

RESOLUTION NO. 10-19

A RESOLUTION OF THE BOARD OF DIRECTORS OF  
TEHACHAPI-CUMMINGS COUNTY WATER DISTRICT  
IMPLEMENTING TEHACHAPI-CUMMINGS COUNTY WATER DISTRICT  
INTERNAL CONTROLS MANUAL

A. Recitals.

(i) The State of California, Office of the Controller has developed Internal Control Guidelines, California Local Agencies... in accordance with the American Institute of Certified Public Accountants' (AICPA's) Auditing Standard AU-C §315.04 which defines internal control in accordance with the Internal Control – Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

(ii) It is desirable to implement and establish an internal controls manual in accordance with the above guidance.

B. Resolution.

NOW, THEREFORE, be it found, determined and resolved by the board of Directors of Tehachapi-Cummings County Water District as follows:

1. The above recitals are true and correct and the Board so finds and determines.
2. The Internal Controls Manual attached hereto as Exhibit A and incorporated herein by reference, is hereby approved and adopted.

ADOPTED and APPROVED this 21<sup>st</sup> day of August, 2019.

  
\_\_\_\_\_  
James Pack, Board President

(SEAL)

ATTEST:

  
\_\_\_\_\_  
Catherine Adams, Board Secretary

SECRETARY'S CERTIFICATE

I, CATHERINE ADAMS, Secretary of the Board of Directors of Tehachapi-Cummings County Water District, hereby certify as follows:

The foregoing is a full, true and correct copy of Resolution No. 10-19 duly adopted at a regular meeting of the Board of Directors of the District duly and legally held at the regular meeting place thereof on August 21, 2019. All of the members of the Board of Directors received due notice of the meeting and a majority thereof was present. At the meeting the resolution was adopted by the following vote:

AYES: Cassil, Hall, Pack, Schultz, Zanutto

NOES: None

ABSTAIN: None

ABSENT: None

ATTEST:



Catherine Adams, Board Secretary

(SEAL)

## TEHACHAPI-CUMMINGS COUNTY WATER DISTRICT INTERNAL CONTROLS MANUAL

### Introduction

The Tehachapi-Cummings County Water District (TCCWD), referred to in this document as “the District,” has the responsibility to its taxpayers, ratepayers, and constituents to be good stewards of public monies and property. As part of a continued effort to serve the public, the District has established this Internal Controls Manual using the following, widely recognized best practices and state directives:

The State of California, Office of the Controller has developed *Internal Control Guidelines, California Local Agencies...*, in accordance with the American Institute of Certified Public Accountants’ (AICPA’s) Auditing Standard AU-C §315.04 which defines internal control in accordance with the *Internal Control – Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Internal Control Framework consists of three (3) objectives, five (5) components, and seventeen (17) principles relating to the components.

### Three (3) Objectives of Internal Control

1. Reporting – reliability of financial reporting.
2. Operations – effectiveness and efficiency of operations.
3. Compliance – compliance with applicable laws, regulations, contracts and grant agreements.

### Five (5) Components of Internal Control

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

There is a direct relationship between the organization’s objectives, the five (5) components of internal control and the organizational structure of the organization. The five (5) components apply to all three (3) categories of objectives and all levels of the organizational structure. The seventeen (17) principles support the components of internal control.

The purpose of this manual is to ensure that a good internal control framework has been established by the District. An adequate control framework serves to provide information that helps detect errors and fraud, facilitates analysis of operational efficiencies, provides reasonable assurance that financial reports are accurate, and helps to ensure that public resources are being utilized in compliance with laws, regulations and budgetary limitations. It also limits the opportunity for theft or unauthorized use of assets, including cash, inventory, and capital assets.

The remainder of this document is designed to give an overview of the seventeen (17) principles related to the five (5) components of internal control listed above as they relate to the objectives and organizational structure of the District.

## Control Environment

**The Control Environment Component** – The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the District. The governing Board and management establish the “tone at the top” regarding the importance of internal control, including expected standards of conduct, which then pass down throughout the organization. The control environment is comprised of the following five (5) principles:

### **The Five (5) Principles of the Control Environment**

- 1. Organization’s Integrity and Ethical Values** – The District has developed a code of conduct through its policies, procedures and practices, including but not limited to, regular staff meetings, ethics and harassment training, conflict of interest documents, and the employee handbook. The operating style is communicated to all employees through various methods, including by example.
- 2. Governing Board’s Oversight Responsibilities** – The Board identifies and accepts its oversight responsibility. The Board completes a conflict of interest form, annually; conducts a biennial review of its Conflict of Interest Code; reviews and approves an internal controls manual, which is updated periodically; and attends training in professional conduct, including but not limited to, ethics and harassment, biennially. The Board appoints the District’s legal counsel, external auditor, and treasurer. The Board reviews the annual audit for internal control issues. The Board hires and reviews the General Manager, ensuring the proper level of knowledge, skill and experience necessary to manage the operations of the District are in place.
- 3. Assignment of Authority and Responsibility** – Under the authority of the Board, the General Manager considers the structure, size and nature of the District’s operations. The General Manager reports directly to the Board and establishes reporting lines for subordinate managers, supervisors and employees to report to the General Manager. This process ensures the proper execution of authorities, responsibilities, and the flow of information to manage the operations and activities of the District. Appropriate processes and technologies are used to assign responsibility and segregate duties. Specific supervisors are assigned responsibility to review and approve processes where segregation of duties is not practicable. Directives, guidance, controls, and operational style ensure management and personnel understand and carry out their internal control responsibilities and follow management’s plan of action to achieve objectives.
- 4. Process for Attracting, Developing, and Retaining Employees** – Under the authority of the Board, the General Manager establishes policies and practices that reflect an expectation of competence, including periodic evaluation of performance. Mentoring and training are used to attract, develop and retain sufficient and competent personnel. Contingency and succession planning are utilized to ensure candidates are available to assume roles without lapses in internal control.
- 5. Accountability for Performance** – Appropriate performance measures and incentives are in place to communicate and hold individuals accountable for performance of internal control responsibilities. All employees receive a copy of the employee handbook and sign off on receipt and understanding. Detailed job descriptions are available for each position. A new-hire, six-month probationary period is practiced. Periodic reviews are conducted, including communication of corrective actions required, when necessary.

## Risk Assessment

**The Risk Assessment Component** – Financial reporting risk assessment is necessary to give reasonable assurance as to the fair presentation of the financial statements as a whole. Through its internal control processes and annual external audit, management can identify risks (including fraud), and estimate the potential significance, assess the likelihood of occurrence, and determine appropriate responsive actions to manage the results. Financial reporting risks include internal and external events, transactions and/or circumstances that could adversely affect management’s ability to provide assurance that the processing and reporting of financial data is consistent with management’s assertions.

### **The Four (4) Principles of Risk Assessment**

6. **Specification of Objectives** – Internal control objectives are identified and clearly communicated to employees to provide direction in the performance of their duties with regard to the reduction of errors, policy violations, fraud, or noncompliance.
7. **Identification and Assessment** – When errors or violations of policy occur or are identified, the increase in risk is assessed and responded to by communicating to the appropriate personnel and/or modifying or enhancing the relevant controls.
8. **Consideration of Fraud** – The business office manager completes training for the purpose of identifying likely risks of noncompliance, fraud, and errors relevant to internal control processes, and disseminates this information to other personnel. The District operates under a Board approved Conflict of Interest Code, which is available to the public on the District website. All members of staff agree to receipt and understanding of the Employee Handbook, which includes a section on conflict of interest.
9. **Consideration of Change** – After each Board meeting, management meets with department heads to communicate any new or changed risks, conditions, actions, or events that may impact the ability to manage risks relevant to operations. Finance personnel receive training to become aware of new accounting pronouncements and emerging issues in order to identify and manage risks associated with financial reporting. The budget is used to anticipate, identify, analyze, and respond to changes in conditions that could increase the risk of misstatement. Management continually monitors information, conditions, transactions, and events that may increase the risk of accounting error or fraud in order to evaluate the effects of such matters and properly communicate these matters to the Board, staff, and the independent auditor.

## Control Activities

**The Control Activities Component** – Control activities are the actions management establishes through internal control policies and procedures to achieve management objectives and respond to identified risks.

### **The Three (3) Principles of Control Activities**

10. **Design to Achieve Objectives and Respond to Risks**

## 11. Support Objectives by Developing Controls over Technology

## 12. Deploy Controls by Establishing Policies and Procedures

Control activities are categorized as the directives and expectations that put the District's policies and procedures into action pertaining to the following:

**Authorization** – Activities require authorization in accordance with policies and procedures.

**Financial Performance Reviews** – Financial reports are produced monthly and distributed to departments and the governing body for review. Financial data is analyzed to compare actual results to budget forecasts, expectations, and historical data.

**Information Processing** – Application controls and IT controls are in place to ensure the proper operation of the District's information systems.

**Physical Controls** – Policies and procedures are in place to ensure security over all assets. Access to facilities and equipment is controlled through a site security system, assigned keys, combinations, and codes. Access to information systems is controlled through discrete passwords. The transmission and pumping systems are monitored 24-7 through a sophisticated SCADA system. Employees are regularly scheduled to be on-call and respond to emergencies.

**Segregation of Duties** - The functions of authorization, recording, reconciling, and maintaining custody of assets is segregated to the degree possible in a small government agency. Where adequate segregation of duties is not practicably possible, a compensating control of supervisory review and approval is utilized. The District must consider the cost of implementing certain control activities by comparing the cost to the derived benefit and the degree of identified risk associated with the control activity.

The major areas and key components of the control activities, designed and established by the District to meet its internal control objectives, are as follows:

**Cash Receipts** - The control activities considered and utilized by the District to address the risks related to control over revenues and cash collections are designed to address the operational, reporting and compliance objectives of (1) revenues and cash collections are complete, timely and accurate, (2) revenues and collections are safeguarded, and (3) revenues and collections are recorded accurately and timely in the accounting system. The practices and procedures implemented and monitored to satisfy these objectives include, but are not limited to, the following:

- Employee one will receive and open mail
- Employee one will stamp all checks "for deposit only" to the account bearing the District's name
- Employee one will issue/record receipts
- Employee two will verify that all receipts are recorded
- Employee two will ensure that the posting and updating of the accounting records for the daily receipts and deposits are accurate and complete
- Employee two will ensure that all receipts are applied to the appropriate fund and revenue code and recorded in the general ledger
- A supervisor will verify that the deposit is equal to the receipts listing and the bank receipt

- Discrete passwords will be used throughout the computerized receipting process
- Employee three will take the deposit to the bank and return with a receipt
- Overnight storage of cash will be safeguarded inside the District business office vault
- All funds will be deposited within the business week
- Employee two will produce monthly customer billings
- Employee one will balance the customer billing packet to the consumption detail sub-ledger, monthly
- Employee two will prepare a monthly bank reconciliation
- A supervisor will review and approve the monthly bank reconciliation
- Transfers between accounts will involve two employees (one to initiate and one to approve).

**Cash Disbursements** - The control activities considered and utilized by the District to address the risks related to control over cash disbursements are designed to address the operational, reporting and compliance objectives of (1) disbursements are for a valid District purpose and are necessary, (2) disbursements are timely, (3) disbursements are accurately coded and recorded, and (4) disbursements are in accordance with the District's **Purchasing Policy** and (except for unforeseen circumstances) within the approved annual **Budget**. The practices and procedures implemented and monitored to satisfy these objectives include, but are not limited to, the following:

- Appropriate employees will complete a purchase order
- A supervisor will review and approve the purchase order
- Purchase orders and packing slips will be matched and given to the business office for payment as soon as possible
- Employee one will prepare monthly check batches using backup documentation and present the batches to the appropriate supervisor/manager for review and approval of expenditure codes
- The appropriate supervisor/manager will verify all expenditure codes for accuracy and availability of funds prior to employee one processing payments
- A supervisor will review and approve the monthly bank reconciliation and examine all canceled and/or voided checks
- Changes to the vendor master file will be examined by a supervisor, periodically
- Completeness of the serial numbers for checks will be verified by a supervisor, monthly
- All checks will require two authorized signatures
- All checks will have documentation attached at the time of signing
- The General Manager and the Board President will review backup documentation and manually sign all checks. In the General Manager's absence, the Treasurer, acting as the General Manager's designee, may sign checks. In the absence of the Board President, the Board Vice-president will sign checks. In the absence of all or any of the above, all Board Members may act as first or second signer.

**Payroll** – All payroll checks, tax deposits, and reporting are processed electronically through an automated ACH clearing account with direct deposit. Manual checks are not used for payroll related disbursements except in rare circumstances and management level approval is required. Discrete passwords are required to enter the automated payroll system. A signed W-4 is required from all employees and is updated annually. All detail entry is completed by employee one and all posting and balancing to the general ledger is completed by employee two. A third employee distributes the payroll advices. All time sheets and leave balances are reviewed and approved by direct supervisors. Employee additions, terminations and wage rate changes are reviewed and approved by a supervisor. All timesheets, registers, tax reports, ACH reports, and general ledger posting reports are reviewed and

approved by a senior supervisor. W-2 wages are reconciled to the general ledger by a supervisor. All payroll transactions are processed through a separate general ledger fund account using a bank clearing account. The electronic deposit to the clearing account is for the exact amount needed to cover the actual payroll for the period. The account is included in the monthly bank reconciliation process which is prepared by employee two and reviewed and approved by a supervisor. A supervisor periodically compares the actual payroll to the budgeted payroll amounts and investigates any significant variances. The personnel department conducts exit interviews with all terminating employees and ensures that all District property is returned at that time.

**Employee Reimbursements** – Monthly credit card invoices are reconciled to preprinted, detailed expense reports. The expense report form details the District policy regarding travel, hotel, and meal guidelines and limits. Original receipts are required for each item listed on credit card statements and expense reports. All expense reports are reviewed and approved by a supervisor before they are paid.

### **Information and Communication**

**The Information and Communication Component** – Information is necessary to accomplish the internal control and operational objectives. Communication is both internal and external. Internal communication provides the information needed to carry-out the controls; informs personnel of their internal control responsibilities; and, provides the information required to understand the importance of internal controls in the process of achieving objectives. External communication provides relevant inbound external information and supplies information in response to external requirements and expectations.

#### **The Three (3) Principles of Information and Communication supporting the function of Internal Control**

- 13. Obtaining, Generating and Using Relevant, Quality Information** – The District maintains financial data in a computerized accounting system. An individual with an upper level degree in finance and or accounting with substantial work experience is employed by the District to oversee the business operations, supervise the business office personnel, and manage the financial and accounting function. The year-end process includes communications about new accounting and financial reporting guidance. A monthly financial statement, a quarterly investment report, and a Comprehensive Annual Financial Report (CAFR) is submitted to the governing Board. An annual Budget is adopted by the governing Board. The budget process includes procedures for preparing, amending and communicating budget revisions. All appropriate staff, management, and the governing Board attend outside, pertinent professional training.
- 14. Internally Communicate Information** – Lines of communication are clearly defined through policy manuals and the organizational chart. All employees receive and sign an employee handbook. The employee handbook provides information pertaining to a whistle blower process without fear of reprisal, as well as ethical practices and code of conduct expectations. A detailed job description exists for each Board authorized position. Regular trainings and staff meetings are conducted by management. Management and supervisory personnel meet to review governing board agenda items, new initiatives, budget updates, and other important information. All managers and Board members receive regular ethics and harassment training. A Conflict of Interest Code is reviewed, updated and adopted by the Governing Board, periodically.
- 15. Externally Communicate Information** – The District complies with the California Public Records Act. Management and the governing Board monitor events at the national, state and local levels for applicable legislative or regulatory actions. Management uses the internet and maintains a



website to communicate important information to employees, the governing Board, and the public. Information provided on the website includes, but is not limited to, financial reports, adopted budgets, adopted resolutions and ordinances, meeting minutes, agendas, and summaries of Board actions.

## **Monitoring**

**The Monitoring Component** – Monitoring involves assessing the effectiveness of controls over time and taking corrective action when deficiencies are identified. The internal control system changes as technology, staff, objectives, and policies change. Management monitors the system to determine if it is operating according to design and that it is being followed by personnel.

### **The Two (2) Principles of Monitoring**

- 16. Select, Develop and Perform Ongoing and/or Separate Evaluations** – Employees are supervised and evaluated to address issues of internal control that are associated with that employee's duties to ascertain the effectiveness of the controls over the period of time that the employee performed the duties. The expectations are communicated to the employee to provide a measure for evaluation of the effectiveness of the controls. Management responds to any information received from employees, vendors or customers regarding the accuracy of payroll checks, payments made on invoices, or utility billings to gather information about the quality of internal controls associated with the payroll, accounts payable or utility billing process. Budget-to-actual reports are reviewed and analyzed to ascertain the on-going quality of the accounting controls used to produce consistent, reliable financial information. Monthly financial reports and quarterly investment reports are generated and reviewed by those in a position of authority over financial operations.
  
- 17. Evaluate and Communicate Internal Control Deficiencies in a Timely Manner** – Periodic meetings with personnel in the business and finance department are held to identify issues that affect the quality and timeliness of key controls including, but not limited to, monthly cash reconciliations, accounts receivable aging reconciliations, and updates of capital assets records. These meetings might include internal control deficiencies identified by business office personnel (such as insufficient purchase order documentation) by other departments and a discussion on the appropriate response to address the deficiency. The District may receive information from on-site reviews of regulatory and funding agencies that indicate possible deficiencies in internal controls leading to the implementation of actions to address any such deficiencies noted. The District's annual audit includes the "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance with Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*".

## **Summary**

The framework of this manual complies with professional standards and state requirements. This manual will be reviewed and updated as needed. All employees and Board Members will abide by the procedures outlined in this manual. The District will abide by The State of California, Office of the Controller, *Internal Control Guidelines, California Local Agencies...*, in accordance with the American Institute of Certified Public Accountants' (AICPA's) Auditing Standard AU-C §315.04 which defines internal control in accordance with the *Internal Control – Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).