of maintaining personnel files on staff persons.
2. Each personnel file should contain the following information, at a minimum.
 - a. Employment application or resume
 - b. Date of employment
 - c. Position, pay rates and changes therein
 - d. Authorization of payroll deductions
 - e. Earnings records for non-active employees
 - f. W-4 Form, withholding authorization
 - g. I-9 Immigration Form
 - h. Termination data, when applicable.
3. All personnel records are to be kept locked in a file cabinet in the City Administrators office.

PAYROLL PREPARATION AND TIMEKEEPING –

1. Timesheets are to be prepared by all staff persons and submitted every two weeks on the Monday following each pay period. Time should be recorded on a daily basis and, if in writing, be completed in ink. Correction fluid should never be used in preparing timesheets. If an error needs to be corrected, a line should be drawn through the item and the corrected information recorded, and initialed by the person who made the correction.
2. Time sheets are to include specific time in / out each morning, lunch period and end of day.
3. Time sheets are to be signed by the staff person and his / her supervisor
4. All approved time sheets should be submitted to the City Clerk for processing in the Banyon Data Systems Payroll module, recording time worked, sick time used, vacation time used.

The Deputy Clerk / Assistant Deputy Clerk routinely process a pay group cycle to retain proficiency and cross training of staff to reduce vulnerabilities for the city.
5. Paychecks are processed by utilizing automatic deposit into the staff persons checking or savings account(s).

INTERNAL CONTROL TOPIC: COMPUTER SYSTEM BACK UP PROCEDURES

Reference Column

1. The computer network is routinely backed up according to the Managed IT agreement with Marco for all network drives.
2. Staff is discouraged from saving information to their individual hard drives and if they do so are accountable for creating a back up of these files.
3. Annual backups of the Banyon year end programs are retained on the network files.

INTERNAL CONTROL TOPIC: ANNUAL CHECKLIST

THE FOLLOWING ITEMS WILL BE ADDRESSED ON AN ANNUAL BASIS —

These policies should reviewed and distributed to the Personnel Budget committee in November and distributed to the City Council & Staff for review at the annual meeting – (first meeting in January).

- Authorized depositories shall be adopted
- Authorized bank account signers will be reviewed and updated if necessary
 - Root River State Bank;
 - John McBroom – Mayor
 - Paul Novotny – Vice Mayor
 - Michele Peterson – City Administrator
 - Kay Wangen – Finance Director
 - Beth Carlson – City Clerk
 - Desiree Schlichter – Assistant Deputy Clerk
 - Julie Elder – Assistant Deputy Clerk
 - F&M Community Bank;
 - Michele Peterson – City Administrator
 - Kay Wangen – Finance Director
 - Beth Carlson – City Clerk
 - Desiree Schlichter – Assistant Deputy Clerk
 - Northland Securities –
 - Michele Peterson – City Administrator
 - Kay Wangen – Finance Director
 - Beth Carlson – City Clerk
- The meeting schedule for council, boards and committees will be established
- Costs of services will be reviewed and adopted
- Finance & Accounting policies and procedures will be reviewed;
 - Annual Budget Policy
 - Capital Outlay Plan
 - Debt Management Policy
 - Fund Balance Policy
 - Investment Management Policy
 - Accounting Procedures | Practices & Internal Control
- Certified Copies of Accounting Procedures & Internal Controls Distributed to banks that distribute city funds electronically to pay vendor claims or purchase and sell investments.
 - Root River State Bank
 - F&M Community Bank
 - Northland Securities
 - *Source: Avoiding Pitfalls MN State Auditor: Electronic Funds Transfers 2023*

DOCUMENT REVISION TRACKING

Annual Budget Policy Adopted by City Council September 08, 2008

Expense Management Policy Adopted by City Council May 22, 2017

Purchasing Card (US Bank Card) Policy Adopted by City Council July 22, 2019

Annual Budget Policy Revisions Adopted by City Council August 23, 2021

Adopted by City Council January 09, 2023 – Incorporate Expense Management & Purchasing Card Policy
Accounting Procedures and Internal Controls – Reviewed January 2024

Certified Copy of Delegation of Authority to disburse funds electronically;

- Root River State Bank
- F&M Community Bank
- Northland Securities

Official City Seal

City Clerk Signature & Date