



## **Internal Control Policies**

**Adopted by the Chelan Douglas Regional Port Authority  
Board of Directors on December 17, 2019.**

**Chelan Douglas Regional Port Authority**  
**INTERNAL CONTROL POLICIES**

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# Cash and payment handling

## Cash Receipting

Receiving funds is a very important function of all governments. Listed below are requirements for handling and receipting payments as well as preparing deposits for collected funds.

## Cash receipting

More than one employee should open the daily mail and prepare a list of cash and checks received (remittance list). If dual custody is not feasible, the Chelan Douglas Regional Port Authority (CDRPA) should consider compensating controls such as having mail opened in an area observable by other employees or stronger monitoring controls over revenues.

Checks received in the mail should be briefly reviewed for accuracy (e.g., proper payee, date, signature of payor, etc.). Checks with obvious inaccuracies should not be included in the deposit. In such a case, the entity should contact the payor and request that the payment be corrected or reissued.

Receipts should be physically safeguarded during the operating day and secured in a safe overnight. Access to the cashiering area should be appropriately restricted whenever possible.

Access to the safe should be limited. An inventory of keys should be kept, with the lock being changed if a key is unaccounted for.

## Payment posting

The CDRPA will assure that all payments are posted to the general ledger the same day as the payment is received. The employee receiving the funds is to be adequately trained so that mis-posted entries are minimized. All credit adjusting entries to a customer account must be promptly approved by a supervisory employee.

## Deposits

The CDRPA is committed to depositing payments received on a prompt basis. The Director of Finance will assure that all deposits are made into the CDRPA's General Fund preferably at least once every 24 hours. The Treasurer may grant an exception where such daily transfers would not be administratively practical or feasible (RCW [43.09.240](#)).

Deposits must be made intact, meaning all payments received must be deposited without substitution. This is evidenced by the composition of checks and cash listed on the deposit slip being matched to related receipt records.

Checks must be restrictively endorsed *For Deposit Only* immediately upon receipt. As available, the preferred method for depositing checks is to utilize the remote direct depository process provided to the CDRPA through its primary bank.

Deposits may be prepared by the person who received the payment. The CDRPA should implement a system of supervisory review of the remittance list and bank deposits to ensure deposits are made intact.

The daily remittance list should be compared (reconciled) to daily deposit slips and to the cash receipts journal (or ledger audit report) on a regular basis. This should be performed by someone other than the employee who prepared the remittance list. Any shortage should be resolved.

Deposits should be physically safeguarded using bank bags with locks or other tamper-proof devices.

Separate bank accounts may be used to receipt funds and transfer to a master account in order to facilitate timely collection of cash in remote areas or as part of the government's banking structure. These accounts (which may be referred to as zero-balance, clearing, transmittal or depository accounts), should be swept at least monthly and be independently reconciled the same as all other bank accounts.

#### Receipt Forms (manual or automated)

All receipts should be pre-numbered and imprinted with the name of the CDRPA. If possible, receipts should be utilized that are generated from posting of the payment into the general ledger. Where it is necessary to utilize a hand recorded receipt, such receipt should be made sequentially through a preprinted receipt book.

Receipts must include the following information:

- Identification of payor either by name or by account number;
- Amount received;
- Mode of payment (cash, check, credit card, other);
- Purpose of payment; and
- Identification of employee who prepares receipt.

As payments are received at decentralized locations, the Director of Finance should assure that those receipts are periodically audited and reviewed.

#### Review and reconciliation of receipts

The Director of Finance will establish a process for regular review of general ledger reports to assure that all payments are properly applied to the appropriate account codes and that all credit entries and voided transaction are reviewed.

The bank statement reconciliation should be performed by a person who does not have custody of or access to cash during any point in the receipting and depositing process. This reconciliation should include comparing deposits per bank to recorded receipting transactions in the general ledger.

### Receiving Payment through Third Party Vendors

The CDRPA should establish contractual agreements for all arrangements where a third-party vendor is directed to accept payments on behalf of the CDRPA. The contract should include details of the payment remittance process to support compliance with state law ([RCW 43.09.240](#)). Funds should be remitted through direct card settlement or EFT from the vendor to the CDRPA's depository account.

The CDRPA will adopt contracting policies that implement effective internal controls over funds collected through a third-party vendor including safeguards to protect the funds from loss and contractual responsibilities for protecting credit card numbers and transactions.

The CDRPA may contract with third-party vendors who provide billing and collection of payment from CDRPA customers. Examples of these services include credit card processing, on-line web payment services, lock box services, and collection agency services. In each case the contractor is serving as an intermediary for collecting and depositing funds on behalf of the CDRPA.

Before any third-party payment service is put into place, the CDRPA must have an appropriately completed and executed contract with the vendor. A contract should be in place between the third-party vendor and the CDRPA with terms that establish the responsibilities for all parties. The contract should include details of the payment remittance process and responsibilities of each party for compliance with Payment Card Industry (PCI) requirements

The receipting provider or payment facilitator should remit the funds to the CDRPA primary bank account electronically rather than through the mail. Contract terms should state that if the contract includes services in addition to receipting, such as a collection agency, funds specific to those services are remitted at least monthly.

Reserves - There should be no requirements that result in a third-party vendor holding any part of the CDRPA's proceeds. The only exception would be reserve requirements to be used for returns and chargebacks that are standard to credit card processors/merchant service providers and payment facilitator agreements.

Management should ensure the receipting provider contract includes sufficient safeguards to protect the funds from loss.

#### Reconciling Credit Card Processing and web payments:

Credit card processing on behalf of the CDRPA requires that CDRPA staff reconcile the deposits made on behalf of the CDRPA to the bank statements. This should be done daily if volumes dictate but at a minimum should be completed periodically during the month.

Payment reports from the provider should match the deposit made to the bank statement. The reports should clearly state the transaction amounts and the payment fees. The provider should also provide access to the payment records and preferably all electronic payment transactions should post directly to the CDRPA's financial software. Third-party providers should not hold CDRPA funds, funds collected by third party providers must be deposited promptly, preferably on an overnight basis.

Reconciliation reports should be verified by CDRPA Supervisory staff and all debit transactions reversing payment need to be verified and cleared to the general ledger.

Fees for services should be periodically verified to the contractual agreement.

Payment Card Industry (PCI) Standards - Card payments are subject to PCI standards that protect credit card data. PCI data security standards apply to all entities that store, process or transmit cardholder data. Management should ensure CDRPA practices and processes meet PCI standards.

Responsibility for data security is shared by all parties to the agreement. The contract should explain the responsibilities of each party with consideration to the nature and scope of the CDRPA's handling of cardholder data. The third-party credit card processor /merchant services provider/payment facilitator must be fully PCI compliant.

### Accounting and Reporting

For accounting purposes, the method or process of receipt and deposit should not affect when funds are considered received by the CDRPA. For example, receipt by a third party on behalf of the CDRPA or deposit in a transmittal account should be recognized the same as receipt and deposit at the CDRPA's main location.

# Customer Account Control

## Setting up customer accounts

Customers of the CDRPA receiving services should be set up in the accounting system prior to any services being provided. Where services are on-going and of a contractual nature the CDRPA must have all contractual agreements approved by management as authorized within the CDRPA's delegation of powers resolution.

All customers should have separate customer account numbers which are to be reviewed and approved by a Supervisory employee. All accounts must have complete names and addresses as well as current contact information.

For accounts that are expected to generate \$10,000 or more in annual billing revenues, the Director of Finance will complete a review of the customers financial condition and support a summary report to the Chief Executive Officer regarding the credit worthiness of the potential customer prior to services being provided. For customers who are deemed to not be sufficiently credit worthy, the CDRPA should refuse services or require that sufficient security and/or deposits are in place to mitigate the risk of financial default by the customer

For clients who are leasing or otherwise controlling a CDRPA owned asset such as real estate or equipment, the CDRPA must assure that it is meeting state statutes requirements for security deposits (RCW.53.08.085). Cash Deposits shall be recorded in the General Ledger and separately accounted for.

## Separation of duties

Employees who have been given authority to set up and bill customers should not have access to payments being made by customers. Supervisory staff shall review all new customer accounts and approve all changes to any customer accounts. This can be

completed by utilizing accounts receivable approval processes built into the CDRPA's financial software if appropriate controls are in place.

Billing for services shall be completed promptly and sent to a specific customer location. All billing must include detailed information regarding the charges on the customer individual billing. Periodically, the CDRPA should verify the contact billing information for recurring billings.

Reports documenting the accounting entries for all billing shall be reviewed monthly by a Supervisor and retained. The review should include an Aged Receivable report. Periodic audit review of monthly customer billings is to be completed by the CDRPA Director of Finance. All credit memos or reversal entries shall be reviewed and approved by a Supervisory employee prior to posting.

#### Delinquent accounts

The CDRPA shall produce an Aged Receivable listing each month and review all accounts that have a balance that is more than 60 days delinquent. Contact shall be made with customers with a past due balance and a record kept of that contact. Customers who are delinquent for more than 90 days will be sent a formal notice of delinquency and given a specific time frame for making payment sufficient to clear the delinquency. When in the opinion of the Director of Finance that payment arrangements are appropriate, such arrangements are to be done in writing with formal agreement by the customer. Payment arrangements should be monitored closely for adherence and be made in the shortest time possible. Consideration should be explored for cancelling agreements with customers who are consistently delinquent. Customers who have had three or more months where balances owed were more than 90 days delinquent, should be considered for terms that require payment in advance for service or be required to post an additional surety/deposit.

For accounts that are delinquent for over 120 days from billing, the CDRPA should consider turning the account over to a contracted collection agency for payment. Accounts that have been turned over to collection are not eligible for services from the CDRPA unless payment is received in advance or until the account is brought current. Customers which have defaulted on payment and the account has resulted in a write-off with loss to the CDRPA shall not be provided services by the CDRPA.

# Vendor Accounts Payable Control

## Purchasing standards

Vendors must be established by appropriate purchasing guidelines. Purchasing authority is set by the Board of Directors as part of the Delegation of Powers Resolution.

The RCW's provide for the legal authority of purchasing for goods and services. The standards and processes to be used in purchasing is dictated in part by the requirements of the state legislation. Care should be given that employees are purchasing goods and services within the purchasing requirements as established by the State of Washington. No purchases are considered valid unless the purchase has been made consistent with the purchasing authority given by the CDRPA Board of Directors and within the legal limits as provided by state law.

## Purchasing documentation

Any good or service purchased by the CDRPA requires authorization from the CDRPA for the purchase. Authorization must be in writing and generally consists of either a formal contract or a CDRPA employee authorized through delegation. The Accounts Payable entry matches a payable invoice to the source authorization. Accounts Payable invoices must be reviewed and authorized for payment by the person who has provided the initial purchasing authorization. Invoices that are not approved by the contracting employee shall not be entered into the accounts payable system for payment.

## Invoice handling

Invoices received from vendors are to be routed to the accounting position assigned to handling accounts payable. After review, invoices are to be routed to the authorizing employee with the request that the invoice be approved for payment and with any exceptions noted. Any documentation of delivery of goods or services needs to be

attached to the invoice and the documentation returned to accounting for input into the accounts payable system.

Vendor information on the invoice is verified along with the approval. Items for review include amounts, checking totals and sub-totals, verifying the address and vendor account number as well as reviewing for any discounts and calculating the appropriate amount of state and local sales tax. Once invoices are posted to the accounting software, the documentation will be batched and retained on file for inspection and audit purposes.

### Payment of Invoices

As per the accounts payable payment schedule, a batch of invoices shall be processed for payment by check or through an ACH directly to the vendors bank account. Care needs to be used to assure that all ACH transactions have been set up with proper account numbers and transit codes. Once a batch has been processed for payment the audit reconciliation report and the issued checks are to be reviewed by the CDRPA Director of Finance for approval. All batch approvals should be completed before checks are available for mailing and before ACH transactions have been implemented. Once the approval process has been completed a positive pay file is to be sent to the CDRPA's bank and then all payments released.

The bank shall verify the payment of all invoices as presented to the bank and notify the CDRPA through its positive pay process if there are any exceptions to the CDRPA's file from the payments presented to the bank. Any discrepancies from the positive pay file must be reconciled the same day.

### Board of Director Review

State law requires that the CDRPA Board of Directors be made aware of all payments made at their next meeting. To facilitate this, the Director of Finance will complete a summary of all payments made by the CDRPA and submit this to the CDRPA Board of Directors for approval.

The State Auditor's Office recommends local governments receive and retain all redeemed warrants and canceled checks from public accounts as part of their public records. This may be either the original (actual) document or *read-only* (certified electronic format). Retention of these documents is crucial for fulfilling both the audit requirements as well as the ability to provide documentation for any fraud investigation as well as to meet the requirements of the Freedom of Information Act.

#### Auditor Requirements for review and retention of payable payments

Following is requirements for payment of claims as posted on the State Auditor website:

All claims against a municipality must be preaudited by the auditing officer of the municipality or his/her delegate. In addition, all claims must be certified by the auditing officer. *Claims* refer to all external payments that are made to satisfy obligations of the entity, regardless of how payments are processed (i.e., through warrants, checks, EFTs, etc.). *Claims* would include refunds or reimbursements, bond payments, federal tax payments, payments to other governments, grants, transfers or payments made to component units or joint ventures, etc. *Claims* would not include interfund loans, interfund reimbursements or payments (i.e., to internal service funds), indirect cost allocations or other internal accounting transactions, purchases of investments or transfers between bank accounts both owned by the entity, etc.

The auditing officer's certification may be made on each individual claim voucher or, subject to the acceptance and approval of the municipal legislative body, a blanket voucher certification may be used so long as it indicates the particular vouchers so certified. The use of a blanket certification in no way relieves the auditing officer of his/her responsibility and liability for each individual voucher so certified. The certification must be signed and dated by the auditing officer or his/her delegate. For all claims, except expense reimbursement claims certified by officers or employees, the certification must include the following language:

*I, the undersigned, do hereby certify under penalty of perjury that the materials have been furnished, the services rendered or the labor performed as described, or that any advance payment is due and payable pursuant to a contract or is available as an option for full or partial fulfillment of a contractual obligation, and that the claim is a just, due and unpaid obligation against the (city/county/district), and that I am authorized to authenticate and certify to said claim.*

The auditing officer's certification for employee/officer expense reimbursement claims must include the following language:

*I, the undersigned, do hereby certify under penalty of perjury that the claim is a just, due and unpaid obligation against the (city/county/district), and that I am authorized to certify to said claim.*

The certification by the auditing officer in no manner relieves members of the governing body from the responsibility and liability for each voucher approved. It is the governing body's responsibility to ensure that the system of auditing and certifying vouchers is operating in a manner to provide the greatest possible protection for the governing body members and the municipality.

To indicate governing body approval for payment of claim vouchers and payroll, the approval should be entered in the minutes:

If the legislative body authorizes the procedure, cities, counties and districts may issue warrants, checks or electronic payments before the legislative body approves claims. To do this the municipality must enact the following policies and procedures (required in Chapter 42.24 RCW):

1. The auditing officer and the officer designated to sign the checks, warrants or initiate an electronic payment must have an official bond. The amount should be determined by the legislative body but cannot be less than \$50,000 (RCW 42.24.180);

2. The legislative body should adopt contracting, hiring, purchasing, and disbursing policies that implement effective internal control; for electronic payments, the legislative body should adopt information technology policies that implement effective internal control over technology used to initiate and approve electronic payments.
3. The legislative body must review and approve the claims paid at its next regularly scheduled public meeting, or for cities and towns, at a regularly scheduled public meeting within one month from issuance; and
4. If the legislative body disapproves some claims, the auditing officer and the officer designated to sign the checks, warrants or initiate the electronic payment must recognize these claims as receivables of the taxing district and pursue collection diligently until the amounts are either collected or the legislative body is satisfied and approves the claims.

The legislative body may stipulate that certain kinds or amounts of claims should not be paid before the board has reviewed the supporting documentation and approved the issue of checks, warrants or electronic payments in payment of those claims.

The original copy of all vouchers should be filed in the office of the auditing officer of the municipality. The detailed accounts to which the expenditures are to be posted must be clearly designated. Supporting documentation must be retained and either attached to the vouchers or canceled by the auditing officer to prevent reuse.

# Payroll processing control

Payroll processing includes the handling of critical financial information but also information that is personal and confidential. Care needs to be exercised in handling all inputs and outputs from payroll processing. The CDRPA is committed to performing this process with the following procedures being included in the processing of payroll.

## Control of employee payment information

The data base records for all employee's information shall be maintained by a payroll specialist who is responsible for maintaining confidentiality of all information. The records are subject to both internal and external audits. The records will be maintained in a format that accurately reflects the employment status of the employee and all changes to the record will be implemented promptly. Records shall be secured through passwords and restricted access. Physical records shall be kept locked up with limited access.

The accuracy of the employee information for processing payroll will be reviewed regularly (at a minimum annually) by the Director of Finance and will include conducting an audit review to verify whether payroll payments are being calculated correctly based on accurate reporting and approval of time records, employees being paid are still working for the company, and that all taxes and deductions are being processed and paid correctly.

Changes to an employee's marital status, withholding allowances, or deductions are only allowed if the employee has submitted a written and signed request for the company to do so.

All pay rates and decisions that affect overtime pay, time off, or any other work rule that affects any aspect of an employee's pay shall only be authorized after approval by the CDRPA executive charged with managing the Human Resources responsibilities. No adjustment to any aspect of an employee's pay can be made

within the payroll system without a fully executed payroll record change signed by both Human Resources and the Director of Finance.

#### Payroll record change tracking

All changes to a payroll record must have two signatures approving the change. The change form should be signed by the Supervisory person initiating the change and verified by the signature of the Director of Finance or their designee.

Any change to a payroll record must be recorded through a change tracking log preferably within an automated payroll system and available through a password-protected interface. This log will track all changes made to the payroll system.

Some types of payroll errors can be spotted by running reports that only show items that fall outside of the normal distribution of payroll results. The Director of Finance or a third party not involved in payroll activities should run and review these reports on a regular basis searching for potential mistakes in calculations or in other information that would result in improper calculation of the pay.

Supervisors should periodically be sent a report listing all payments to their employees and be asked to validate that the information on items such as absences and hours worked are correct. Particular attention should be paid to matching timesheet information to actual pay records. Supervisors should note any variances, sign the report and return the document to the Director of Finance.

#### Separation of duties.

Payroll processing and approval must be separated between staff. Payroll timesheets are to be completed by the employee and sent to the Supervisor for review and approval. No payment for payroll is to be made when the source timesheet document is not completed.

Once payroll has been processed, the Director of Finance or their designee must review the payroll transactions and approve the payment of payroll. A summary report of the payroll with the approval of the Director of Finance should be kept in a secured

file with the other documentation used during the payroll processing. Payroll should not be released for payment until the approval process has been completed.

#### Distribution of payroll

Ideally all payroll distribution is handled through direct deposits into the individual employee's bank account and all tax deposits processed through ACH transactions. When issuance of checks is necessary, the employees check should be given to the Supervisor in a sealed envelope for distribution to the employee. If a paycheck is not distributed on the same day as issued, the unclaimed check should be locked up in Accounting and distribution arranged for at a later time.

Payroll checks should not be mailed to an employee's address.

Once all payroll checks have been processed the remaining blank payroll checks must be secured in a locked location.

#### Payroll checking account.

Employees will be paid out of a separate payroll checking account, and fund this account only in the amount of the checks paid out. The payroll process should utilize the bank's "positive pay" process and make sure that the funds presented for payroll matches the file for checks and deposits actually processed.

# Integrity and retention of records

The CDRPA is responsible for obtaining and ensuring the integrity and retention of the original vouchers, receipts, and other documents – regardless of physical form – necessary to isolate and prove the validity of every transaction relating to the receipt, use and disposition of public funds or property (RCW [43.09.200](#)). This requirement extends to all accounting entries, including interfund transactions or allocations of overhead costs.

In addition, governments are required to comply with public records retention requirements (RCW [40.14](#)) and the [Local Government Records Retention Schedule](#) published by the Secretary of State in accordance with RCW [40.14.070](#).

## Physical Documentation

Physical documentation should be recognizable and legible. CDRPA processes should provide reasonable assurance of the accuracy, durability and availability of physical records.

## Electronic Documentation

Electronic supporting documentation for transactions is appropriate where safeguards exist to ensure that the documentation cannot be changed or altered and that the documentation is available for as long as it is necessary to retain. In cases where source documents are initiated electronically and the CDRPA's accounting system does not have sufficient controls to ensure the integrity of the data, such electronic records should be printed, reviewed and signed by an appropriate person. The printed records would then be considered the official source document supporting the transaction.

Internal controls ensuring the integrity of data supporting public transactions should include policies and procedures ensuring the accuracy, durability and availability of the

data. This would include, but is not limited to, establishing an audit trail and/or system for identification of changes made and users making subsequent modification to the source documents to ensure a proper chain of custody.

See Chapter [434-662](#) WAC for records retention regulations for electronic records.

### Scanned Documentation

Scanned original documents are acceptable to support the receipt; use and disposition of public funds given the above-mentioned controls are in place to ensure their integrity, completeness and accuracy. The original imaged source records cannot be destroyed unless the CDRPA has complied with the Secretary of State's *Requirements for the Destruction of Non-Archival Paper Records after Imaging "Scanning and Tossing"* document. Alternatively, the original imaged source records may also be destroyed if the CDRPA's application requesting early destruction of records after electronic imaging has been approved by the Secretary of State. See Chapter [434-663](#) WAC.

### Authorization of Transactions

The CDRPA is responsible for ensuring transactions are properly authorized and have the appropriate type of signature approval. For audit purposes, log-in authentication is an acceptable means of limiting access or segregating duties with user account permissions, establishing accountability and chain of custody for records, and evidencing review or approval. For these controls to be effective, sufficient controls must be in place over user accounts, passwords, sessions, and audit trails or logs.

### Physical Signature

If there is a legal requirement for a signature on an electronic document (i.e. contract, etc.), it can have a digital signature. If the CDRPA chooses to use a digital signature, we are responsible for complying with Chapter [19.34](#) RCW.

### Facsimile Signature

Instruments of payments (i.e., check/warrant) can have a legal facsimile signature. A facsimile signature is a reproduction of a signature by engraving, imprinting, stamping or other means. If the CDRPA chooses to use a facsimile signature, it must be in compliance with Chapter [39.62](#) RCW.

### Non-Legal Facsimile Signature

Documents that do not require a legal signature can be authorized by a non-legal facsimile signature. A non-legal facsimile signature is a reproduction of a signature by engraving, imprinting, stamping, or other means.

### Log-in Identification

A number of accounting applications have been developed to use as individual's log-in identification to authenticate an approval. This can be acceptable if there is no legal requirement for a written signature, if transaction records identify the user, and if there are sufficient user account controls in place to assign accountability for transactions to an individual.

## Chelan Douglas Regional Port Authority

### SEGREGATION OF DUTIES TABLE

	Primary	Secondary
Opening of Mail/Cash Receipting	Administrative Assistant	Executive Assistant
Payment Posting to Software	Acctg Spec A/R	Comm Coord/Fin Specialist
Monthly Review & Reconciliation of Receipts	Director of Finance	Comm Coord/Fin Specialist
Reconciling Credit Card Processing and Web Payments	Acctg Spec A/R	Comm Coord/Fin Specialist
Bank Statement Reconciliation	Comm Coord/Fin Specialist	Director of Finance
Setting Up Customer Accounts	Acctg Spec A/R	Comm Coord/Fin Specialist
Accounts Receivable Invoicing	Acctg Spec A/R	Comm Coord/Fin Specialist
Review of Aging of Receivables Reports	Director of Finance	Comm Coord/Fin Specialist
Purchasing Documentation/ Vendor Documentation	Per Delegation of Authority	CEO Delegation to Individual Employees
Invoice Approval	Per Delegation of Authority	CEO Delegation to Individual Employees
Payment of Invoices	Acctg Spec A/P	Comm Coord/Fin Specialist
Employee/Officer Expense Reimbursement Claims Approval	Director of Finance	Individual Managers/CEO
Payroll Processing	Acctg Spec A/P	Comm Coord/Fin Specialist
Payroll Processing Review	Director of Finance	Comm Coord/Fin Specialist
Payroll Record Change Tracking	Supervisor/Manager	Director of Finance/CEO
Submitting Transfers/CSV Files for Payroll and Payables	Acctg Spec A/P	Comm Coord/Fin Specialist
Two Step Authorization of Above	Comm Coord/Fin Specialist	Director of Finance
Integrity & Retention of Records	Comm Coord/Fin Specialist	Executive Assistant