



## FINANCE DEPARTMENT

# Chatfield MINNESOTA

"THE CHOSEN VALLEY"

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To: Joel Young  
From: Kay Wangen, [kwangen@ci.chatfield.mn.us](mailto:kwangen@ci.chatfield.mn.us) | 507-867-1514  
Subj: Personnel Budget Committee Finance Policy Review  
to prepare for the 2023 Annual Financial Policies Review for the Annual Meeting  
Date: September 2, 2022

**Background:** Between July 2021 – July 2022 five finance policies were reviewed. It was determined that going forward finance policies would be reviewed annually to build awareness of our fiscal responsibilities and implement best practices of keep the finance policies current. The annual review will be incorporated into the City's annual meeting (the first Monday of January).

In addition to the 5 policies that were reviewed between July 2021 – July 2022, four additional policies & subsections have identified and need to be incorporated into the annual review.

- *Accounting Policies & Procedures* – This document was created in 2009 to document the City's internal control systems by describing the procedures as they are intended to be performed and identify by which employees.
- *Expense Management-Credit Card & Fuel Card, Purchasing Card* – incorporated into *Accounting Policies & Procedures*.
- *Capitalization* – incorporated into *Capital Outlay Policy*
- *Sale of Equipment* – incorporated into *Capital Outlay Policy*

These updates are ready to be reviewed by the Personnel Budget Committee in preparation for review at the Annual Meeting.

Following is a table to summarize and track the annual review cycle;

POLICY / PROCEDURE	ORIG ADOPTED	REWRITE	REVIEW Jan 2023
Annual Budget Policy	Sep 2008	Aug 2021	Jan 2023 only format change
Capital Outlay   Improvement Plan w/capitalization & sale of merchandise	Sep 2008	Oct 2021	Jan 2023 \$5,000 / 5 Yr include Capitalization Policy & Sale of Equipment
Debt Management Policy	Sep 2008	Oct 2021	Jan 2023 only format change
Fund Balance Policy	Sep 2008	May 2022	Jan 2023 only format change
Investment Management Policy	Sep 2008	July 2022	Jan 2023 only format change
Accounting Policies & Procedures & Internal Controls		Aug 2022	Jan 2023 include credit cards
Expense Management/ Credit & Fuel Card Policy	May 2017	Aug 2022 (Include in Accounting Procedures)	NA - Eliminate
Purchasing Card Subsection	July 2019	Aug 2022 (Include in Accounting Procedures)	NA – Eliminate

**Note:** During 2023 review process – format header and footer.

- Text highlighted in yellow indicates a recommended update to the language.
- Text with ~~strikethrough~~ indicates text recommended to be removed

Thank you.

**Purpose** – To provide guidelines to the issuance of debt.

**Policy Limits** – The City will use debt only for capital improvement or projects that have a life of more than 4 years. The City will avoid using debt for cash flow borrowing, operations or repairs.

When possible, the City will not use debt to finance equipment purchases when it is possible to purchase the equipment on a pay-as-you-go basis with equipment replacement program or capital goods replacement plan reserves.

The City shall use its bonding authority to facilitate private development only when the development merits special consideration.

The City's capital outlay plan shall contain debt assumptions which match this policy and requires a commitment to long-range financial planning which looks at multiple years of capital and debt needs.

**Legal Limits** – Minnesota Statutes, Section 475 prescribes the statutory debt limit that outstanding principal of debt cannot exceed 3% of estimated market value. This limitation applies only to debt that is wholly tax-supported. The type of debt included is either general obligation debt of any size bond issue (G.O.) or lease revenue bond issues that were over \$1,000,000 at the time of issuance. However, there are also several other types of debt that do not count against the limit. G.O. tax increment, G.O. special assessment, G.O. utility revenue, G.O. recreational facility revenue, and HRA-issued debt are considered to have a separate revenue source other than just taxes and are excluded from the legal debt limit calculation. Local ordinances do not limit the City's ability to issue debt.

**Issuance Practices** - The City will utilize the sales method that is most advantageous after considering a variety of factors, including but not limited to, structure, size, term, market conditions, applicable regulations, etc.

The City will determine the sales method after consulting with the City's Municipal Advisor and / or other appropriate parties.

**Debt Structuring** – The City's collective debt shall amortize at least 50% of its principal within 15 years. In all cases, the maturity shall not exceed the life of the related assets.

**Conduit Debt** – The City may participate in conduit debt financings. Development proposals are reviewed to determine if they meet program objectives and whether the proposals are financially feasible.

It is the practice of the City to charge fees that range from 0.25% to 2.00% of the bond offering to cover the City's cost.

**Refunding** – Current refunding bonds may be utilized when the projected savings, after factoring in all costs, yields enough savings to warrant moving forward. Council will determine on a case-by-case basis if sufficient savings have been attained.

Advance refunding bonds may be utilized when statutory savings are met (present value savings is at least 3% of refunded debt service).

*Adopted by City Council September 08, 2008*

*Revisions Adopted by City Council October 25, 2021*

*Annual Review: January 9, 2023*





## FUND BALANCE POLICIES

**Purpose** – To provide a stable financial environment for the City of Chatfield's operations that allows the City to provide quality services to its residents in a fiscally responsible manner to keep services and taxes as consistent as possible over time. This fund balance policy is meant to serve as the framework upon which consistent operations may be built and sustained.

### Definitions & Policies

**Fund Balance** - Describes the difference between assets and liabilities in the governmental funds (general fund, special revenue funds, capital project funds, debt service funds and permanent funds). This policy covers the general funds and special revenue funds unreserved fund balances. In accordance with Government Accounting Standards Board 54, governmental fund balances are classified as follows:

- **NONSPENDABLE**

**Definition** – The nonspendable fund balance consists of amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints, such as prepaid items.

**Policy** - At the end of each fiscal year, the City will report the portion of the fund balance that is not available for spending.

- **RESTRICTED**

**Definition** - The amount is restricted by external creditors, grantors, contributors, laws, or regulations of other governments. (e.g., encumbrances for goods or services with outside parties-creditors, grantors outstanding at the end of the year, or restricted by state statutes or grant requirements placed on the use for specific purposes).

**Policy** - At the end of each fiscal year, the City will maintain a restricted fund balance equal to the amounts required to accommodate; prepaid expenditures, encumbrances or funds restricted by enabling legislation.

- **COMMITTED**

**Definition** - The fund balance amounts that are constrained for specific purposes that are internally imposed by the City Council through formal action and remain binding unless removed by the City Council by subsequent formal action. (for example, an ordinance or resolution passed by a city council).

**Policy** - At the end of each fiscal year, the City will maintain a committed fund balance for long-term loan receivables such as advances to other funds or otherwise constrained for specific purposes by City Council.

- **ASSIGNED**

**Definition** - The assigned fund balance includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. The City Council, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The council also delegates the power to assign fund balances to the city clerk. This is the portion of the fund balance that reflects funds



## FINANCIAL MANAGEMENT POLICY

intended to be used by the government for specific purposes assigned by more informal operational plans (e.g. capital goods replacement - the constraint on use is not imposed by external parties or by formal council action). In governmental funds other than the general fund (special revenue funds, capital project funds, debt service funds and permanent funds), assigned fund balance represents the amount that is not restricted or committed.

### Policy –

**Capital Goods Replacement** - At the end of each fiscal year, the City will maintain an assigned fund balances for equipment replacement according to the City's Capital Improvement Plans. This includes funds; 801 for the general fund departments, 212 for the library, 221 for the fire department, 231 for the ambulance, 615 for CCTV as well as balances in 601 for the water department and 602 for the wastewater department.

**Special Revenue Funds Cash Flow** - At the end of each fiscal year, the City will maintain an assigned portion of the fund balance for cash flow in a range equal to 20 – 40% of the following year's budgeted revenues.

### • UNASSIGNED

**Definition** – The unassigned fund balance is the residual classification for the positive fund balance within the General Fund which has not been classified within the above-mentioned categories as well as the negative fund balances in other governmental funds. This is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications and, therefore, not subject to any constraints. Unassigned amounts are available for any purpose. These are the current resources available for which there are no government self-imposed limitations or set spending plan. Although there is generally no set spending plan for the undesignated portion, there is a need to maintain a certain funding level.

Undesignated fund balance is commonly used for emergency expenditures not previously considered. In addition, the resources classified as undesignated can be used to cover expenditures for revenues not yet received.

### Policy -

**Cash Flow** - At the end of each fiscal year, the City will maintain an unassigned portion of the fund balance for cash flow in a range equal to 40 – 60% of the following year's budgeted tax revenue (Tax Levy, Local Government Aid & Market Value Credit). In addition to cash flow needs this accommodates compensated absence liability and emergency contingency concerns.

In the event that amounts designated for cash flow fall above or below the desired range, the City Clerk shall report such amounts to the City Council as soon as practical after the end of the fiscal year. Should the actual amount designated for Cash Flow fall below the desired range, the City shall create a plan to restore the appropriate levels. Should the actual amount designated for cash flow rise above the desired range, any excess funds will remain undesignated pending the Council's final decision concerning transfer to another fund. It is the policy of the City that, to the extent possible, such excess funds will be transferred to the Special Projects Fund.

Adopted by City Council September 08, 2008.

Revisions Adopted by City Council May 23, 2022.

## 1. POLICY

The investment program shall be operated in conformance with federal, state, and other legal requirements, including Minn. Stat. § 118A. It is the policy of the City to invest public funds in a manner which will provide the highest investment return with minimum risk while meeting the daily cash flow demands.

Investment income will be allocated annually to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

### *POLICY CONSIDERATIONS*

#### EXEMPTIONS

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

#### APPROVAL OF INVESTMENT POLICY

The investment policy shall be formally approved and adopted by the Chatfield City Council.

#### AMENDMENTS

This policy shall be reviewed on an annual basis at the Annual Meeting. Any changes must be approved by the Chatfield City Council.

## 2. SCOPE

This policy applies to the investment of all funds of the City of Chatfield and Chatfield Economic Development Authority (the "City") except those (if any) which are governed in another manner by specific reference in federal, state and/or local statutes. Proceeds from certain bond issues may be covered by a separate policy to conform to federal requirements.

All assets to which this policy applies are accounted for in the City's annual Financial Statements and include;

- General Fund (*Governmental Fund*)
- Special Revenue Funds (*Governmental Fund*)
- Debt Service Funds
- Capital Project Funds (*Governmental Fund*)
- Enterprise Funds (*Proprietary Fund*)
- Internal Service Funds (*Proprietary Fund*)
- Custodial Funds
- Any other newly created fund

The City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration.



### 3. STANDARDS OF CARE

#### *PRUDENCE*

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy. The "prudent person" standard states that, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

#### *Ethics and Conflicts of Interest*

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

#### *DELEGATION OF AUTHORITY*

Authority to manage the investment program is granted to the City Clerk, hereinafter referred to as investment officer. Responsibility for the operation of the investment program is hereby delegated to the investment officer by the City Council, who shall act in accordance with established procedures and internal controls for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer.

### 4. INVESTMENT GENERAL OBJECTIVES

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield return on investment:

#### *Safety*

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio, through diversification and maturity limitations for each pool of fund of investments. The objective will be to mitigate credit risk and interest rate risk.

#### CREDIT RISK

The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities identified as authorized in section 5 of this investment policy
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business in accordance with those defined in Section 7 of this investment policy.
- Diversifying the investment portfolio so that the impact of price fluctuations from any one type of security or from any one individual issuer will be minimized in accordance with section 9 of this investment policy.

#### INTEREST RATE RISK

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- Investing operating funds primarily in money market checking accounts, shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy (see section 8).

#### LIQUIDITY

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. The portfolio will be structured so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist of some securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

#### Yield Return on Investment

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- Liquidity needs of the portfolio require that the security be sold.

## 5. AUTHORIZED INVESTMENTS

#### Investment Types

Consistent with Minn. Stat. § 118A, the following investments will be permitted by this policy:



UNITED STATES SECURITIES (§ 118A.04 SUBD. 2)

Public funds may be invested in governmental bonds, notes, bills, mortgages (excluding high-risk mortgage-backed securities), and other securities, which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.

MONEY MARKET FUNDS

Money market funds consisting of United States Treasury Obligations and/or Federal Agency Issues and/or repurchase agreements as long as it is rated AAA by two rating agencies.

STATE AND LOCAL SECURITIES (§ 118A.04 SUBD. 3):

- (1) any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service;
- (2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- (3) a general obligation of the Minnesota housing finance agency which is a moral obligation of the state of Minnesota and is rated "A" or better by a national bond rating agency.
- (4) any security which is an obligation of a school district with an original maturity not exceeding 13 months and rated in the highest category by a national bond rating service or enrolled in the credit enhancement program.

COMMERCIAL PAPERS (§ 118A.04 SUBD. 4):

Funds may be invested in commercial papers issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.

TIME DEPOSITS (§ 118A.04 SUBD. 5):

Time deposits (brokered) that are fully insured by the Federal Deposit Insurance Corporation or bankers acceptances of United States banks (excluding local time deposits that are fully collateralized as addressed in M.S. 118A.03.

FULLY COLLATERALIZED DEPOSITS

Certificates of deposit and other evidences of deposits at financial institutions that are fully collateralized as required by state statute.

## 6. SAFEKEEPING AND CUSTODY

### *Safekeeping*

Consistent with Minn. Stat. § 118A.06(a), Investments may be held in safekeeping with;

- (1) Any Federal Reserve Bank,
- (2) Any bank authorized under the laws of the United States or any state to exercise corporate trust powers, including, but not limited to, the bank from which the investment is purchased;

- (3) A primary reporting dealer in United States government securities to the Federal Reserve Bank of New York or;
- (4) A securities broker-dealer, or an affiliate of it, that meets the following requirements:
  - a. It is registered as a broker-dealer under chapter 80A or is exempt from the registration requirements;
  - b. It is regulated by the Securities and Exchange Commission; and
  - c. It maintains insurance through the Securities Investor Protection Corporation or excess insurance coverage in an amount equal or greater than the value of the securities held.

The City's ownership of all securities in which the fund is invested must be evidenced by written acknowledgements identifying the securities by the names of the issuers, maturity dates, interest rates, CUSIP number or other distinguishing marks.

#### *Collateralization*

In accordance with M.S. 118A.03 on the Collateralization of Public Deposits, full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit.

## 7. FINANCIAL INSTITUTIONS, SECURITY DEALERS, AND CONSULTANTS

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of \$10,000,000 in total assets and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Completed broker certification form (annual) (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the City's investment policy.

The broker/dealer must sign the Broker Notification and Certification form required by Minnesota Statutes 118A, including this investment policy, prior to any investment transaction with the City. The Broker Notification and Certification must be updated annually.



## 8. INVESTMENT PARAMETERS

### *DIVERSIFICATION*

The investments shall be diversified by:

- limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities and collateralized deposits),
- limiting investment in securities that have higher credit risks,
- investing in securities with varying maturities, and
- investing a portion of the portfolio in readily available funds such as local government investment pools or money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

### *MAXIMUM MATURITIES*

To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than an average expected life of ten (10) years from the date of purchase or in accordance with state and local statutes and ordinances.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding ten (10) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as local government investment pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

### *COMPETITIVE BIDS*

The investment officer shall consider multiple competitive offerings on all purchases of investment instruments purchased. The investment officer shall have no obligation to purchase and may decline on any or offerings.

## 9. INTERNAL CONTROLS

The investment officer shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City.

## 10. PERFORMANCE STANDARDS

The City's cash management portfolio shall be designed with the objective of regularly meeting or exceeding a selected performance benchmark, which will be the average return on three-month U.S. Treasury bills. These indices are considered benchmarks for lower risk investment transactions and therefore comprise a minimum standard for the portfolio's rate of return.

## 11. REPORTING

The City Clerk's Office shall prepare an investment report quarterly. This report will be prepared in a manner which will allow the City to ascertain whether investment activities conform to the investment policy. The report should be provided to the City Council. The report will include the following:

- Listing of investments by maturity date
- Average weighted yield
- Percentage of the total portfolio by institution
- Percentage of the total portfolio by length of time to call/maturity.

*Adopted by City Council September 08, 2008*

*Amendment Adopted by City Council June 27, 2022*

*Reviewed by City Council January 09, 2023*





## PURPOSE

To provide a stable financial environment for the City of Chatfield's operations that allows the City to provide quality services to its residents in a fiscally responsible manner designed to keep services and taxes as consistent as possible over time. This annual budget policy is meant to serve as the framework upon which consistent operations may be built and sustained.

The primary goals in preparing the City's Operating and Capital Budgets are.

1. Maintain a steady, predictable, local tax rate, with a long-term goal of reducing the tax rate over time.
2. To maintain the City's debt per capita at \$3,500 or lower.
3. Maintain positive reserves in the City's enterprise funds (sewer and water).
4. Develop a budget based on specified needs and goals.
5. Develop work plans based on specific outcomes in an effort to develop result-based budgets.
6. Maintain public safety and public works programming that reasonably assures the public of their personal safety, convenience, and maintenance of property value.
7. Develop and maintain technology, communication, and administrative services that allow all interested parties to be well informed, while protecting the City's critical data and operating systems.

## OPERATING BUDGET POLICIES

**Scope** - It is the City's policy to budget for all governmental and enterprise funds. The City considers our operating budget to consist solely of the General Fund. The City is required to report levy and expenditure amounts for our Debt Service Fund for Truth-in-Taxation (TNT) purposes, but these levies and expenditures are usually related to capital spending decisions and are therefore excluded from the operating budget policy.

**Accounting** - The General Fund uses the modified accrual basis of accounting for budgeting and reporting purposes. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**Stakeholder Input.** The annual budget process is intended to weigh all competing requests for City resources within expected fiscal constraints. Requests for new programs made outside the annual budget process are discouraged. The City will provide ample time and opportunity for public input into its budget process every year, including the use of the required TNT (truth in taxation) hearing.

**Balanced Budget Adoption** - The operating budget (General Fund) for the City will be balanced. The City will not use internal or external short-term borrowing, asset sales, or one-time accounting changes to



balance the General Fund budget. The balanced budget will include a reasonable annual appropriation for contingencies.

**Budgetary Controls** – The level of budgetary control is at the department level within the General Fund even though budgetary data is presented at lower levels (e.g. Operating Supplies, Small Tools & Minor Equipment, Other Professional Services, and Capital Outlay). Expenditures should not exceed budget appropriations for the department unless offset by increases in revenues or unless the purchase was made in accordance with the City's Equipment Replacement / Capital Improvement Plan. All unencumbered appropriations lapse at year-end.

The City Clerk may approve budgetary transfers. The City Council may approve supplemental purchases.

**Monitoring** - Department heads are responsible for administration of their respective department budgets. Such responsibility includes reviewing monthly financial reports to detect errors and assess progress, staying within budget authorization, and submitting requests for budget adjustments, when required.

## REVENUE POLICIES

**Policies** - The City will endeavor to maintain a diversified and stable revenue system to shelter programs and services from short-term fluctuations in any single revenue source.

**Property Taxes** - It is beneficial for residents and for the City to keep tax rates competitive and consistent from year to year. The City will strive to proactively avoid large increases in the tax rate.

**Fees and Charges** - The City will consider policy objectives and market rates when setting fees.

**Investment Income** - The City will reasonably budget for investment revenue in our operating budget based on the conservative investment strategy outlined in our investment policy (under separate cover).

Adopted by City Council September 08, 2008

Revisions Adopted by City Council August 23, 2021

Annual Reviews: January 9, 2023

## PURPOSE

The goal of the City's Outlay Plan is to develop a comprehensive program for use by decision makers to guide capital investments in equipment and assets based on an assessment of the community's needs, taking into account the best use of limited resources while providing efficient and effective municipal resources.

There are ~~two~~ **four** components to the City's Capital Outlay Plan;

- Departmental Capital Goods / Equipment Replacement Schedules
- Capital Improvement Plan (CIP)
- Capitalization
- Sale of Merchandise

## DEPARTMENTAL CAPITAL GOODS / EQUIPMENT REPLACEMENT SCHEDULES –

The City strives to maintain its physical assets at a level that minimizes future repair and maintenance costs. To accomplish this goal, the City has established the Departmental Capital Goods / Equipment Replacement Schedules to annually budget and set aside funds for the timely replacement of City Equipment.

The Departmental Capital Goods / Equipment Replacement Schedules are maintained for;

- General Fund
  - City Clerk Department
  - Municipal Building
  - Police Department
  - Civil Defense
  - Street Department
  - Parks Department
  - Technology Share Components
- Fire Department
- Ambulance Department
- Water Department
- Waste Water Department
- Cable Access Department

## CAPITAL IMPROVEMENT PLAN (CIP) –

- The CIP is a five-year plan for capital improvements that is updated annually. The CIP process includes analyzing projects contributing to the public health and welfare, projects helping to maintain and improve the efficiency of the existing systems, and projects that define a future need within the community.



- The City will identify the estimated cost and potential funding sources for each capital project proposal in the CIP. Purchase contracts for equipment and projects included in the CIP must still be properly authorized according to the City's Purchasing Policy.
- The CIP will include equipment and projects from any City Fund.

## CAPITALIZATION POLICY

### CAPITALIZATION POLICY BACKGROUND

~~To comply with GASB 34, The City of Chatfield adopted a capitalization policy for capital assets and depreciation. That policy established a \$5,000 dollar purchase threshold for individual assets with a useful life of 5 years or more.~~

~~Since putting this policy into practice, the determination has been made that the \$5,000 / 5 year useful life threshold excludes too many valuable assets to the City of Chatfield. Therefore, the recommendation is to update the policy to capitalize individual assets with a cost of \$2,500 or more and a useful life greater than one year. This would synchronize the Capital Goods Replacement Planning Process and the annual budgeting process.~~

~~The \$5,000 threshold was determined by following the Government Finance Officers Association's (GFOA) recommended practice, which clearly states, "In no case should a government establish a capitalization threshold of less than \$5,000 for any individual item." However, since that time, additional research revealed the State of Minnesota Guide to Local Government Capital Assets, from the Office of the State Auditor. This document contains Capitalization Threshold that differ for Small and Larger Governments. This document explains; "that governmental entities do not need to capitalize every asset with a useful life greater than one year. To do so is an unnecessary burden and will not materially affect financial results...care should be taken when determining the threshold. A threshold that is too low may result in a burdensome record keeping system. A threshold that is too high could cause material misstatement of the entity's financial condition." The small government table in this document reflects \$1,000, threshold, which seems like it would be extreme and burdensome for tracking, thus the recommendation for the 2,500 threshold.~~

### CAPITALIZATION POLICY PURPOSE

To provide a uniform criteria for identifying City expenditures for capitalization, and for the proper asset classification of capital expenditures, including guidelines for the determination of the economic useful lives of assets.

CAPITALIZATION POLICY

A. SUMMARY OF GENERAL POLICY

1. It is the general policy of the City of Chatfield to identify an expenditure as a capital asset if it meets the following requirements:
  - a. Is City owned
  - b. Costs ~~\$2,500~~ \$5,000 or more
  - c. Has an economic useful life greater than ~~one~~ five years
2. Expenditures on existing assets may be capitalized if the asset's productive capacity is significantly improved or the useful life of the asset is extended by one year or more. Replacement will be capitalized if they meet the three criteria listed above.
3. Capital items in most cases are new or replacement purchases that have been planned for as part of the Capital Goods Replacement Plan. Expense items are generally those which are used up in a short time (less than one year) or are expenditures which maintain an existing asset in good condition, but do not improve it from its original condition..
4. Lower-value (cost below ~~\$2,500~~ \$5,000) tools and equipment are expensed to reduce the bookkeeping costs of tracking and depreciating them, but should be inventoried and tracked if over \$1,000.

B. DEFINITIONS AND POLICY INTERPRETATION

1. Asset Expenditure:

- a. Assets may be land, buildings, equipment, roadways, physical goods of various kinds, computer software, certain intangible long-lived benefits such as easements, and in certain instances, the cost of demolition, relocation or renovation of assets. Expenditures for such goods, services and benefits may qualify as capital expenditures. The "cost" of the asset includes purchase price (including sales tax and shipping costs), construction costs (including labor, material and overhead used in construction; and reports, studies, plans, consulting and architectural fees, etc., required in the construction process), capitalized interest (the cost of financing the asset), and in limited, defined instances; (a) the cost of outside legal costs, and (b) qualifying environmental clean up and mitigation expenditures. Note: Warranty costs and maintenance agreements are not capital expenditures; they are operating costs and must be expensed.
- b. A combined or unitary concept will be used in identifying newly purchased or newly constructed assets, and a separable concept when



replacing, renovating or improving major components of existing assets. Example: A newly constructed building is identified as a unitary asset, even though it is composed of major subcomponents. If the HVAC system of an old building is replaced, the new HVAC system is identified as a separable new component with its own estimated useful life. Major components of City assets may be considered separable and subject to separate asset identification, (i.e.; an HVAC system, a truck engine, a crane cab or a building roof). In these cases, either the separable asset may be given; (a) its own new life; (b) the remaining life of the existing asset; or (c) the life of the major asset may be extended, depending on the facts in each case. In other more restricted cases, integral, non-separable elements are considered maintenance expense of the major asset. Example: when bridge pilons are repaired or replaced such expenditures are considered maintenance expense for the bridge, and are not capitalized.

c. For purchases, it is policy to identify an expenditure as a unitary "system" whenever the components, taken together, may reasonably be understood to work as a single unit. For example, if a purchase is made for a computer, monitor, keyboard and software, it is understood that this is a purchase of a computer "system". If these components, purchased together, cost ~~\$2,500~~ \$5,000 or more (including sales tax and shipping costs), then the expenditure is considered a single purchase of a computer system and is capitalized as a unit. (Note: Warranty costs and maintenance agreements may not be Capital Expenditures and must be excluded from the calculation which determines asset cost.)

d. For purchases in volume of capital items with unit value less than ~~\$2,500~~ \$5,000 and if the aggregate total of the item exceeds ~~\$2,500~~ \$5,000, then the group of items may be capitalized providing that the two other tests for capitalization are met (i.e.; they must be City-owned and have a useful life of more than a 5 years). For example if one filing cabinet is purchased for \$500, the item will be expensed; but if five ten \$500 cabinets are purchased together, they may be capitalized since the aggregate cost is ~~\$2,500~~ \$5,000. This policy is subject to further interpretation depending on the facts in each case. For example, the purchase of fifty one hundred \$50 wastebaskets would not be considered a capital purchase. In most situations, it is the intention of this policy to capitalize aggregate purchases (~~\$2,500~~ \$5,000 or greater) of furniture, fixtures and equipment (including computer software) where unit values are at least in the range of \$500 to \$1,000. Items valued at less than \$500 are generally treated as consumable supplies and expensed even

though their useful lives may exceed one year. The reason for this policy is to reduce the bookkeeping and tracking expense for lower valued capital expenditures. The Clerk's department will decode policy in those cases where differences of interpretation are otherwise unresolved.

Individual assets that cost less than ~~\$2,500~~ \$5,000, but that operate as part of a network, or are part of a kit or collection, will be capitalized in the aggregate, using the group method, if the estimated average useful life is more than ~~one~~ five years. The following networks / kits / collections exist within the city

- The telephone system, with an estimated useful life of 10 years.
- The police squad equipment kits, will be placed on the books with their corresponding value, with an estimated useful life of 8 years. Replacement items will be expensed as repair and maintenance. Additions to the kit will be capitalized.
- The EMS training equipment collection will be placed on the books with the value as of 12/31/2003 and depreciated. Replacements and additions to the collection will be added and depreciated individually if they meet the criteria.
- The Library has four collections, books, magazines, reference and non-print collections. Each of these collections will be added with their value as of 12/31/2003. Each year the additional purchases will be added in the aggregate and depreciated over 5 years.
- The Fire Departments Turn Out Gear will be added on the books as sets of six as of 12/31/2003, and depreciated over 5 years.
- The Fire Department Air bottles will be placed on the books as a set of 4 and a set of 14 as of 12 /31/2003 with an estimated useful life of 10 years.

## 2. Depreciation

Assets lose value over time; this loss of value is depreciation cost. The principal objective in accounting for depreciation is to charge each accounting period for the estimated loss in value of the depreciable assets incurred during that period.

The City of Chatfield will utilize the straight-line method of depreciation for all assets. Salvage value will not be utilized. Assets will be fully depreciated and carried on the books at \$0.00 value when the book life of the asset has been reached.

## 3. Economic Useful Life



- a. "Economic useful life" is generally construed to mean the period (years) during which the asset is providing benefit to the City. The "physical life" of an asset is the period (years) in which the asset is able to perform as originally designed, built and maintained. The economic useful life of an asset may be the same as the physical life, or it may be shorter.
  - b. It is general policy to the City to assign asset lives based on an estimate of the period of productive benefit to the City; that is the economic useful life of the asset.
4. Improvement: General Improvements & Public Improvements
- a. Improvement.  
Improvement is a common term used to describe the construction or purchase of a new asset or the betterment of existing facilities or assets. For example, all qualifying expenditures are incorporated into the City "Capital Improvement Program" (CIPP). The term "improvement" in a more restricted sense means:
    - (i) The substitution of a better asset for one currently in use
    - (ii) The expansion of an existing facility to accommodate increased volumes
    - (iii) The modification of an existing asset to meet a new or changed use (one note intended by its original design).
  - b. General Improvements  
Expenditures for an improvement are capital expenditures and may be given a separable asset life, or an asset life corresponding to the remaining life of the existing asset; or the existing life may be extended (minimum extension of three years).
  - c. Public Improvements  
"Public Improvements" means improvement to assets used by the public: for example; roads, parking lots, sidewalks, parks, etc  
  
In the case of streets and roads – if the work done impacts the "base" structure the improvement should be capitalized. i.e. sealcoating is considered maintenance – an overlay is considered capital.

### 5. Asset Classes & Estimated Useful Lives –

Classes of Assets	Threshold	Useful Life
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# FINANCIAL MANAGEMENT POLICY

## CAPITAL OUTLAY | IMPROVEMENT | CAPITALIZATION & SALE OF MERCHANDISE

ADOPTED 09/08/2008    REVISED 10/25/2021, 08/2022    LAST ANNUAL REV 01/09/2023

<b>Buildings / Structures</b> <ul style="list-style-type: none"> <li>• Temporary / Portable – 5 years</li> <li>• Seasonal / Shelters – 20 years</li> <li>• Sewer Treatment Plant – 25 years</li> <li>• Buildings – 40 years</li> </ul>	<p>\$2,500</p> <p>\$5,000</p>	10 – 40 yrs
<b>Building Improvements</b> <ul style="list-style-type: none"> <li>• HVAC Systems – 20 years</li> <li>• Roofing – 20 years</li> <li>• Carpet Replacement – 10 years</li> <li>• Electrical / Plumbing – 30 years</li> </ul>	<p>\$2,500</p> <p>\$5,000</p>	5 – 30 yrs
<b>Equipment / Machinery</b> <ul style="list-style-type: none"> <li>• Pick Ups – 7 years</li> <li>• Plows – 15 years</li> <li>• Dump Trucks – 11 years</li> <li>• Mowers &amp; Tractors – 10 years</li> <li>• Playground Equipment, Scoreboards, bleachers, radio towers, lights, fishing dock – 20 years</li> <li>• EMS Training Equipment – 10 years</li> <li>• Telephone System – 10 years</li> <li>• Library Collections – 5 years</li> <li>• Fire Department Turnout Gear – 5 years</li> <li>• Computers – 4 years.</li> </ul>	<p>\$2,500</p> <p>\$5,000</p>	5 – 20 yrs
<b>Furniture &amp; Fixtures</b> <ul style="list-style-type: none"> <li>• Desks, tables, chairs – 15 years</li> </ul>	<p>\$2,500</p> <p>\$5,000</p>	5 – 12 yrs
<b>Infrastructure</b> <ul style="list-style-type: none"> <li>• Drainage Systems – Catch basins &amp; storm pipe – 40 years</li> <li>• Water Dist System – Pipes – 40 years</li> <li>• Sewage Collection System – Manholes &amp; Pipes – 40 years</li> <li>• Wells &amp; Storage Syst. – 40 years</li> <li>• Lift Stations – 25 years</li> <li>• Streets <ul style="list-style-type: none"> <li>New (bituminous) 40 years</li> <li>Over lay (bituminous) 20 years</li> </ul> </li> <li>• Sidewalk – 20 years</li> <li>• Lights – 20 years</li> </ul>	<p>\$2,500</p> <p>\$5,000</p>	20 – 40yrs



# CAPITAL OUTLAY | IMPROVEMENT | CAPITALIZATION & SALE OF MERCHANDISE

ADOPTED 09/08/2008 REVISED 10/25/2021, 08/2022 LAST ANNUAL REV 01/09/2023

<ul style="list-style-type: none"> <li>• Curb &amp; Gutter – 40 years</li> </ul>		
Vehicles		5 – 10 years
<ul style="list-style-type: none"> <li>• Ambulances – 10 years</li> </ul>	\$2,500	
<ul style="list-style-type: none"> <li>• Cars / Light Trucks – 7 years</li> </ul>	\$5,000	
<ul style="list-style-type: none"> <li>• Fire Trucks – 20 years</li> </ul>		

All fixed assets with a useful life of more than one year and an original value between \$1,000 and ~~\$2,500~~ \$5,000 will be recorded and inventoried, but will not be capitalized and depreciated. These records will be compiled and maintained by the individual departments. The Clerks department will track capitalized assets only.

## SALE AND DISPOSAL OF CITY EQUIPMENT / GOODS

### SALE AND DISPOSAL POLICY PURPOSE GENERAL INFORMATION

This policy is intended to streamline the process of disposing of equipment and tangible goods that are no longer needed by the City of Chatfield. Unless otherwise directed by the City Council, all equipment and goods that are owned by the City but no longer needed, with the exception of land and buildings, are to be sold via a standard process.

### PROCESS STEPS

1. On a routine basis, the City will make it known that standard procedure for disposing of equipment and goods includes the advertisement of these items on publicsurplus.com.
2. A notice will be placed in the City's official newspaper, making local residents aware that an item will be listed for sale and directing them to the public surplus website.
3. Each item will be posted on publicsurplus.com for a minimum of ten business days.
4. The Department Head responsible for the decision to sell the equipment will report the matter to the appropriate City Council Committee either immediately prior to, or immediately after, the sale of the item sold.
5. All proceeds from the sale of these goods will be placed in the reserve fund for future capital purchases of the appropriate Department.

Department Heads will determine the need to dispose of the various pieces of equipment within their area of responsibility and will coordinate the sale of the items with the Office of the City Clerk. The Office of the City Clerk will have the primary responsibility to coordinate the sale of the goods, with the responsible Department Head being available to answer questions or show the item to interested parties.

An employee who violates any aspect of this policy may be subject to revocation of certain system privileges or disciplinary action up to and including termination.

*Capital Outlay Policy Adopted by City Council September 08, 2008*

*Capitalization Policy Adopted by City Council June 14, 2004*

*Capitalization Policy Revised by City Council November 1, 2007*

*Capital Outlay Policy Revisions Adopted by City Council October 25, 2021*

*Capital Outlay | Capitalization & Sale of Merchandise Policy Combined January 09, 2023*





## 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 a 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 is 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 polices 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 Auditors 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.

PLEASE REVIEW THIS DOCUMENT AND LET ME KNOW IF YOU WOULD LIKE ANY REVISIONS. THERE IS ONE SECTION OF THE CODE THAT I RECOMMEND BE REVIEWED AND CHANGED TO REFLECT OUR CURRENT PRACTICES REGARDING THE FREQUENCY OF REPORTING. THE CODE CURRENTLY STATES THAT THE CLERK SHALL SUBMIT THE MONTHLY REPORTS TO THE MAYOR AND COUNCIL. MY RECOMMENDATION TO THE COUNCIL IS TO CHANGE THIS TO REFLECT THE CURRENT PRACTICE OF PROVIDING MONTHLY REVENUE AND EXPENDITURE REPORTING TO THE DEPARTMENT HEADS AND QUARTERLY REPORTS TO THE MAYOR AND COUNCIL.



## *HISTORICAL REFERENCE & BACKGROUND (CONT.):*

### *~~TABLE OF CONTENTS~~ INTERNAL CONTROL TOPICS:*

STATE AUDITOR & CHARTER REFERENCE INFORMATION

SEGREGATION OF DUTIES

**REVENUE MANAGEMENT** | ~~CASH RECEIPTS~~

**EXPENSE MANAGEMENT** | ~~CASH 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.



BACKGROUND REFERENCE: CITY OF CHATFIELD – CHARTER

CHAPTER 4 SECTION 17 – CITY CLERK –

■ *The city clerk shall on or before the 15th day of each month prepare a summary statement of the revenues and expenses for the preceding month, detailed as to appropriations and funds in such a manner as to show the exact financial condition of the city and each department, division and office thereof **and submit the same to the city council and mayor at is next regular meeting.***

***This is our actual practice** - monthly Revenue and Expenditure Guideline reports are sent electronically to all department heads. And a monthly Bank Reconciliation summarizing the monthly revenues, expenditures and fund balances is generated by the Finance Director and provided to the City Clerk. Quarterly reports are provided to the council and mayor, detailing **annualized** actual revenues and expenditures in relation to the budgeted revenues and expenditures, as well as a detailed listing of all the city's cash and investments. This quarterly report is in accordance with the financial policies adopted September 8th, 2008. **My recommendation is to amend the code to reflect the current practice.***

## 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 clerk shall be the chief purchasing agent of the city. All purchases on the city's behalf shall be made by the city clerk subject to the city council's approval. Such approval must be given in advance whenever the amount of such purchase or contract exceeds \$500.00, 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 INFORMATION: 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.

### 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 \$-----
5. Authorizes all interfund transfers.

#### Mayor

1. Signs all checks for city council approved expenditures, with the exception of 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 Clerk

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 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.



**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. ~~Processes quarterly building permit surcharge report from Planning Coordinator.~~
11. Generates monthly Revolving Loan Fund receipt of payment and Payment Due report for EDA Consultant notifications.
12. Has access to Root River State Bank On Line banking to provide enhanced internal control (along with Deputy Clerk, Assistant Deputy Clerk (s)/Payroll/Utilities and City Clerk).
13. Verifies ACH deposit amounts for Root River State Bank with Deputy Clerk /Payroll/Utilities
  1. Processes all receipts.
  2. Processes utilities.
  3. ~~Includes Claims Listing Report in City Council Agenda Packets.~~
  4. Processes the payroll, including payroll tax statements.
  5. 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).
  6. Provides receipt report for Revolving Loan Fund payments.

### Assistant Deputy Clerk /Ambulance/ Payables

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. ~~Processes monthly sales and use tax.~~
8. 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 CASH 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 ~~/Ambulance / Payables~~ 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 cash 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 Payroll / Utilities Deputy Clerk and Assistant Deputy Clerk(s) is are responsible for coding and recording the receipts in the receipt books 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 Payroll / Utilities Deputy Clerk, Deputy Clerk or Assistant Deputy Clerks, the deposits are delivered to the bank by the Ambulance / Payables Deputy Clerk, 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 Clerk 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.



REFERENCE COLUMN

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

### SEGREGATION OF DUTIES (CONT.) –

6. Invoices for utility billing are prepared by the Payroll / Utilities Deputy Clerk or Assistant Deputy Clerk through the Utility Billing Software. Invoices for Chatfield Ambulance Services are prepared by the Ambulance / Payables Assistant Deputy Clerk through coordination with the contracted billing service (ExperT billing). Invoices for Fire Services provided are prepared by the Deputy Clerk or Assistant Deputy Clerk through the Fund Accounting invoicing module Chatfield Fire Department, and tickets / citations serve as the invoice for the Police Department. Annual Rural Fire and Ambulance invoices are prepared by the Finance Director 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 Deputy Clerk, Assistant Deputy Clerk or Finance Director utilizing the Fund Accounting invoicing module. is minimal. These miscellaneous invoices are created by the Finance Director or Payroll / Utility Deputy Clerk on request. Electronic copies of the Fund Accounting invoices are saved to the accounts receivable folder on the network. A copy is retained by the Payroll / Utility Deputy Clerk and forwarded to the person who requested the billing upon receipt of payment. The Payroll / Utility Deputy Clerk provides a copy of the loan amortization schedule to the Finance Director when Revolving Loan Payments are received. The Finance Director prepares a notice of payment received and payment due for active Revolving Loans for the EDA, which are signed and mailed by the EDA Coordinator. 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 Public Works employees read the meter via a touch pad reader and the Payroll / Utility The 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 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.

REFERENCE COLUMN

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

### ACCOUNTING CONTROLS –

1. All payments made to the city are keyed into the Banyon software by the 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. ~~are recorded in a sequentially numbered receipt book stating the date of the receipt, the amount of the receipt, a description of the item or service being paid for, and a description of the revenue account the revenue should be allocated. The beginning and ending of each batch and the corresponding deposit batch name is recorded for each entry in the receipt book.~~
2. Cash Receipts batches for each deposit are keyed into the accounting software which includes ~~the receipt number,~~ 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 ~~monthly~~ 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 Payroll / Utility 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~~ monthly reconciliation.
5. ~~Cash Receipts shall be~~ are typically deposited in the city's bank account on a daily basis. ~~or when the cash amount received exceeds \$ XXX.XX.~~ Under no circumstances shall payments, whether by cash or other instrument, be kept longer than one week.



REFERENCE COLUMN

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

### ACCOUNTING CONTROLS (CONT.) –

6. ~~Separate cash~~ A receipt drawers are is kept for utility receipts and other cash receipts in a locked cabinet at the counter in the main City Clerks Office. This office is also locked after hours.
7. The Payroll / Utility Billing Deputy Clerk or Assistant Deputy Clerk is responsible for processing the receipt of funds received via electronic payment from the web site. Transactions are processed on a daily basis. with a list of the credits and date processed These deposits are reconciled like the other utility receipts matching a deposits on daily to the Root River State Bank transaction report the Bank Statement through the monthly reconciliation by the Finance Director.

## 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 5<sup>th</sup> of the month. ~~The person charged with this responsibility should reconcile each account promptly upon receipt of the bank statements. All accounts should be reconciled by the 20th of the month.~~ In the event it is not possible to reconcile the bank statements in this period of time, the City Clerk 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 ~~dates and~~ of amounts of daily deposits and withdrawals as shown on the banks statements with the corresponding transactions in the Fund Accounting software.
  - b. ~~An investigation of items rejected by the bank, i.e., returned checks or deposits.~~
  - c. ~~A comparison of EFT transactions / wire transfers for dates received with dates sent.~~
  - d. ~~A comparison of canceled checks with the Fund Accounting balance checks listing.~~
  - e. An accounting of the sequence of checks both from month to month and within a month.
  - f. Review check images on the monthly statement for authorized signatures, irregular endorsements and alterations.
  - g. Investigate checks which have been outstanding over six months ~~one year~~.
  - h. The completed monthly bank reconciliation spreadsheet along the revenue and expenditure guideline reports are distributed to the City Clerk 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 ~~Utilities / Payroll~~ Deputy Clerk will act as the custodian of the Petty Cash Fund, backed up by the ~~Ambulance / Payables~~ 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 ~~Utilities / Payroll~~ Deputy Clerk maintains primary custody of the petty cash and the ~~Ambulance / Payables~~ Assistant Deputy Clerk is responsible for reconciling the fund on a monthly basis and processing a payables voucher to replenish the fund.
3. The ~~Utilities / Payroll~~ 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 ~~Payroll / Utilities~~ 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 by the ~~Utilities / Payroll~~ Deputy Clerk in a cash box at the front desk.
3. Payment for items costing over \$25 should ~~must~~ 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 ~~Accounts Payable / Ambulance~~ Assistant Deputy Clerk will reconcile and replenish the Petty Cash Fund on a monthly basis.
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: PAYROLL

### Reference Column

#### SEGREGATION OF DUTIES —

1. The City Clerk 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 Clerk's 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 Payroll / Utility Billing Deputy Clerk for processing in the Banyon Data Systems Payroll module, recording time worked, sick time used, vacation time used.

The 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: FIXED ASSET MANAGMENT

### 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 ~~\$2,500~~ \$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.

Merge cash disbursement credit card / fuel card into Expense Management -----

## 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.*

### CITY OF CHATFIELD CASH 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 and EFT transactions for the IRS, State of Minnesota, PERA, and other payroll vendor liabilities; preferably the Mayor and either the 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 Clerk.
3. Invoices are received through central mail at the City Clerks office. The Ambulance / Payables Assistant Deputy Clerk distributes the invoices to the appropriate Department Head. Utility / recurring monthly vendor invoices are coded and keyed by the Ambulance / Payables Assistant Deputy Clerk. Statements are delivered to the Finance Director.
4. Invoices shall be reviewed and appropriate general ledger codes applied by the department head and or designated staff member.



REFERENCE COLUMN

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

### SEGREGATION OF DUTIES (CONT.) –

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 Ambulance / Payables Assistant Deputy Clerk will review all claims for accuracy and record them into the accounting system. In the absence of the Finance Director or Ambulance / Payables Deputy Clerk, the Payroll / Utilities Assistant Deputy Clerk, the Deputy Clerk or City Clerk may record payments. Most claims submitted for payment shall be authorized (physically signed off on) 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 Ambulance / Payables 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 Payroll / Utility 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 according to 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 voids 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 Ambulance / Payables Assistant Deputy Clerk, the Finance Director, or the Payroll / Utilities Deputy Clerk and the vouchers with supporting documentation area filed alphabetically by vendor name.

REFERENCE COLUMN

CITY OF CHATFIELD CASH 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 Clerk 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 are the fourth quarter report.

CITY OF CHATFIELD CASH 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. All City Personnel should receive an invoice or receipt upon purchase. 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. The check number and date will be recorded upon disbursing of funds. 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 CASH 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 ~~Ambulance / Payables~~ Assistant Deputy Clerk, Finance Director, ~~Payroll / Utility~~ 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. ~~If meal reimbursement is requested, the City will reimburse up to 15% (for sit down or delivery only).~~
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 ~~Ambulance / Payables~~ 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 bases.
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."
14. ~~The Payroll / Utility Deputy Clerk holds the debit card. It is only used for hotel reservations (room charges only) for approved training and conferences. And rare, but necessary situations where the vendor requires electronic payment. These claims are still keyed into the accounting system and shown on the claims listing with an electronic (pre-printed) check number.~~



## 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 CASH GENERAL DISBURSEMENT | EXPENSE MANAGEMENT PRACTICES (CONT.)

### GENERAL CREDIT & FUEL CARD PRACTICES

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

**Purpose of this Policy**—It is the objective of the City of Chatfield to provide Company issued Credit cards, (and/or fuel cards and/or a bank account related debit card) are issued for use by staff and governing body officials, for official company use only on an as needed basis.

**Scope**— This policy applies to any and all employed staff and officials of the City of Chatfield. Additionally, this policy applies to any and 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 CHS, Kwik Trip, & US Bank Wright Express (WEX Fleet Services). These vendors issue itemized monthly statements, and the city makes payment in full by check. Vendors where the debit card has been used are also listed on the claims listing. These Expenditures that were administratively authorized and processed in or in order to meet a payment deadline, were previously approved by Council display with a preprinted electronic check number on the claims listings.

- The Finance Director Department heads are to issues and tracks 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 CASH GENERAL DISBURSEMENT | EXPENSE MANAGEMENT PRACTICES (CONT.)

#### GENERAL CREDIT & FUEL CARD PRACTICES (CONT.)

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

#### STAFF & OFFICIALS –

- Staff and Officials 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 and Officials 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 City of Chatfield has cards for purchasing gas and incidental needs at Cenex CHS (Greenway), and Kwik Trip and Wright Express (WEX /Fleet Services).~~
- The Cenex program is the Voyager Fleet Card Account. The account limit is \$7,500. 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. There aren't any transaction limits or account limits at CHS.
- The account limit at Kwik Trip is \$2,000 and alcohol and tobacco purchases are prohibited. There is an instore card which requires a pin for purchases and there are 2 data tracker cards kept in the petty cash box.
- ~~The account limit at WEX is \$3,700.~~
- ~~One debit card is kept in the City Clerk's office and is only used for online purchases or when the vendor requires immediate payment. It is used for off premise purchases rarely, only when the Vendor will not invoice the City, (requires immediate payment) and the card remains in the possession of the City Clerk, Deputy Clerk or Finance Director.~~
  - ~~The debit card is kept with the petty cash and must be requested from the Clerk's office to arrange for the use. All purchases are logged on a register with two authorized signatures.~~
  - ~~The transaction limit is \$1,050 dollars. Authorization from the City Clerk, Deputy Clerk or Finance Director is required to raise the limit for an exception transaction. The City Clerk, Deputy Clerk or Finance Director must contact Root River State Bank for this to happen. Root River State Bank allows for the exception and returns the limit to \$1,050.~~
- 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 CASH 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 official or 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 CHS (Greenway) Receipts

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

In store purchases on the general city card require a signature and a notation of the department the expense gets allocated to. CHS also mails report showing an image of each of these in store charges. 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 CASH GENERAL DISBURSEMENT | EXPENSE MANAGEMENT PRACTICES (CONT.)

#### GENERAL CREDIT & FUEL CARD PRACTICES (CONT.)

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

##### *Wright Express (WEX Fleet Services)*

Wright Express is used by the police department for fuel. These purchases are made using the issued cards with a departmental pin. Wright Express issues a monthly statement that is reviewed by the Chief of Police and routed to accounts payable for processing.

##### *Debit Card Receipts*

Receipts, order detail and payment confirmation reports supporting debit card usage must be submitted to accounts payable. Receipts that are not full sheets of paper should be fastened to an 8 1/2" x 11" piece of paper. Sufficient description should be provided on the attachment to assist accounts payable in coding the charge to the proper department and account. Notation should also be clear that it is prepaid expense on the debit card.

#### Procedure / Practices

1. The City has credit cards.
2. The Deputy Clerk monitors the debit card kept with the petty cash box. It is through her that departments pay for on-line purchases or reservations. Only purchases that require immediate payment or reservations for travel or conferences. It is used for off premise purchases rarely, only when the Vendor will not invoice the City, (requires immediate payment) and the card remains in the possession of the City Clerk, Deputy Clerk or Finance Director.
  - a. The debit card is kept with the petty cash and must be requested from the Clerk's office to arrange for the use. All purchases are logged on a register with two authorized signatures.
  - b. The transaction limit is \$1,050 dollars. Authorization from the City Clerk, Deputy Clerk or Finance Director is required to raise the limit for an exception transaction. The City Clerk, Deputy Clerk or Finance Director must contact Root River State Bank for this to happen. Root River State Bank allows for the exception and returns the limit to \$1,050.
3. 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 Greenway cards. The Kwik Trip card is kept in the store and requires a departmental pin code to be entered.

## Reference Column

4. The cards are to be used for official city business only; no personal purchases/charges are allowed.
5. Department Heads are responsible for verifying and approving purchases for their departments. They are asked to get printed confirmation / detailed receipts of all purchases.
6. Department Heads are then responsible for appropriately processing each invoice with the expense codes and submitting the invoice in a timely manner for processing.
7. The Deputy Clerk I, or Finance Director / Accounts Payable processes the credit cards like any other invoice.
8. Lost or stolen credit cards or numbers are to be reported to the Department Head immediately.



## Reference Column

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

### US BANK ONE CARD PURCHASING CARD PROGRAM PRACTICES | PROCEDURES

#### US BANK ONE CARD PURCHASING CARD OVERVIEW

Welcome to the City of Chatfield's Purchasing Card System (Purchasing Card). The Purchasing Card is a credit card based system used to purchase items and services. Most small purchases that now are processed using blanket vendor charge accounts, manual check requests or personal credit cards for City business are candidates for the Purchasing Card. 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 Purchasing 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: 25<sup>th</sup> day of the Month

Settlement Method: To be paid by check

## Reference Column

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

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

### US BANK ONE CARD PURCHASING CARD OVERVIEW (CONT.)

#### US Bank Card Program Responsibilities

The success of the US Bank One card purchasing 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 purchasing policy and procedure.
- Ensure that the US Bank One Card Purchasing 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 purchasing policy.
- Sign the back of the card.
- Ensure that the US Bank One Card Purchasing Card is kept secure and that all transactions are signed by the Purchasing 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 CASH GENERAL DISBURSEMENT | EXPENSE MANAGEMENT PRACTICES (CONT.)

### US BANK ONE CARD PURCHASING 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 26<sup>th</sup> 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.
  - ~~Create a computer generated claim form for vendor "US Bank".~~  
Note: each purchase does not need a separate claim form; purchases can be combined on a claim form as long as they are within the same statement cycle.
  - ~~Each individual purchase (line of form) should include the vendor, a brief purpose/ description of such purchase, and the amount of the purchase.~~
  - ~~Code purchase to the appropriate general ledger number.~~
  - 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 weekly (at minimum) monthly to Accounts Payable Finance Director on the 26<sup>th</sup> of the month and no later than the settlement date (25<sup>th</sup> of the month). Claim forms for purchases within the statement cycle that are submitted after the settlement date will be considered in breach of this policy and could result in loss of privileges and immediate revocation of the Purchasing Card.
  - If possible sign in on a weekly basis to verify charges to the account are valid - on a weekly basis - retrieve, review and verify charges made to the account to ensure they are accurate (correct vendor, date, amount) 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 CASH GENERAL DISBURSEMENT | EXPENSE MANAGEMENT PRACTICES (CONT.)

### US BANK ONE CARD PURCHASING 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 Purchasing Card is not used to make personal purchases.
- Ensure that the Purchasing Card requirements contained in this User Manual are met.
- Ensure that the Purchasing 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
  - Requested Credit Limit
  - Requested Single Purchase Limit
- Once the Program Administrator (Finance Director) receives the card, the employee must meet with the Finance Director Program Administrator to go over the Purchasing Card User Manual/Policy. The policy must be signed by the cardholder before the card is given to the employee.

All billing,

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



## Reference Column

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

### US BANK ONE CARD PURCHASING 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 Purchasing Card, the cardholder will receive a PIN number in the mail. Note that City Purchasing 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.

#### ***~~How are the dollar amounts and activity controls set?~~***

~~Dollar amounts and controls are set by the Department Head and System Administrator. Controls can be put in place for the following items:~~

- ~~• Dollar limit per transaction~~
- ~~• Dollar limit per month~~
- ~~• Number of transactions per day~~
- ~~• Number of transactions per month~~
- ~~• Authorized commodities, goods and services~~

~~Any changes to the above limits must go through Department Head and System Administrator approval.~~

Reference Column

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

US BANK ONE CARD PURCHASING 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 purchasing 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 Purchasing 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 Purchasing card is the person whose name appears on the face of the card. Do not lend the Purchasing 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 Purchasing 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 Purchasing card being declined at that vendor's place of business. The Purchasing 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 CASH GENERAL DISBURSEMENT | EXPENSE MANAGEMENT PRACTICES (CONT.)

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

#### US BANK ONE CARD PURCHASING CARD OVERVIEW (CONT.)

##### **What if the Vendor Does Not Accept Purchasing credit cards?**

If a supplier or merchant does not accept the Purchasing 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 Purchasing 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 25<sup>th</sup> of each month.

As stated in the Responsibility section of this User Manual/Policy, US Bank claim forms must be created on a weekly basis (at minimum) for purchasing card activity. The procedure for verifying the weekly cardholder's charges can be set by the departments. The end result must include review of the weekly charges for accuracy and public purpose, including the dollar amounts and the accounting codes, the attachment of the original transaction receipts, a brief purpose/description, the cardholder's signature, and the appropriate supervisor approval.

Reference Column

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

US BANK ONE CARD PURCHASING 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 purchasing card in a secure location. It needs to be accessible only to the cardholder. If the purchasing 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 CASH GENERAL DISBURSEMENT | EXPENSE  
MANAGEMENT PRACTICES (CONT.)

US BANK ONE CARD PURCHASING 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 purchasing 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 purchasing 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 CASH GENERAL DISBURSEMENT | EXPENSE  
MANAGEMENT PRACTICES (CONT.)

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

*US BANK ONE CARD PURCHASING CARD OVERVIEW (CONT.)*

***Will use affect personal credit?***

Use of the purchasing 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 immediate revocation of purchasing 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 purchasing card for personal purchases is considered theft and will be punishable up to and including termination and/or criminal prosecution.





## ACCOUNTING PROCEDURES | PRACTICES & INTERNAL CONTROLS

ORIGINAL 2009 10 27 LAST ADOPTED 01/2023

### US BANK ONE CARD PURCHASING 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: \_\_\_\_\_

##### Statement of responsibility

~~The use of the business issued credit/debit card is an important privilege which is intended to facilitate business by the city. Adherence to the policy is vital in ensuring not only the continuation of this privilege, but also in enduring that neither you nor the city is subjected to financial hardship or public criticism.~~

~~I, \_\_\_\_\_, have read and understand the responsibilities outlined in this policy. I agree to abide by the provisions in this policy, and understand that violations of this policy could result in disciplinary actions including termination.~~

Signature \_\_\_\_\_ Date \_\_\_\_\_

## INTERNAL CONTROL TOPIC: COMPUTER SYSTEM BACK UP PROCEDURES

### Reference Column

1. The computer network is set up on an automated routinely backed up according to the Managed IT agreement with Marco system for all network drives. The Payroll / Utility Billing Deputy Clerk will change the backup drives each day and delivers them to the bank vault for safe keeping off site each day and picks up the prior days drive.
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. ~~The drives are on a (4) day rotation and back up system. There are (4) drives labeled 1 — 4. Each tape is labeled with the date of the backup.~~
4. ~~Each day the next sequentially ordered drive should be used to back up the network files. Complete, not modified, backups should be performed.~~
5. ~~The backup drives are locked in the bank vault each day. The following day, the drive will be placed at the end of the tapes to be rotated.~~
6. 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 be ready for the Personnel Budget Committee to review in November and the City Council at the annual meeting — (first meeting in January).*

- Authorized depositories shall be adopted
- Authorized bank account signers will be reviewed and updated if necessary
- 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 Policy
  - Debt Management Policy
  - Fund Balance Policy
  - Investment Management Policy
  - Accounting Procedures | Practices & Internal Control

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### 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

Revisions Adopted by City Council January XX, 2023 — Incorporate Expense Management Policy & Purchasing Card System Policy