



Internal Accounting Control Procedures

The City of Clearwater wants to ensure public confidence and retain a financially healthy Community. Therefore it is the intent of the Internal Accounting Control Procedures to provide guidelines that will sustain the fiscal integrity, and ensure proper accountability of the fiscal management of the City.

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I. Disbursement and Payment of Claims

Goal

The goal of the City Council in establishing an internal control system for cash disbursements is to safeguard the assets of the city and to ensure an appropriate level of fiduciary responsibility.

Objective

The objective of the City Council in meeting this goal is to ensure that cash is disbursed only upon proper authorization of management for valid governmental purposes, and that all disbursements are properly recorded.

Procedures

1. Segregation of Duties

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

- a. Payment of all claims shall be authorized by the appropriate department supervisor, the City Administrator, and the City Council.
- b. Invoices shall be coded by the appropriate department supervisor and then submitted to the Finance Director for recording and processing of payment. In the absence of the Finance Director, the Deputy Clerk may record and process payments.
- c. Checks shall be signed by the City Administrator and the Mayor. In the absence of the Mayor and/or the Administrator, the Acting Mayor and/or the Deputy Clerk shall be designated to sign checks. All checks shall require two signatures.
- d. Bank reconciliations shall be prepared at the close of each month by the Finance Director.
- e. Financial reports shall be prepared by the Finance Director and presented to the City Council on a monthly basis, quarterly at a minimum.
- f. Office supplies shall be ordered by department supervisors, through the Deputy Clerk. When invoices are received the Deputy Clerk shall indicate which department the supplies are to be allocated to. The City Administrator shall then code the invoice, and submit to the Finance Director for processing.
- g. The Finance Director will mail out all properly processed and signed checks. Check stubs will be attached to the invoice and filed accordingly.

2. Accounting Controls

General Disbursements

- a. All general disbursements will be approved in advance by the City Council. The following exceptions may be made upon approval by the City Administrator:
 - Debt service payments, including principal, interest, and fiscal agent fees
 - Payroll and related liability payments
 - Investment purchases
 - Sales tax payments
 - Postage replenishment
 - Contract or other payments that have specific City Council pre-approved payment instructions
 - Payments in which a substantial discount can be realized by timely payment
 - Payments where a substantial late charge would be incurred if timely payment was not made
- b. All general disbursements, other than from payroll, petty cash, or made electronically, will be made by pre-numbered checks.
- c. It is not permissible to draw checks payable to Cash.
- d. Under no circumstances will blank checks be signed in advance.
- e. A payment voucher form will be utilized for all general disbursements.
- f. Expenditures must be approved in advance by authorized persons.
- g. All signed checks will be mailed promptly by the Finance Director.
- h. The individuals authorized to sign the checks shall review each cash disbursement voucher for the proper approved authorization and supporting documentation of expense.
- i. Invoices will be filed with the check stub that identifies the date paid, amount of check and check number.
- j. Invoices and requests for reimbursement will be checked for accuracy and reasonableness before approval.
- k. A monthly check register will be prepared that details the date of the check, check number, amount of check, and description of expense account to be charged.
- l. Unpaid invoices shall be maintained in an unpaid invoice file by the Finance Director.
- m. Purchase orders shall be pre-numbered.

- n. Expense reports for travel related expenses shall be submitted on a timely basis, per the Personnel Policy.
- o. Checks by which claims are paid shall have printed on the reverse side, above the space for endorsement: “The undersigned payee, in endorsing this check declares that the same is received in payment of a just and correct claim against the City of Clearwater, and that no part of it has heretofore been paid.”
- p. In accordance with M.S. 471.425, subd. 2, claims of the city shall be paid within 35 days from the date of receipt, or as otherwise stipulated by the terms of a contract. Claims not paid within this time frame will be subject to penalty and interest charges assessed by the vendor, as provided for in M.S. 471.425, subd. 4.
- q. Disallowed claims shall be so marked and kept in a file for an appropriate time period.

Electronic or Wire Transfers

- a. All Electronic and Wire Transfers will generally be for:
 - Debt service payments, including principal, interest, and fiscal agent fees
 - Payroll and related liability and benefit payments
 - Investment purchases
 - Sales tax payments
 - Building Permit Surcharge payments
- b. The Finance Director will document the process and anticipate the funds to be wired to the designated depository on a particular date and time.
- c. The Finance Director will obtain notification from the depository that the wire transfer has been made.
- d. The depository will deliver a wire transfer receipt to the City Administrator who in turn provides that information to the Finance Director.
- e. The Finance Director will prepare any appropriate general ledger transactions, including payments and adjusting journal entries.
- f. All journal entries shall be reviewed and initialed by the City Administrator.
- g. The Finance Director will include electronic or wire transfers on each Claims Listing report.

Credit Cards

- a. In accordance with Minnesota Statute § 471.382, the City Council may authorize the use of a credit card by any city officer or employee otherwise authorized to make a purchase on behalf of the city. If a city officer or employee makes or

directs a purchase by credit card that is not approved by the City Council, the officer or employee is personally liable for the amount of the purchase. A purchase by credit card must otherwise comply with all statutes, rules, or city policy applicable to city purchases.

- b. Credit card purchases shall not be allowed except as legally provided for under M.S. 471.382 and by authorization of the city council.

II. Cash Receipts

Goal

The goal of the city council in establishing an internal control system for cash receipts is to safeguard the assets of the city and to ensure an appropriate level of fiduciary responsibility.

Objective

The objective of the city council in meeting this goal is to ensure that all cash intended for the city is received, promptly deposited, properly recorded, reconciled, and kept under adequate security.

Procedures

1. Segregation of Duties

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

- a. The Deputy Clerk will be responsible for receiving all cash payments to the city, whether by mail or in person. In the absence of the Deputy Clerk, the Finance Director may receive cash payments.
- b. The Finance Director will be responsible for preparing deposits of cash receipts and coding and recording the same in the general ledger accounts of the city.
- c. The Deputy Clerk or City Administrator will be responsible for delivering the deposits to the designated depository.
- d. Financial reports and bank reconciliations shall be prepared by the Finance Director and presented to the council on a monthly basis.
- e. Invoices for city services shall be prepared by the Deputy Clerk or Finance Director. An accounts receivable register will be maintained by the Finance Director.

2. Accounting Controls

The following common internal controls relate to all receipts:

- a. All receipts including cash, checks, electronic receipts, and wire transfers will be accounted in the general ledger.
- b. All cash and check receipts will be entered into the general ledger in the form of a receipt batch by the Finance Director. All electronic receipts and wire transfers will be entered into the general ledger in the form of a separate receipt batch or adjusting journal entry per occurrence.
- c. Each individual receipt will include the date, amount, remitter, appropriate accounting code, description of the receipt, and initials of the city staff receiving the payment.

- d. The receipt batch total will be reconciled and agreed to the total of all cash, check, or electronic receipts to be deposited.
- e. All cash and check receipts will be deposited at least weekly.
- f. All deposits will be made by the Deputy Clerk or City Administrator.
- g. A bank receipt will be attached to a copy of the deposit slip by the Finance Director, who will compare for accuracy.

III. Petty Cash / Imprest Funds

Goal

The goal of the city council in establishing an internal control system for a imprest fund is to safeguard the assets of the city and to ensure an appropriate level of fiduciary responsibility.

Objective

The objective of the city council in meeting this goal is to provide guidelines for the use, safekeeping and reporting standards of the imprest fund, while allowing for small purchases or reimbursements to be made from said fund in accordance with M.S. 412.271, subd. 5.

Procedures

1. Segregation of Duties

The petty cash fund is available to staff to make small purchases or reimbursements, in cash, for items such as postage, office supplies, parking, etc., using the following guidelines:

- a. The Deputy Clerk shall be the custodian of the Petty Cash Fund and will be the only person to have access to the cash.
- b. The City Administrator must approve all withdrawals from the Petty Cash Fund.
- c. The custodian of the Petty Cash Fund shall be responsible for reconciling the fund on a monthly basis and submitting an expense report to the Finance Director.
- d. The Finance Director will make the appropriate entries to record the expenses and will arrange for replenishment of the Petty Cash Fund. A Petty Cash Fund report will be provided to the City Council on a monthly basis.

2. Accounting Controls

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

- a. The Petty Cash Fund will not exceed the amount of \$150.
- b. The Petty Cash Fund will be kept by the custodian in a locked cash box. The locked box shall be kept in a secure place. Payment for items costing over \$25 must be made by check rather than reimbursed through petty cash.
- c. Withdrawals from the Petty Cash Fund will be made only by completing a Petty Cash 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. The voucher shall also contain the signature of the City Administrator approving the withdrawal.

- d. Supporting documentation (receipts, invoices) must be attached to each voucher.
- e. Unannounced counts of petty cash and change will be made on occasion by the Finance Director.
- f. No staff member shall be allowed to cash personal checks, including pay checks, in the petty cash or change funds of the city.
- g. Under no circumstances shall staff members be permitted to borrow from petty cash or change funds for personal use.

VI. Capital and General Expenditure Policy

Goal

The goal of this policy is to maintain appropriate procedures regarding the procurement, management and disposal of all fixed assets, and to establish and monitor fiscally responsible spending practices.

Objective

To ensure proper accountability and stewardship of the resources available for capital and general expenditures, while maintaining a safe and healthy working environment for all employees and high level service to the residents of the City of Clearwater.

Definitions

1. **Fixed Asset** - Equipment, property, buildings, vehicles and improvements that have an original or historic cost of \$5,000 or more, have an average useful life of three years or longer, when added to the original asset, extend the useful life of the asset, and meet the following criteria:

Equipment

- a. the item retains its original shape and appearance with use;
- b. it is non-expendable (not a supply);
- c. it represents an investment;
- d. it does not lose its identity by incorporating it through a different or more complex item;
- e. includes furniture but excludes built-in equipment which is considered part of the building;
- f. the item is not a repair part.

Property

- a. initial acquisition of real estate;
- b. improvements such as trees, shrubs, wells, septic systems, walkways, driveways, fences and other man-made improvements. An improvement must increase the value of the property.

Vehicles

- a. original cost of all transport vehicles and trailers that are not classified as equipment and can be registered for use on public highways;
- b. amounts paid under installment or lease contracts that have a terminal date and result in the acquisition of the vehicle.

Infrastructure

- a. the original cost of street or trail construction, including lighting systems, sidewalks, and bridges;
- b. the original cost of underground and above-ground utility systems, including water, sanitary sewer and storm sewer. Includes water towers, well houses and lift stations.

2. **City Council Approval** - Refers to official action of the city council by motion or resolution, as reflected in the official minutes of the city council.
3. **Capital Expenditure** - Purchase of fixed asset(s) as defined by this policy.
4. **General Expenditures** – All other spending in the budgetary accounts of the city. For the purposes of this policy, general expenditures shall not include expenditures from non-budgetary accounts (i.e. refunds and reimbursements, trust and agency, etc.)
5. **Budgeted Expenditures** – Refers to line item budget accounts as approved by the city council.
6. **Emergency Situations** – Any situation where an expenditure normally requiring city council approval must be made in order to maintain the health and safety of city employees, or when the delay of the expenditure would cause substantial interruption or decrease in city operations or delivery of needed services.

Procedures

1. **Approval:**

Appropriate approval for all capital and general expenditures must be obtained, including department head approval and final approval by the City Administrator. In addition, the following approval procedures apply:

Budgeted Capital Expenditures

- a. All budgeted capital expenditures which have been itemized and previously approved by the city council during the budget process, which do not exceed \$10,000, do not require additional approval, however department heads will provide the City Council with a report prior to the acquisition informing them that the capital expenditure will be occurring. Items that exceed \$10,000 will require council approval prior to acquisition.
- b. All budgeted capital expenditures that exceed the budgeted amount will require approval of the city council.

Budgeted General Expenditures

- a. All budgeted general expenditures which have been itemized and previously approved by the city council during the budget process do not require additional approval before purchase, with the exception of items exceeding the amount of \$2,000 and those specifically identified as requiring subsequent final approval.
- b. All budgeted general expenditures more than \$500 or 10%, whichever is higher, above the budgeted amount will require approval of the city council.

Unbudgeted Expenditures

- a. All unbudgeted capital and general expenditures must be approved by the city council. .
- b. In emergency situations the Mayor may authorize any capital or general expenditure which might be necessary to maintain operational status of the city. The expenditure will require approval at the next regular city council meeting. In the absence of the Mayor, the Acting Mayor or City Administrator may grant emergency approval.

2. **Bids, Quotations and Bonds:**

If the contract or purchase is expected to be \$25,000 or less, the city has the option to either obtain quotes, or purchase through the open market. If quotes are used they must remain on file with the City for at least one year.

If the cost is estimated to exceed \$25,000, but not to exceed \$100,000 the City may either choose to use the competitive bidding process, or by direct negotiation. If direct negotiation is used, then at a minimum the City shall obtain two quotes which shall remain on file with the City for at least one year.

In accordance with M.S. 471.345, the City will use the competitive bidding process for contracts and purchases that exceed \$100,000; excepting those purchases made through the State of Minnesota Cooperative Purchasing Venture (CPV) Program. A bid bond in the amount of 5% of the bid is required when using the competitive bidding process to ensure that the successful bidder enters into a contract with the city. In addition, a performance bond and a payment bond are required for all services exceeding \$75,000, as defined by M.S.574.26. All contractors, regardless of the amount of contract for services, are required to complete Department of Revenue Form IC-134 before final payment.

3. **Disposal and Acceptance of Fixed Assets:**

Disposal of fixed assets and other city property will be governed by applicable Minnesota Statutes. The City Council shall approve an annual Capital Equipment Budget, which shall include the identification of equipment to be disposed of. City Staff, at their discretion, shall abide by the following guidelines to achieve the highest level of return on the equipment:

- a. Trade In
- b. Auction
- c. Sealed Bids
- d. Advertising – Form that will best reach the appropriate audience
 1. Local Newspaper
 2. League of Minnesota Cities
 3. City Website
 4. Other

City Staff shall report in a timely manner to the City Council of any pending disposal transactions. If it is determined that one of the afore mentioned forms of disposal is not the best means and will not provide the City with the highest level of return, then City Staff shall seek approval from the City Council.

Acceptance of contributions of fixed assets or other property shall be in accordance with applicable Minnesota Statutes and shall be the responsibility of the city council. The City Administrator will be notified of any asset acquired by means of contribution. Donated fixed assets shall be recorded at fair market value.

4. **Purchase Orders:**

Purchases that are not routine in nature and/or are above the amount of \$1,000 shall require a purchase order. Pre-numbered purchase order forms will be available from the Finance Director and will include an explanation of the item or service, the cost of the item or service, and a recommendation of where the expense should be allocated (coded). All purchase orders must be signed by the appropriate supervisor and the City Administrator.

V. Payroll

Goal

The goal of the city council in establishing an internal control system for payroll disbursements is to safeguard the assets of the city and to ensure an appropriate level of fiduciary responsibility.

Objective

The objective of the city council in meeting this goal is to ensure that payroll disbursements are made only upon proper authorization to bona fide employees, that payroll disbursements are properly recorded, and related legal requirements (such as payroll tax deposits) are complied with.

Procedures

1. Segregation of Duties

- a. Each employee shall track time and complete time sheets in the prescribed manner of the Personnel Policy.
- b. Council members, Board members and Fire Department members shall be compensated as described in the City's ordinance and/or policy. When payment is determined by attendance at meetings, attendance sheets must be provided.
- c. The Finance Director shall process all payrolls.
- d. Checks will be presented with the timesheets, or attendance sheets, to the City Administrator and Mayor for signatures. Two signatures are required on all checks.
- e. The City Administrator shall review the payroll register, and the Finance Director will post payroll to the general ledger. The posting Journal Entry will be reviewed and initialed by the City Administrator.
- f. The Finance Director will prepare all payroll related tax withholding deposits and reports.
- g. The Finance Director shall prepare year-end W-2's to employees and respond to inquiries regarding the same.

2. Accounting Controls

The following common internal controls relate to payroll:

- a. Time sheets are required to document employee hours, including overtime, and leave time.
- b. Employment records will be maintained for each employee that detail wage rates, benefits, taxes withheld, and any changes in employment status.

- c. Payroll-related taxes, including employer share, shall be withheld and paid to the appropriate government agency on a timely basis.
- d. Written personnel policies shall dictate the accounting for vacations, holidays, sick leave and other benefits.
- e. A list of payroll checks written, with appropriate taxes withheld, will be maintained in a separate payroll register.

VI. Depositories

Goal

The goal of the City is to ensure that the funds deposited are federally insured and that the appropriate collateral has been furnished to protect funds deposited in excess of the FDIC Coverage.

Objective

The safety of public funds should be the foremost objective in public funds management.

Procedures

1. Designating a Depository

Pursuant to Minnesota Statutes § 118A, all city councils must designate one or more financial institutions as a depository of city funds. A city may designate one or more of the following financial institutions as a depository:

1. Savings associations
2. Commercial banks
3. Trust companies
4. Credit unions
5. Industrial loan and thrift companies

Depository Guidelines:

- a. Annual designation of the City of Clearwater depositories will be made by the City Council during the first council meeting of the New Year.
- b. Designation of depositories will be made by a City Council resolution and the resolution will state the terms and conditions of the deposit and be filed with the City Administrator and Finance Director.
- a. City of Clearwater will be one or more of the above mentioned financial institutions.

2. Collateralization of Public Deposits

Collateralization of public deposits through the pledging of appropriate securities or surety bonds by depositories is an important safeguard for such deposits. Pursuant to Minnesota Statute § 118A.03 (2007), deposited amounts in excess of the federal deposit insurance limits must be protected by collateral security or a corporate surety bond executed by a company authorized to do business in the state which, when computed at its market value, shall be at least ten percent more than the amount of the excess deposit at the close of the banking day. Likewise, if a deposit is made in a nonmember bank (not covered by FDIC insurance), a city will need to obtain collateral or a corporate surety bond even if the deposit is less than the federal deposit insurance limit. The financial institution may furnish both a surety bond and collateral aggregating the required amount.

State and local government depositors should take all possible actions to comply with federal requirements in order to ensure that their security interests in collateral pledged to secure deposits are enforceable against the receiver of a failed financial institution. The city must ensure that the following criteria must be met in order to perfect a security interest in pledged collateral under federal law:

- The assignment must be in writing;
- The assignment must have been approved by the depository's board of directors or loan committee, and the approval must be reflected in the minutes of the board or committee;
- The assignment must have been continuously, from the time of its execution, an official record of the depository.

Collateralization Guidelines:

- a. The Finance Director will ensure that a collateralization pledge is received from each city depository following the first depository board meeting of each year.
- b. The Finance Director will ensure that each collateralization pledge:
 1. Must be accompanied by a written assignment to the city from the financial institution.
 2. Assignment must state that, upon default, the financial institution must release to the city on demand, free of exchange or any other charges, the pledged collateral.
- c. The Finance Director will ensure that the assignment was approved by the depository's board of directors, and that the approval is reflected in the minutes of the board and that a copy of the depository board of director's minutes be kept on file with the City.
- d. The Finance Director will verify that the assignment has been continuously, from the time of its execution, an official record of the depository.
- e. The Finance Director will verify that the collateral is one of the following as per Minnesota Statute § 118A.03, subd. 2:
 1. United States government treasury bills, notes, or bonds;
 2. Issues of a United States government agency or instruments that are quoted by a recognized industry quotation service available to the government entity;
 3. A general obligation of a state or local government, with taxing powers, rated "A" or better;
 4. A revenue obligation of a state or local government, with taxing powers, rated "AA" or better;
 5. General obligation securities of a local government with taxing powers pledged as collateral against funds deposited by that same local government entity;
 6. An irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank's public debt is rated "AA" or better by Moody's or Standard and Poor's.

7. Time deposits that are fully insured by any federal agency.
- f. The City Administrator will ensure that the depository pledged collateral when computed at its market value, is at least ten percent more than the amount of the excess deposit at the close of the banking day which by definition incorporates a financial institution's cutoff hour.

VII. Fund Classification

Goal

The goal of the City is to be in compliance with GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*.

Objective

To provide for clearer fund balance classifications, for proper commitment and assignment of funds, and to identify acceptable minimum fund balances.

Procedures

Classifying Fund Balance

Funds shall be classified based on the nature of the particular resources. Funds shall be identified as nonspendable, restricted, committed, assigned and unassigned as defined below.

<i>Classification</i>		<i>Definition</i>
Nonspendable		Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
Restricted		Fund balance should be reported as restricted when constraints placed on the use of resources are either: a Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b Imposed by law through constitutional provisions or enabling legislation.
Unrestricted	Committed	Used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.
	Assigned	Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.
	Unassigned	The residual classification for the General Fund. This is the fund balance that has not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other governmental funds would report deficit fund balances as unassigned.

A copy of the "Fund Classification Schedule" identified as Exhibit A, is hereto attached and made a part of this policy. The City will revisit the classification schedule on an annual basis, typically at year end, to ensure that all funds are classified appropriately. This is to be done by Resolution, which will also identify the amount that will be designated for each Fund.

Unrestricted Fund Balance

The unrestricted fund balance is the amount of fund balance left after determining both nonspendable and restricted net resources. Therefore unrestricted includes committed, assigned, and unassigned classified funds.

Minimum Fund Balance

Whereas the State Auditor's Office has recommended an acceptable unrestricted fund balance of 35 to 50 percent of total current expenditures for the General Fund Operating Budget. The City of Clearwater has identified that an unrestricted fund balance of 50 percent of its annual general fund budget will ensure the financial integrity of the City. The goal will be to maintain a 50 percent balance and not allow it to decrease below 40 percent. Considerations shall be given to financial resources, tax revenue collection cycles, predictability of revenues and the volatility of expenditures, to maintain the desired level of unrestricted fund balance. The City Council, City Administrator and Finance Director shall diligently work together through proper fiscal management to create a balanced budget which will provide for and protect the unrestricted fund balance of the City.

Order of Resource Use

In the event that an expenditure is incurred for purposes of which both restricted and unrestricted fund balances are available, the City will first use the restricted funds that are available for that purpose. Once those have been exhausted, then the unrestricted funds will be used. When using the restricted funds, the City must ensure that the integrity of the restricted funds remains in tact, and that funds are not depleted in a manner that could impact other restricted purposes of those funds.

When it has been determined that restricted funds are not available and that unrestricted funds will be used, the City will then determine which unrestricted fund classification it will be taken from. Funds shall be considered in the following order: committed funds first, then assigned funds, and lastly the unassigned funds. When determining which funds to utilize the City needs to be aware of each funds purpose and the balances that exist, and the need to retain an unrestricted fund balance.