

**CITY OF FALCON HEIGHTS**  
City Council Special Workshop  
City Hall  
2077 West Larpenteur Avenue

**AGENDA**  
Wednesday, September 10, 2025  
7:30 P.M.

A. CALL TO ORDER:

B. ROLL CALL: GUSTAFSON\_\_\_ LEEHY\_\_\_  
MEYER\_\_\_ MIELKE\_\_\_ WASSENBERG\_\_\_

STAFF PRESENT: LINEHAN\_\_\_

C. POLICY ITEMS:

1. 2026 Proposed Budget: Workshop #3
  - a. General Fund & Proposed Levy Update
2. Review of Abdo Financial Solutions Process Evaluation for the Finance Department

D. ADJOURNMENT:

*DISCLAIMER: City Council Workshops are held monthly as an opportunity for Council Members to discuss policy topics in greater detail prior to a formal meeting where a public hearing may be held and/or action may be taken. Members of the public that would like to make a comment or ask questions about an item on the agenda for an upcoming workshop should send them to [mail@falconheights.org](mailto:mail@falconheights.org) prior to the meeting. Alternatively, time is regularly allotted for public comment during Regular City Council Meetings (typically 2nd and 4th Wednesdays) during the Community Forum.*

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## REQUEST FOR CITY COUNCIL ACTION

|                     |                                  |
|---------------------|----------------------------------|
| <b>Meeting Date</b> | September 10, 2025               |
| <b>Agenda Item</b>  | Policy C1                        |
| <b>Attachment</b>   | Budget Handout                   |
| <b>Submitted By</b> | Jack Linehan, City Administrator |

|                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
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| <b>Item</b>                | Budget Workshop #3: General Fund Update & Preliminary Levy Update                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Description</b>         | <p>At the September 3<sup>rd</sup> workshop, the City Council reviewed the draft budget and proposed a reduction in the proposed tax levy from the draft 10.7% increase down to under 8% without cutting positions or programs.</p> <p>Staff is proposing a modified levy increase of 6.7% or a \$191K increase, which was achieved by:</p> <ul style="list-style-type: none"> <li>Reducing the debt levy by \$80K for the Series 2021A bond, and using project funds &amp; debt surplus for the remaining payments rather than levying for these funds.</li> <li>Transferring a \$25K from the ParkMobbille special revenue fund 211.</li> </ul> <p>Further reductions can be discussed utilizing general fund balance, but staff will discuss financial forecasts to consider for this method.</p> |
| <b>Budget Impact</b>       | To be discussed.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Attachment(s)</b>       | <ul style="list-style-type: none"> <li>Budget Worksheets (to be handed out at meeting)</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Action(s) Requested</b> | Review the proposed levy and discuss at workshop to provide staff with direction on modifications.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

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## REQUEST FOR COUNCIL ACTION (RCA)

|                      |                                  |
|----------------------|----------------------------------|
| <b>Meeting Date</b>  | September 10, 2025               |
| <b>Agenda Item</b>   | C2                               |
| <b>Attachment(s)</b> | Process Evaluation               |
| <b>Submitted By</b>  | Jack Linehan, City Administrator |

|                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
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| <b>Item</b>        | Review of Abdo Financial Solutions Process Evaluation for the Finance Department                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Description</b> | <p>With a pending retirement in our Finance Department, the City contracted with Abdo in July to review our processes and recommend how to supplement assistance. Staff will walk through the recommendations for City Council and how we intend to implement the findings.</p> <p>The summary of recommendations from the report are:</p> <p><b>Cash Receipting</b></p> <ul style="list-style-type: none"> <li>• Have admin staff enter receipts directly into Incode, with Finance Director reviewing receipt registers before deposit.</li> <li>• Finance Director should continue handling coding and entry of electronic deposits.</li> </ul> <p><b>Accounts Receivable</b></p> <ul style="list-style-type: none"> <li>• Explore automation services for invoice creation, delivery, and integration into the General Ledger.</li> <li>• Upgrading to Incode ERP Pro 10 may be necessary to support this automation.</li> </ul> <p><b>Accounts Payable</b></p> <ul style="list-style-type: none"> <li>• Evaluate AP automation solutions (e.g., Bills.com, Yooz, Laserfiche) for vendor information and 1099 reporting. Incode v10 can do this as well.</li> <li>• Consider ACH payments for select vendors.</li> <li>• Implement scheduled AP batch processing.</li> <li>• Consolidate multiple store credit cards into one purchasing card.</li> <li>• Assign staff to review checks against invoices and consider electronic signatures.</li> <li>• Upgrade to Incode v10 or add Content Manager for attaching invoices to records.</li> <li>• Request vendors to submit invoices electronically (e.g., through a dedicated email).</li> </ul> <p><b>Bank Reconciliations</b></p> <ul style="list-style-type: none"> <li>• Simplify the investment spreadsheet used for reconciliations.</li> </ul> |

- Add a dedicated reviewer or approver for reconciliations; Abdo could provide support if needed.
- Use system features for automated reconciliations.
- Obtain electronic access to all bank and investment accounts.

#### **Payroll**

- Implement electronic timesheets with online coding or Excel imports.
- Institute a review process for employee changes and severance payouts.
- Consider third-party payroll/HR management services (e.g., Abdo Workforce Solutions).
- Require direct deposit for all employees.
- Process vendor payments electronically.

#### **Utility Billing**

- Create templates for journal entries to ensure consistency and support reconciliations.
- Develop a tracking template for annual charges and accruals.
- Work with SPRWS to include usage/account data in invoices.
- Save and reuse annual billing templates (e.g., for street lighting).
- Obtain detailed usage information for non-flat rate services.

#### **Audit Preparation**

- Review receipt listings at year-end to identify prior-year activity.
- Monitor grant expenditures and reimbursements.
- Explore Incode features for automated year-end postings.
- Review invoices for multi-year payments and flag for prepaids.
- Monitor final payroll periods for accruals.
- Plan for FY25 compensated absence adjustments due to retirement.
- Revise fund balance policy to clarify reserves and transfer procedures.
- Ensure budgeted transfers are properly recorded.

#### **Capital Assets**

- Resolve compatibility issues with existing fixed asset software, or consider alternatives.
- Explore Incode fixed asset module or work with auditors to maintain asset files.
- Abdo can alternatively manage assets and depreciation in their system, offering quarterly updates.

#### **Financial Reporting & Approvals**

- Establish an approval process for journal entries with recurring templates.
- If adopting document management, save entries with support monthly.
- Upgrade to Incode v10 or add Content Manager for attaching journal entry support.
- Develop written procedures for consistency, succession planning, and knowledge transfer.

In summary, the report found that technology, automation, using existing staff and outsourcing certain functions can help absorb the loss of the finance director position.

|                            |                                                                               |
|----------------------------|-------------------------------------------------------------------------------|
| <b>Budget Impact</b>       | N.A                                                                           |
| <b>Attachment(s)</b>       | <ul style="list-style-type: none"> <li>• Process Evaluation Report</li> </ul> |
| <b>Action(s) Requested</b> | Review the process evaluation report and provide feedback on the contents.    |

# City of Falcon Heights Process Evaluation

## SCOPE & BACKGROUND:

On August 11, 2025, representatives from Abdo Financial Solutions visited the City of Falcon Heights to review the City's financial processes, procedures, and accounting systems in collaboration with City staff.

The Finance Department is currently staffed by a Finance Director and an Assistant Finance Director (2.0 FTEs). With the retirement of the Finance Director, the City plans to transition the Assistant Finance Director into that role. Historically, the department has operated with approximately 1.25 to 1.5 FTEs. As such, the City is evaluating the appropriate staffing levels needed to ensure continued efficiency and effectiveness within the department.

The City currently uses Tyler Technologies' Incode version 9.1 as its accounting software. It is recommended that the City consider upgrading to version 10, which offers enhanced functionality, improved user experience, and increased efficiency in financial operations. The upgrade would also provide stronger system security through a cloud-based platform, eliminating the need for on-site servers and IT infrastructure. Additionally, it would enable centralized, single-source data access across departments, supporting stronger internal controls and streamlined approval processes. If the City determines that this is in the best interest of the staff and stakeholders, Abdo is available to support the City through the transition.

## METHODOLOGY:

This review was conducted through meetings with key members of the City's team to assess and document the current practices in place. The following individuals participated in the review:

- Roland – Finance Director
- Alyssa – Finance Intern started four (4) years ago, now Assistant Finance Director
- Jack – City Administrator

## SUMMARY:

This report outlines the key tasks and responsibilities of the Fiscal Department. Abdo has identified several areas where efficiency and best practices can be enhanced. These include:

- Internal controls and segregation of duties
- Automation and optimization of the accounting system
- Accounts Payable (AP) processes
- Human Resources, including payroll
- Cash management
- Financial monitoring and reporting

Each section of the report includes an overview of the current processes as described by City staff. Following each process review, detailed recommendations are provided that are tailored to the specific area evaluated.

## MONTHLY PROCESSES:

### Process: Cash Receipting

- Mail is opened by the front desk staff, who handle most of the receipts (currently the Administrative and Communications or Administrative Services Director receive these). There is minimal cash coming into City Hall.
- The cash and checks go into a folder and are placed into a locked cabinet—these funds will be deposited once accumulated. Roland will check the front desk each day to ensure nothing is left, then move the money to the locked cabinet to review the total.
- The front desk writes a description and completes a pre-numbered receipt. Alyssa or Roland get a copy of the receipt to enter into Incode once the deposit has been made at the bank.
- The State and County wire funds directly to the City's 4M account. Electronic deposits from 4M are entered into Incode and reconciled during the month-end process.
- Most payments and incoming funds consist of permits, intergovernmental funds, grants, and sanitary and storm sewer payments.
- Utility billing revenue comes directly from St. Paul Regional Water Services via check on a monthly and/or quarterly basis.
- The City conducts some recreational programming, though it is minimal (approximately \$12,000 per year in revenue). Community Development permitting, however, is significant. The City has a shared agreement with the City of Little Canada for a Building Official. They pay 80% of permit fees to Little Canada, which are reported to the state (this equates to approximately 25–60% of the salary and is currently being revised). Payments are made quarterly; Roland and Alyssa calculate the payment. iWorQ is used to collect permitting data, which is then pulled into a spreadsheet to calculate totals.

### Cash Receipting Recommendations

- To boost segregation of duties in this process, we recommend Front Desk staff enter receipts directly into the finance system (Incode). The resulting receipt register can then be provided to the Finance Director for review and approval before funds are deposited into the bank. It is also advisable to continue having the Finance Director handle the coding and entry of electronic deposits.

### Process: Accounts Receivable

- The City has minimal invoicing—approximately 12 per year. These are typically for miscellaneous payments due to the City or occasional contracted services. The City of Lauderdale is invoiced twice per year for plowing services.
- The City invoices the University of Minnesota and the Minnesota State Fair for sanitary sewer services (not stormwater) on a quarterly basis.
  - These invoices are based on information provided by the U of M and the State Fair. They receive billing data from St. Paul Regional Water Services and use that to calculate any deductions or additions. Deductions are made for lawn watering, air conditioning, or added back for water discharge. The Finance Director receives the usage data directly from St. Paul.
- There is significant water usage during the State Fair, with much of that water going into the sewer system. Warmer weather typically results in higher sewer usage.
- The sanitary sewer enterprise fund has been very successful, allowing the City to transfer funds for capital projects.



## Accounts Receivable Recommendations

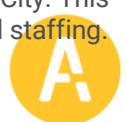
- The City may want to consider exploring automation services to assist with invoice creation, delivery to customers, and integration of fund receipting and invoice coding into the General Ledger. Based on the current available information this would require an upgrade from the current financial software system to a newer, cloud-based, version (ERP Pro 10).

## Process: Accounts Payable

- The City processes approximately 950–1,000 payables per year, with an increase due to grants and projects.
- A few years ago, a template (an Excel document) was developed to enter invoice amounts, descriptions and GL account information. Staff noted this template has improved time efficiency. If an incorrect account is entered during setup and not caught, it can create issues. A review of detailed expenditure is conducted to identify any miscoding.
- Invoices are received mostly by mail at the front desk. Some arrive digitally, but the majority come through the mail. Most invoices are routed to Jack for review and approval. Some are directed to the individual overseeing the specific project, such as Public Works.
- The reviewer will mark the invoice if approved, and it is then sent to Alyssa or Roland for processing. If an invoice isn't approved, it is returned to the responsible party for approval.
- The expense coding is done by Alyssa or Roland.
- Jack is working to get departments more involved in coding and tracking expenses. Purchase orders are rarely used.
- When checks are printed, Jack reviews them against the invoice and coversheet for verification.
- Invoices are processed as they are received. Checks are printed every few days.
- City Council Approval – A check run report is usually included in the council packets. Larger checks are held for Council approval. Jack reviews expenditure as part of his purchasing authority. Council meetings occur every two weeks.
- The City does not use EFT or online payments, except for their BP fleet payments, which are made online. Because it is a credit card system, delays in check processing can lead to penalties. The City uses credit cards for BP, Sam's Club, and Menards. There was discussion about getting a standard credit card.
- There is an ACH filter in place, though there have been issues with it. Safeguards have been implemented, adding extra steps when financial changes are required.
- Invoices must be hand-keyed into Incode, as importing is not possible. The process is then followed through to check printing.
- The City uses Positive Pay with checks.
- Invoices are stored in paper files.
- There was an inquiry about flagging invoices for capital assets, projects, or grants. Staff were unaware if this functionality exists in the system and instead monitor such expenses through the GL detail.
- The City uses one bank account (a swing account through US Bank with the 4M Fund).

## Accounts Payable Recommendations

- Consider evaluating AP automation solutions (some examples are Bills.com, Yooz (getyooz.com) and Laserfiche document management system with a workflow process). These platforms could help maintain vendor information and streamline year-end 1099 reporting.
- Review the feasibility of setting up ACH payments for selected vendors to improve payment efficiency.
- To improve workflow efficiency, the City could implement scheduled Accounts Payable (AP) batch processing on a weekly or bi-weekly basis. If it would be beneficial, Abdo is available to assist by coding and entering payables into the system, and processing ACH payments once they have been reviewed and approved by the City. This approach could also serve as an alternative method to strengthen internal controls in light of limited staffing.



- Consider consolidating store credit cards into a single purchasing card to simplify payments and reduce the oversight required for multiple cards.
- Assign a part-time employee or front desk staff to review printed checks against invoices. Establishing an electronic signature process could reduce the need for the City Administrator to review invoices multiple times, limiting their review to the initial invoice approval.
- Evaluate upgrading the accounting system to version 10, which may enable attaching invoices directly to vendor files and checks. Alternatively, Tyler provides a document attachment option through Content Manager, a paperless document storage system that would allow the City to scan, upload, and attach documents. According to Tyler, Content Manager can be added to the current version of Incode being used by the City at this time.
- Request vendors to submit invoices electronically. Creating a generic account payable or accounting email could reduce delays caused by mail receipt.

## **Process: Bank Reconciliations**

- Deposits and checks are made at US Bank and swept each evening to the 4M fund. If a deposit is made on the last day of the month, it may be in transit, so they try to avoid deposits on that day if possible.
- The City maintains two accounts (US Bank and 4M). Statements usually come through the mail but can also be accessed online. Alyssa reviews the statements to ensure all transactions are entered into Incode. There may be adjustments related to PERA (rounding differences). Bank fees and interest are recorded at month-end. Occasionally, they incur charges for Positive Pay if transaction thresholds are exceeded.
- The City has a 4M+ account, Wells Fargo, and US Bank accounts. US Bank serves only as a custodian for investments related to the 4M fund. Funds were previously with Smith Barney but were moved to the 4M fund. All investment activity is conducted through the 4M fund. Roland works directly with Corey Boyer at 4M when funds are needed. An investment spreadsheet is maintained and reconciled monthly and at year-end.
- Investment interest is recorded, and changes in market value are recorded at year-end.
- Interest allocation is performed quarterly. They aim to allocate 5% to the General Fund and do not allocate interest to TIF accounts. The City works with Ehlers for TIF reporting and currently has two TIF districts.
- Reconciliations are completed through Incode. Reports are printed and filed.

## **Bank Reconciliations Recommendations**

- The current investment spreadsheet is challenging to use. It is recommended to consider reviewing and simplifying the workpaper to make it easier to use in the monthly reconciliation process. Abdo FS has an internal workpaper template that has worked well for clients and could assist the City to convert to.
- To strengthen internal controls and enhance segregation of duties, it may be advisable to add a dedicated reviewer or approver for bank reconciliations. As an option, Abdo could support the City by preparing monthly bank reconciliations.
- Version 9.1 of the accounting system includes features that can assist in automating bank reconciliations through bank file integration.
- It is recommended to obtain electronic access to all bank and investment accounts to streamline reconciliation and monitoring processes.

## **Process: Payroll**

- All employees use paper timesheets. Exempt employees do not complete timesheets but fill out a form for leave taken. These forms go to the employee supervisors and City Administrator for approval.
- After approval, documents are sent to Finance for processing.
- The City employs approximately 12 people, with direct deposit for all except two who receive paper checks.
- Employees are paid bi-weekly, and the mayor and Council are paid monthly. The City will begin paying commissioners in September 2025. There are approximately 18 commissioners across three (3) commissions, paid \$50 per month based on attendance. Payments will be made monthly along with the Mayor and Council.

- The bank file for payroll is created and processed through Positive Pay. Payroll data is updated to the general ledger at the end of each cycle.
- Benefit payments including PERA, state and federal taxes, and 457 plans are processed by Finance. All other payments go through MissionSquare, i.e. 401(k), flex spending, health insurance, and dental. If employees do not elect coverage, an opt-out amount is provided as a benefit to the employee.
- PERA contributions are entered manually; federal payments are made by phone; state payments are made online. MissionSquare administers retirement plans. Flex spending is managed by another vendor. Contribution information is updated manually after each payroll.
- Health insurance benefits are effective on the first day of hire through PEIP, with coverage extending through the last day of the month.
- Leave is accrued at the end of each month. The system automatically updates accrual changes based on anniversary dates but can also be manually adjusted.
- Severance payments include payout of vacation and 50% of sick leave balances are paid out. These payments are not always reviewed, but Roland ensures calculations by Alyssa are reviewed by Jack.
- Alyssa or Roland updates the system at the beginning of the year for changes. A form is completed for all updates.

### Payroll Recommendations

- Explore the possibility of implementing electronic timesheets, including options to code time online for integration with Incode, or importing timesheets via Excel. Current and newer versions of the software provide modules which do allow for time keeping and tracking for employees.
- Enhance segregation of duties by instituting a review process for any employee account changes or payouts.
  - This review should occur whenever employee information is updated, such as pay increases, new hires, terminations, benefit changes, or at the beginning of the year.
  - Ensure all severance payments have a second review to ensure proper accordance to applicable employment agreements.
- Consider contracting with a third-party service for human resource management and/or payroll such as Abdo's Workforce Solutions.
  - Completely outsourcing HR management can reduce risk for the City and allow finance staff to focus on other priorities, especially given the complexity and evolving nature of HR tasks.
    - As of 2025, Minnesota has implemented several changes, including the Pay Transparency Law, Paid Family and Medical Leave, updated Minimum Wage, and have new salary thresholds for exempt positions. Additionally, there have been notable changes to workers' compensation, direct deposit, employee benefits and retirement, and wage theft investigations.
  - Alternatively, Abdo could assist with a payroll review and reconciliation, including employee modifications, severance payouts, 941 reconciliations, etc. Additional review and oversight is highly recommended.
- Require all employees to be paid through direct deposit to streamline payroll processing.
- Process vendor payments electronically to improve efficiency.

### Process: Utility Billing

- Utility charges include sanitary sewer, lighting, storm sewer, recycling, and surcharge fees.
- Monthly billing charges apply to commercial accounts only, determined by water inlet size (1" or larger is commercial). Residential billing is calculated based on a winter reading and spread over 12 months, billed with flat rates. Quarterly billing applies to residential accounts.
- Every month, a report is received from St. Paul Regional Water Services (SPRS). Invoices are calculated from the previous month's usage (e.g., June invoice reflects May usage). SPRS uses automatic meter reads for water.
- There may be adjustments or billing errors, but major write-offs require City Council approval.
- For delinquent accounts, SPRS performs service shut-offs.
- The City receives payment checks from St. Paul after the report.



- SPRS manages all new customer additions and modifications. The City only needs to provide updated rates to SPRS during the budget process which are then updated in SPRS's system by SPRS.
- A monthly journal entry is made to record utility usage: debit accounts receivable (to match cash received), credit utility revenue, and debit billing expense. Separate journal entries are made for monthly and quarterly billing. SPRS quarterly periods are Nov-Jan, Feb-Apr, May-Jul, and Aug-Oct.
- Due to differences between monthly and quarterly billing, the City books estimated receivables, revenue, and expenses using prior quarter and year data to create estimates.
- The City does not receive detailed usage data; bills only show the number of bills, rates, and revenue.
- A cash flow analysis is performed annually during rate setting. Rate increases are implemented monthly or quarterly. The analysis is completed in October/November after the budget is finalized and includes depreciation and capital costs to ensure coverage.
- Information on charges is received from the Metropolitan Council as a monthly fee. Fees are provided in the fall for use in the following year's budget.
- Storm sewer residential calculations are incorporated into commercial and apartment rates.
- Street lighting is owned by NSP, except for approximately 40 decorative lights owned by the City. City Code requires residents to be charged \$6 per quarter; nonprofits are charged \$0.02 per linear foot of frontage. The City manually bills the University of Minnesota and State Fair – this is done once per year, typically mid-year by Roland.
- Recycling is billed as a flat fee.
- The water surcharge fee covers plowing, fire trucks, hydrant maintenance, and community parks. These funds are held in a special revenue fund. Hydrant markers are paid directly from that fund; if funds are moved between accounts, payments are made from Fund 204. Operating transfers are used if the money is allocated for fire trucks.
- There is one private well remaining in the City, which still incurs a fixed charge for capital improvements and maintenance.
- Recycling and street lighting are accounted for in separate special revenue funds.

### Utility Billing Recommendations

- Journal entries are currently hand-keyed. Consider developing a template to assist with calculations of journal entries to streamline the process and maintain consistency. This could also support reconciliation of revenue accounts with the annual statement.
  - A tracking template for annual charges, collections, and estimates for year-end accruals may also be beneficial.
- Explore the possibility of coordinating with SPRS to input data such as the number of accounts and usage directly into the template as part of the monthly invoice preparation.
- Save the street lighting annual billing invoice for reuse each year, updating it based on the annual rate as needed. Consider integrating this with the accounts receivable recommendations to allow for automation, scheduling, and system integration.
- Obtain detailed usage information with monthly bills for services that are not billed at a flat rate (e.g., sanitary sewer).



## ANNUAL OR NON-RECURRING PROCESSES:

### Process: Audit Preparation

- Audit fieldwork is conducted in March. Alyssa updates worksheets throughout the year. The audit is performed by Creative Planning.
- For AP/AR, manual lists or flags in Incode are used. Different batches are processed for AP items. Journal entries are made to record prior year AP. Receipts are reviewed to confirm accruals, including for grant and maintenance funds.
- Auditors are contacted ahead of time to discuss any questions the Finance department may have.
- Investment journal entries are prepared as part of the year-end closing process.
- Taxes are managed through Ramsey County, although obtaining information has been challenging. The City calculates taxes receivable and special assessments. A spreadsheet mirrors the tax settlement information and check totals for reconciliation. This spreadsheet is updated throughout the year and includes a summary page to compare to financial statements.
- The City does not track or maintain inventory.
- Capital assets are addressed separately in this memo (see below).
- Utility billing adjustments are noted in the Utility Billing section.
- Debt includes three bond series:
  - 2021A for roads with a seven (7) year payback; 2026 is the last levy year.
  - A 2023 bond was paid off early.
  - In 2025, a double bond was issued for Road and Park Renovation; 2026 is the first levy year, with principal payments beginning in 2027.
  - The new bond is partially funded by new assessments with a 30-day prepayment option. Prepayments are made at the City and excluded from the assessment roll certified to Ramsey County. After certification, any prepayments must be made at Ramsey County.
- The City transitioned to a bi-weekly payroll schedule starting in 2025; previously, payments were on the 15th and 30th of each month. The City will need to review for pay periods extending over year-end for potential accrued wages to record.
- Compensated absences are calculated using a spreadsheet based on the previous three (3) years.
- The City prepares an ACFR (Annual Comprehensive Financial Report). Statistical information is compiled by the City, but auditors complete the report. The City holds 36 certificates for ACFR reporting, of which Roland was part of the Finance team for 29 of those years.
- There are no OPEB liabilities, and no actuarial study is required.
- Year-end adjustments typically include transfers of General Fund surplus to the Capital Fund based on estimates and any significant budget variances. The fund balance policy requires a minimum of 45% fund balance but does not specify maximums or transfer amounts.
- The City typically receives several grants, mostly new state grants and they have no federal grants. The grant applicant usually oversees compliance and is responsible for tracking and requesting reimbursements.

### Audit Preparation Recommendations

- **Accounts Receivable:** At the beginning of the subsequent year, review the receipt listing to identify any receipts related to prior-year activity. Monitor grant expenditures to ensure any unreimbursed or outstanding reimbursements are recorded properly as due from other governments.
- **Accounts Payable:** Review whether Incode has functionality to automatically post expenses to the prior year with a reversing entry done automatically with the invoice payments. Based on the research of newer versions there are some efficiencies and capabilities which may be of benefit for end of year entries.



- **Prepays:** Throughout the year, review invoices for multi-year payments and flag applicable items for accrual as prepaid expenses.
- **Accrued Wages:** Monitor the final payroll period of the year to determine if an accrual is necessary.
- **Compensated Absences:** Plan for a potentially significant adjustment in FY25 due to the retirement of a long-term employee and the associated severance payout.
- **Fund Balance:** Consider revising the fund balance policy to clarify the calculation of reserves and the process for transferring or spending fund balance overages.
- **Budget Transfers:** Review the adopted budget for any budgeted transfers to ensure they are properly recorded.

## Process: Capital Assets

- Finance will review the general ledger detail to identify capital asset additions.
- Finance provides asset listings to departments annually for review of modifications or disposals.
- Public Works trucks are purchased through state contracts, with dealerships handling state sales tax via a one (1) year annual return.
- Capital Improvement Projects (CIP) for 2025 include a street project, sanitary sewer lining, and a park project.
  - Jack expects the street and sanitary sewer projects to be completed by year-end, while the park project spans two years.
- The City does not use Incode for capital assets but instead uses a separate system called Depreciation Calculator, which costs \$350 compared to Incode's \$4,500.
  - The system was an off-the-shelf system and is a stand-alone system.
  - Roland encountered software issues on a new computer and had to use an old computer for 2024 files. The City is working with IT to regain software access. Data is backed up in printed reports for potential re-import.
- Two (2) companies/systems were set up for ACFR reporting purposes.
- The capital asset system is updated periodically during the year or at year-end for audit preparation.
- Depreciation is calculated at year-end, with journal entries made to record enterprise funds in Incode. The City does not have a government-wide fund set up.

## Capital Assets Recommendations

- The current software is not accessible on the new computers. It is recommended to work with the City's IT consultants to resolve compatibility issues or explore alternative solutions if the software is no longer supported.
- If the City is not able to regain access to the current fixed asset software, it is recommended to consider implementing a new process.
  - The City may want to consider adding the Incode fixed asset module or consult with its audit firm to update and maintain the fixed asset files.
  - Alternatively, Abdo Financial Solutions (FS) can assist by inputting the City's fixed assets into software we currently use, updating the records, and calculating depreciation on a quarterly basis for the City of Falcon Heights. This process would require an initial setup, potentially involving an Excel upload of the City's assets. It may offer a more cost-effective solution than purchasing additional modules or alternative software for asset tracking and reporting.

## Process: Financial Reporting and Approvals

- Journal entries are first prepared as paper copies and then entered into Incode. Review and approval of journal entries occur sometimes, but not consistently.
  - Approximately 10–20 journal entries are made each month, most of which are recurring.
  - Interest allocation and quarterly utility billing are processed quarterly.



- Prior to December, a review of the general ledger is performed to ensure transactions are posted to the correct accounts.
  - Staff try to do a quarterly review.
- Quarterly financial reports are prepared for the City Council, covering the second and third quarters. The fourth quarter report typically accompanies the audit and consists of a five-page document without a formal presentation. Reports include all funds.
  - There is not a first quarter report provided due to workload.
- Budget amendments occur throughout the year after Council's approval. These typically involve capital projects, or significant unbudgeted expenditures. Revenue amendments are rare and usually have associated expenses.
- Alyssa provides monthly financial reports for budget review and grant tracking for City staff members.
- Payroll quarterly and annual reports are prepared by Alyssa and Roland.
- Workers' compensation audits are conducted annually.
- Building surcharge reports: Roland completes the annual report, while the Building Official prepares quarterly reports.
  - The surcharge is recorded in a "due to other government" liability account and paid from that same account.
- Sales tax reporting:
  - The City maintains a sales tax payable account and generally files only an annual return, as taxable amounts are minimal.
  - They are reviewing whether parking related to the State Fair is taxable and may require sales tax collection. Roland recommends consulting with the audit firm's tax department during the first year.
- OSA reporting includes the Budget Report, Lobbying Report, and Financial Reporting Report.

### Financial Reporting and Approvals Recommendations

- Establish an approval process for journal entries, along with templates for recurring entries. If the City adopts a document management system, it is recommended to save a copy of each journal entry along with supporting documentation monthly.
- Evaluate upgrading the accounting system to version 10, which may enable attaching journal entries directly within the system to be posted into as journal entries. Alternatively, the City may want to consider adding Content Manager to the current Incode version.
- Develop a written process and procedure document to support consistency and knowledge transfer and support succession planning as needed.

## CLOSING STATEMENT:

Thank you for partnering with Abdo Financial Solutions. We hope the proposed recommendations will assist the City of Falcon Heights in identifying opportunities to better meet its staffing needs while enhancing efficiency and effectiveness. We truly welcome the chance to continue collaborating and supporting the City in its accounting and processing goals now and in the future.

