

# THE NATOMAS BASIN CONSERVANCY INTERNAL FINANCIAL CONTROLS POLICY

## Introduction

The Natomas Basin Conservancy (Conservancy) is an IRS section 501(c)(3) not-for-profit corporation formed in 1994. The Conservancy is responsible for collecting and managing mitigation fees required by the Natomas Basin Habitat Conservation Plan (NBHCP), using the fees to establish mitigation lands, and managing the mitigation lands for the benefit of the protected plant and animal species in the Natomas Basin. The Conservancy's Board of Directors (Board), management and staff make every effort to ensure the Conservancy operates a financially sound organization.

The Sacramento Area Flood Control Agency (SAFCA) has embarked on a construction project, known as the Natomas Levee Improvement Project (NLIP), intended to provide 100-year flood protection in the Natomas Basin. Mitigation for impacts on species covered in the NBHCP is required for this work. The Conservancy has entered into agreement with SAFCA for this mitigation and related work. Therefore, the Conservancy maintains the appropriate bank accounts and general ledger accounts for this project.

The Conservancy operates on the accrual-basis of accounting method and a calendar fiscal year.

## Risk Management / Journal Entry / Insurance Control

Risk Management – With the Conservancy employing a small staff, this internal financial control policy attempts to separate duties as much as possible. The accounting software package the Conservancy uses is password secured. Each individual is granted specific rights, so that only authorized personnel are allowed to make adjusting journal entries.

Journal Entries – The Chief Financial Officer prepares all entries, including adjusting journal entries. The entries are accompanied by an adequate explanation of the entry and are referenced to appropriate supporting documentation. They are printed monthly with the financial statements for review purposes and for the record.

Insurance Control – All Conservancy-owned real properties are to be appropriately insured. Staff will review insurance coverage, annually at renewal, each time a new property is acquired and periodically as needs arise. The Conservancy currently maintains the following insurance policies; Directors & Officers liability, fidelity liability, employee dishonesty, workers compensation, employment practices liability, crime coverage insurance, general commercial liability insurance (which includes former boiler and machinery policy), and excess liability insurance policy. Coverage is to be based on an amount that is reasonable and customary.

## Receivables / Billing Control

Receivables – Mitigation fees and farm rent comprise nearly all receivables for the Conservancy. Mitigation fees are determined by the NBHCP Finance Model (Finance Model), which is prepared by an economist. It is reviewed annually by Conservancy management; any adjustments are approved by the Board of Directors. Mitigation fees may be collected by the City of Sacramento or the County of Sutter on the Conservancy's behalf or by the Conservancy directly. Mitigation fees from Metro Air Park may be received directly by the Conservancy. Farm rent is collected directly by the Conservancy.

Mitigation fees are divided into the appropriate NBHCP funds: Administration, Restoration & Enhancement, Land Acquisition, Endowment, and Supplemental Endowment. The

Conservancy adjusts the percentage that goes into each fund each year as it reviews and considers the re-calculation of the Finance Model.

In the instance a developer dedicates land in-lieu of paying the Land Acquisition portion of the mitigation fees, which is required by City Council Ordinance for those projects over 50 acres, the transaction is recorded by journal entry.

When land is dedicated, the amount recorded will be the cost of the land in a willing seller-willing buyer, fair market transaction. If for any reason the sales price is not deemed to be arrived at in a fair market transaction, a written Broker Opinion of Value or an appraisal will be conducted to assist in making such a determination.

The Board is notified of all contributions; land dedications, cash donations or grants in excess of \$10,000.00. Adequate records are maintained of all contributions; land dedications, cash donations or grants.

The Executive Director negotiates and signs all contracts with tenant farmers.

All other monies collected by the Conservancy are processed as follows: the Administrative Assistant opens the mail, receives and records all checks, and endorses the checks with the Conservancy's endorsement stamp. In the Administrative Assistant's absence, the Chief Financial Officer will fulfill these duties. The Chief Financial Officer or Administrative Assistant may enter check payments into the accounting system, prepare the deposit slip and make file copies of all checks. Conservancy staff makes deposits. A copy of the deposit receipt issued by the bank is returned to the Executive Director to confirm that the deposit was made as per the original deposit slip prepared by the Chief Financial Officer.

All incoming checks are deposited soon after they are received. If for some reason they are not deposited the same day, they are stored in a locked file cabinet until they can be deposited.

All incoming checks are also logged into the Cash Log spreadsheet by the Administrative Assistant. A Cash Log spreadsheet is maintained each fiscal year.

Billing – The Chief Financial Officer prepares invoices as needed. All billings are accurately recorded in the subsidiary records.

All uncollectible receivables are approved for write-off by the Executive Director after written request is prepared by the Chief Financial Officer.

### **Payables / Procurement Control**

Payables – The Board approves all contracts over \$10,000.00. The Executive Director or any officer of the corporation will sign all contracts with vendors and contractors. The Contracts and Compliance Manager maintains all original signed contracts.

The Conservancy pays vendors from original invoice only. If an original invoice is not available, an invoice received by fax or email will be accepted. The original invoice and all supporting documents attached to the invoice are marked paid at time of payment. The Administrative Assistant reviews all invoices and enters them into the accounting system. The Chief Financial Officer reviews and prepares invoices for payment.

The Administrative Assistant maintains all receipts and statements for the corporate credit cards. All corporate credit card receipts will be submitted to the Administrative Assistant in a timely manner. The Administrative Assistant will match the receipts to the original credit card statement and enter the charges into the accounting system. The Chief Financial Officer reviews

the statements/receipts and prepares payment. Currently the Executive Director has a corporate credit card with a limit of \$10,000.00 and the Administrative Assistant has a corporate credit card with a limit of \$2,500.00. No other employee has a corporate credit card.

The Executive Director reviews and approves all staff expenditures for reimbursement (i.e. mileage, parking, etc.). Mileage is reimbursed at the U.S. Internal Revenue Service rate, which is adjusted annually, unless specified otherwise.

Reimbursable expenditures made by the Executive Director (by cash, personal check or personal credit card) over \$1,000.00 will be reviewed and approved by the Chair of the Board or his designee. Review and approval of these expenditures may be made via fax, email or in person.

Accounts payable operations are as follows: the Administrative Assistant opens the mail, receives all invoices, and stamps all invoices as to the date received. All supporting documentation is attached to the original invoice, entered into the accounting software and given to the Chief Financial Officer. The Chief Financial Officer reviews all bills and prints checks. The Executive Director reviews all bills and signs checks. The Chief Financial Officer or Administrative Assistant marks all invoices and supporting documentation paid and files the original paid invoices. The Administrative Assistant mails all checks.

Conservancy checks are pre-numbered and used in sequence. All blank checks are stored in a locked file cabinet. All spoiled checks are marked VOID and filed in a locked file cabinet. Spoiled checks will be kept until the annual audit is complete. After the annual audit is complete the spoiled checks will be destroyed.

Procurement – The Administrative Assistant purchases all office supplies, Board meeting supplies and minor office equipment and maintains all supporting documentation to match with invoices when they are received. Acquisition prices are authorized and will be reconciled to actual amounts being invoiced by the vendor.

## **Cash Control**

The Executive Director has signing authority for purchases up to \$10,000.00, unless pre-approved additional authority is granted by the Board (i.e. monthly payments to contractors over \$10,000.00, payroll and rent).

The establishing and terminating of any bank account on behalf of the Conservancy requires Board approval. Signatures on all Conservancy bank accounts include all Officers of the corporation and the Executive Director. The signature cards will be reviewed annually for new Officers.

All bank account transfers and wire transfers require an initiator and an approver. The Chief Financial Officer or the Administrative Assistant initiates the transfer and the Executive Director and/or an Officer approves the transfer. Any funds transfer or wire transfer over \$50,000.00 requires two approving signatures.

The bank account reconciliation process is as follows: the Administrative Assistant opens the mail, receives all bank statements and date stamps the statements. The Chief Financial Officer or the Administrative Assistant may reconcile the statements. The Executive Director reviews and signs the bank account reconciliations. The Chief Financial Officer files the signed bank account reconciliations.

Periodically the Executive Director requests unopened bank statements to open and review prior to the reconciliation process. The Executive Director will initial and mark "Opened and

Reviewed," then return the statements to the Chief Financial Officer or Administrative Asst. for reconciliation in the accounting system.

The Conservancy receives most of its bank statements on a monthly basis with copies of all checks (front and back).

### **Month-End Close Procedures**

Bank statements are typically received by the 10<sup>th</sup> of the month; reconciliation will be complete by the 15<sup>th</sup> of the month; and any adjusting journal entries will be made by the 15<sup>th</sup> of the month.

### **Investment Control**

The Conservancy currently has ten accounts: 1) a bank checking account for operating expenses; 2) a City of Sacramento Pool A account for incoming mitigation fees; 3) a U.S. Bank account for reserve funds; 4) an American Century Funds account for reserve funds; 5) a PayPal account for website donations; 6) a Wells Fargo Investment account for short-term investments; 7) a T. Rowe Price account for the Endowment Fund with investment advisor; 8) a T. Rowe Price account for the Supplemental Endowment Fund with investment advisor; 9) a bank checking account for SAFCA NLIP operating expenses; and 10) an investment account for SAFCA NLIP endowment funds.

All securities are held in the name of The Natomas Basin Conservancy. On a quarterly or as needed basis, the investment advisor will present statements for the endowment accounts and review them with the Board of Directors.

The Natomas Basin Conservancy Investment Policy for Corporate Funds addresses investing for all operating corporate funds, which include Administrative, Restoration & Enhancement and Land Acquisition funds. The Natomas Basin Conservancy Endowment and Supplemental Endowment Investment Policy addresses investing for all Endowment and Supplemental Endowment Funds. In the Conservancy's agreement with SAFCA, SAFCA agrees to "invest the endowment pool pursuant to the same policies and procedures applicable to the other NBHCP endowment funds."

A safe deposit box is held by the Conservancy at the downtown Wells Fargo Bank branch to store several items, including but not limited to: original signed Articles of Incorporation; original signed bylaws; and original Natomas Central Mutual Water Company stock certificates. Signers on the Conservancy's safe deposit box are the Executive Director, Chief Financial Officer and the Administrative Assistant.

Daily off-site electronic back-ups are automatically performed by an Internet provider back-up service and onsite external hard drive. Annual back up CD's will be stored in the Conservancy's on-site fireproof cabinet.

### **Payroll Control**

The Board reviews the Board per diem rate and budget annually. The Board approves the compensation package for the Executive Director. The Executive Director approves all employee pay rates within the Conservancy's budget approved by the Board each year.

The bi-monthly payroll process is as follows: the Conservancy staff payroll is scheduled with a payroll service for process the 15<sup>th</sup> and the last day of the month. All timesheets are submitted to the Chief Financial Officer for processing. The Chief Financial Officer reviews payroll reports when they are received and enters the payroll into the Conservancy's accounting system. Any

changes to payroll are made by the Chief Financial Officer and accompanied by documentation from the Executive Director.

All employees are notified in writing of the organization's personnel policies as contained in the Conservancy's Employee Handbook and performance reviews.

The Chief Financial Officer maintains all personnel files, which include; employees' resume, employment application, date employed, pay rates, changes in pay rates and position, authorization for payroll deduction, earnings records, Form W-4, sick/vacation time accrued/taken, specimen signature and termination data. Employee Form I-9's are kept in a separate file in a locked file cabinet. Personnel files are maintained in a locked file cabinet.

Paydays, paychecks, payroll deductions, sick and vacation time, and employee reimbursements are addressed in the Conservancy's Employee Handbook.

Employee retirement plan payments are made monthly by check to the financial institution chosen by the employee.

### **Fixed Assets Control**

All land purchases or land donations require Board approval. The sale, disposal or trade of any land asset also requires Board approval.

All fixed assets are properly inventoried and maintained. The Chief Financial Officer maintains an updated list of all office fixed assets and an updated list of all real property fixed assets.

The Conservancy capitalizes all land, land improvements and equipment, furniture and fixtures expenditures in excess of \$2,500.00.

Capital asset acquisitions are recorded at cost. Contributions are recorded at the estimated fair value on the date of contribution.

Capital assets are depreciated using the straight-line method, half-year convention, over the following estimated useful lives:

Land Improvements	15 years
Furniture and equipment	5 years