

**MEMORANDUM**

**To:** MCWD Board of Managers  
**From:** Cathy Reynolds  
**Date:** September 10, 2018  
**Re:** **Financial Management Overview**

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**Purpose:**

MCWD Operations staff has been reviewing evaluating the District's financial management and accounting. Through this evaluation several updates and changes have been identified that increase efficiency, decrease costs and increase the internal accounting controls. This memorandum provides the Board with an overview of some of the accounting processes in place and those that evaluated by the staff for transition.

**CURRENT ACCOUNTING PROCESS**

MCWD's accounting work is outsourced to Redpath and Company (Redpath). They provide basic accounting and financial management services to the District. The provision of these services is subject to contracting and biannual request for qualifications obligations of the District in accordance with Minnesota Statutes 103B.227.

The services provided by Redpath are broken down into the following areas.

**Monthly Accounting**

The monthly accounting includes all areas of accounting and financial management that are needed to keep the District's accounting current and up to date on a monthly basis. This includes processing the following items:

- Accounts Receivable
- Accounts Payable
- Bank Account Statement Reconciliation
- EFT's for credit card payment, payroll and benefits
- Monthly General Ledger and Income Statement Report
- Monthly Financial Statement

This is completed for a monthly retainer fee in accordance with the contract with Redpath.

**Payroll Processing**

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The District's payroll is completed on a biweekly basis. Redpath currently processes the payroll for the District utilizing myPay Solutions, a Thomson Reuters company. Included with the payroll processing is the direct deposit of employee pay, payroll tax payments, PERA report and payment, HSA/FSA/IRA contributions.

Payroll processing is completed for a monthly retainer fee in accordance with the contract with Redpath.

Quarterly payroll reports and W-2's are completed at an additional cost to the District.

### **Audit Preparation/Year-End**

Redpath completes the required accounting services to close out the fiscal year and prepares accounting records to be supplied for the annual audit. They also work with the auditor (historically this has also been a Redpath employee) to provide access and the necessary information for the audit.

These services are provided at a flat fee in accordance with the contract with Redpath. The annual audit is completed under a separate contract.

### **New Year Opening**

Redpath sets up the new year in the accounting software entering the budget and reconciling data with the year end and audit to properly open the new fiscal year.

This work is completed at the standard hourly rate for Redpath.

### **Miscellaneous Accounting**

Redpath assists with the preparation of various reports and tax documents during the course of the year. This includes items such as the report of outstanding indebtedness for Hennepin and Carver counties, sales and use tax returns, and 1099 preparation.

This work is completed at the standard hourly rate for Redpath.

### **Internal Accounting Controls**

Internal accounting controls are policies and procedures put in place to ensure the integrity of financial and accounting information, promote accountability and prevent fraud. As part of the annual audit, auditors test a company's accounting processes and internal controls and provide an opinion as to their effectiveness.

Internal controls are both preventative and detective. The preventative controls include the documentation and authorization practices often completed by providing for a separation of duties. Detective controls are meant to catch items that are missed in the preventative phase. This includes activities like reconciliation of accounts by comparing multiple data sets to ensure accuracy and find material differences. In addition the external audit provides another level of detective controls.

In April 2008 the Board approved Resolution 08-025 which included a set of internal controls for the District. These internal controls lay out a series of procedures to provide a separation of duties for various accounting functions and identify responsibility for reconciliations. These procedures, while

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close to the current processes utilized by the District, have been modified over time and need to be reviewed and updated. The 2008 Internal Controls have been attached to this memo for your information and reference.

### **FUTURE ACCOUNTING PROCESS GOALS**

The District recently completed renegotiated the accounting services contract with Redpath in accordance with the RFQ process started in March 2018. This contract will be presented to the Board for approval at the September 13, 2018 Board meeting. The contract was negotiated with the thought that a number of changes may be made to the District's accounting framework in the coming year. In anticipation of those changes, Redpath's contract incorporates an obligation to assist with any District decision to transition services. The contract also includes provisions that provide for the renegotiation of contract costs with Redpath, based on any services the District decides to migrate.

The areas under evaluation at this time for transition include the following processes.

#### **Payroll Processing**

The current payroll process is cumbersome and time consuming with no ability for Operations to run reports or obtain data outside of the basic report obtained every pay period. This became an issue this year as we tried to obtain overtime and compensatory time data to support budget preparation and the information could not be obtained from the current system. Further any reports that can be ran have to be requested from Redpath and create additional hourly accounting charges for the District.

The current system is a manual process whereby employees fill out a timecard, print sign and submit to their manager for approval. Operations then takes the timecards and enters the data into a spreadsheet for submittal to Redpath. Redpath then re-enters the data into the myPay Solutions system. Once payroll is completed through myPay, Redpath processes the fund transfers for PERA and the other benefits. From this point Redpath then enters the wages and benefits into the accounting software coding to the specific employee's department budget. This process includes several manual data entry points which are ripe for error. In the past six months I have had to ask for corrections to be made to incorrect vacation and compensatory hours accounting, vacation accrual corrections, and a special payroll ran for incorrect entry of hours.

Staff has been investigating various payroll processing services to determine if a more efficient and cost effective means of doing payroll can be found. We are evaluating options that; 1) improve timecard and leave request processes, addressing the 2017 audit issue; 2) reduced the amount of manual data entry points lowering potential for error; 3) provides greater report generation capability to support budget preparation and track trends, and 4) is more cost effective for the district. Through our analysis staff has identified a system that will allow for the employee to complete an online timecard and leave request which is then submitted electronically to the manager for approval. Once approved, Operations can review the electronically submitted timecards for accuracy and upload into the payroll system. When payroll is processed, the final product can be uploaded directly into the accounting system automatically routing to the appropriate department's budget. The process efficiencies and decreased chance for data entry errors in this process greatly enhances the payroll process.

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This new system not only increases efficiencies and reduces the chance of errors but also cuts in half the annual expense found by utilizing Redpath. Staff would like to begin the setup of this system in September and implement beginning 4<sup>th</sup> quarter. The vendor estimates 30-60 days to tailor the set-up to our specific needs and input and verify the data. As part of the transition process we will need to establish an electronic funds transfer to a new vendor to transfer the money to complete payroll and all associated benefit payments. This will take some level of Board action that will be brought back as we look further into this process.

### **Accounts Payable**

The current system involves several manual paper processes that could be significantly optimized through prudent use of technology, programmed through the comprehensive information technology update. Until this process is prioritized and reviewed with the IT update there are still steps that can be improved upon.

Redpath currently sends an accountant to the District once a month to take staff approved invoices and enter them into the accounting software, cut checks, and create the check register for Board review and approval. These steps could be processed internally, with the Assistant Operations Manager responsible for data entry of invoices, cutting checks, and creating the check register for Board approval.

To ensure the proper separation of duties under this proposal, the Operations Manager would be responsible for all coding and sign off of operations invoices before they are entered in the system. Additionally, like all departments, final approval of invoices resides with the District Administrator, with the Board ultimately reviewing and approving the check register.

Under this scenario, Redpath would continue to conduct the monthly bank account reconciliation using the information in the accounting system, the approved check register, and the bank statement.

This provides for both the protective and detective controls mentioned above. Currently the input of the data and the reconciliation is completed by the same person at Redpath which decreases the separation of duties and the effectiveness of the reconciliation.

### **Internal Accounting Controls**

Updated Internal Controls have been drafted and are attached to this memo for the Board's review. This draft is prepared with an eye towards the direction that staff wants to go with our future accounting processes. The controls are developed with a goal of maximizing the separation of duties as much as possible utilizing our staff and the Redpath accountant. Staff would welcome input and discussion on the draft internal controls during the Operations and Planning Committee meeting on September 13, 2018 with a goal of bringing them to the Board meeting on September 27, 2018 for approval based on those conversations.

### **Audit**

Historically Redpath has completed the annual fiscal audit for the District. Staff is looking to release an audit RFP in accordance with Minnesota Statutes 103B.227 which requires us to solicit interest proposals at least every two years for professional services. This will allow for the comparison of proposals and the

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selection of an auditor based on a competitive process. Staff will present the audit RFP and an authorization to solicit proposal for audit services at the September 13, 2018 Board meeting

### **Monthly Financial Report**

As part of the ongoing effort to improve clarity, District operations staff coordinated with Redpath to develop a new monthly financial report format which provides the Board with a comprehensive overview of the District's finances for the current fiscal year. The new draft format provides an overview of the revenues, expenditures and current fund balance for each of the general funds. This revised format will be distributed at the September 13, 2018 OPC for consideration before being established as the monthly financial reporting format.

If there are questions in advance of the meeting, please contact Cathy Reynolds at 952-641-4503, or [creynolds@minnehahacreek.org](mailto:creynolds@minnehahacreek.org).

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## ATTACHMENT II

### Minnehaha Creek Watershed District

Accounting Internal Controls

4/17/08

Prepared by: L. Eric Evenson

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

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

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

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



XII. Compensated Absences

ii. Outside Accountant

a. Books at year end for the financial statements.

**Minnehaha Creek Watershed District**  
**Internal Accounting Controls**  
**Work Transitioning from current controls starting September 2018**

**1. Accounts Payable: Invoices**

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

I. Operations Manager:

- 1) Uploads approved check register information in the banks positive pay system
- 2) Reviews daily positive pay emails and review and approves any items not cleared through positive pay

**2. Accounts Payable: Wire Transfers**

A. Outside Financial Consultants

- 1) Track District financial obligations for loans and bonds
- 2) Prepare and submit to District, bank and accountant reports showing Periodic Debt Payments

B. Bank Client Services

- 1) Prepares Wire Transfer documentation in accordance with Periodic Debt Payment report
- 2) Submits Wire Transfer documentation to Operations Manager

C. Operations Manager

- 1) Receives wire transfer paperwork
- 2) Provides wire transfer paperwork and supporting documentation to the Board of Managers Treasurer for review, approval and signature

D. Board of Managers, Treasurer (or other Board Officer in the Treasurer's absence)

- 1) Reviews the wire transfer paperwork and signs authorizing the transfer

E. Operations Department

- 1) Delivers original signed wire transfer paperwork to the Bank to complete the transfer
- 2) Provides an electronic copy of the signed wire transfer to the Outside Accountant

F. Outside Accountant

- 1) Updates accounting software with information on wire transfer
- 2) Reconciles bank account statements at the end of the month

**3. Payroll Processing**

A. District Administrator:

- 1) Responsible for approval of all new hires
- 2) Sets employee salary in accordance with approved pay scale

B. Employee:

- 1) Maintains a timesheet tracking hours worked, overtime, compensatory time, vacation and sick leave
- 2) Submits timesheet to Department Manager for review and approval at the end of every pay period

C. Department Manager:

- 1) Approves employee overtime, compensatory time, vacation and sick leave in advance
- 2) Reviews and approves employee timecards and submits time cards to the Operations Department

D. Operations Department:

- 1) Reviews timecards to ensure they are completed in accordance with district policies and law
- 2) Submits payroll for processing
- 3) Conducts final review of payroll after submission and processing to release for payment
- 4) Uploads payroll processing file into accounting software

E. Payroll Processor:

- 1) Processes payroll on a bi-weekly basis paying employees via direct deposit
- 2) Completes electronic fund transfers for PERA, federal and state withholding, benefits and deferred compensation plans
- 3) Completes federal and state quarterly payroll tax

F. Outside Accountant:

- 1) Verifies uploaded payroll and benefits allocation by fund

**4. Accounts Receivable: Checks**

A. Assistant Operations Manager

- 1) Receives checks that come in through the mail or over the counter
- 2) Verifies checks with Departments to ensure proper account funding and departmental recording of payment received (Permitting department notates permit file/database of payment received and notates check for permit number and general account or surety account.)
- 3) Completes bank deposit on at least a weekly basis using bank remote deposit capability
- 4) Emails deposit slip showing details of the deposit and appropriate coding to Outside Accountant once the deposit is completed

B. Outside Accountant

- 1) Inputs all deposits into accounting software ensuring proper fund allocation
- 2) Verifies receivables during bank account reconciliation

**5. Accounts Receivable: Wire/Electronic Fund Transfer**

A. Operations Manager

- 1) Receives notification of fund transfer from state and counties
- 2) Verifies amount and type of funds (i.e. levy payment, grant payment)
- 3) Confirms coding for receivable with appropriate Department Head
- 4) Emails deposit notification with appropriate coding information to Outside Accountant

B. Outside Accountant

- 1) Inputs all deposits into accounting software ensuring proper fund allocation.
- 2) Verifies receivables during bank account reconciliation

**6. Budget and Levy**

A. District Administrator

- 1) Drafts budget and recommends levy

B. Board of Managers

- 1) Holds budget hearing in late August or early September
- 2) Budget must be certified to Hennepin and Carver Counties by September 15.
- 3) May recertify the budget until December 28 for any changes

**7. Interfund Transfers**

A. District Administrator

- 1) Transfers fund to 1002, or reduces the annual levy, at the end of the project
- 2) Closes the fund

**8. Contracts Payable**

- A. These are booked at year end based on the contracts going on

B. All Pay requests are analyzed to determine correct contracts and retainage payables

**9. Retainage**

A. District Administrator

1) Authorizes the release of payment after a staff member signs off on the completed project/activity