

2016-R-35



CITY OF CREEDMOOR

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RESOLUTION 2016-R-35 A RESOLUTION TO ADOPT THE CITY OF CREEDMOOR INTERNAL CONTROL POLICY

WHEREAS, the City Code of Ordinances Title III, Chapter 36, containing the internal control policy adopted by Ordinance 2008-O-01 on February 26, 2008, has been determined to reflect internal policy and not city ordinance and has therefore been deleted from the Code; and

WHEREAS, the governing body and staff of the City of Creedmoor recognize the need for adopting a written policy to establish proper procedures and to safeguard the City's assets, whether monetary or physical.

NOW THEREFORE, be it resolved by the Board of Commissioners of the City of Creedmoor, North Carolina, that the proposed City of Creedmoor Internal Control Policy, attached as Attachment A, be hereby adopted as official policy of the City of Creedmoor, North Carolina, effective November 15, 2016.

The foregoing resolution, having been submitted to a vote, received the following vote and was duly adopted this 15th day of November, 2016.

Ayes: 4

Noes: 0

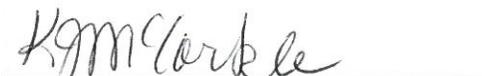
Absent or Excused: 1

Dated: November 15, 2016



Darryl D. Moss, Mayor

Attest:



Kathleen J. McCorkle, City Clerk

City of Creedmoor



INTERNAL CONTROL POLICY

Adopted by Resolution 2016-R-35

on November 15, 2016

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I. PURPOSE

- A. The core of any business is its people--their individual attributes including integrity, ethical values and competence and the environment in which they operate. They are the engine that drives the entity and the foundation on which everything else rests.
- B. The City's internal control policy is to establish proper procedures and to safeguard the City's assets. This policy applies to all assets whether they are monetary or physical.
- C. The City Board of Commissioners, City Manager, Finance Officer, Department Heads and all City employees must use resources efficiently and are responsible for managing internal controls. By optimal use of those resources placed under our control, and effective management of the resources, the City can achieve its goals, ensure compliance with all applicable laws and regulations and ensure reliability in financial reporting. Each group, business unit, or department head is specifically responsible for ensuring that internal controls are established, properly documented, and maintained in each organization. Ultimately, the City must report to the stakeholders who provide the resources.
- D. As the City designs and implements internal control, an important fact to remember is that the cost of internal controls should never exceed the financial and non-financial benefits. When it is not feasible or possible to separate incompatible duties, a rotation of duties should occur or compensating controls should be instituted and carried out.
- E. This guide is designed to satisfy the basic objectives of most business systems as they relate to carrying out the work of the City. It addresses five interrelated components of a business system:
 - 1. The organization's operating environment;
 - 2. Goals and objectives and related risk assessment;
 - 3. Controls and related policies and procedures;
 - 4. Information systems and communication methods; and
 - 5. Activities to monitor performance.

II. SCOPE

- A. The City's internal control policy applies to all City departments and operations. The examples of control activities contained in this guide are not presented as all-inclusive or exhaustive of all the specific controls appropriate in each department or unit. Over time, controls may be expected to change to reflect changes in our operating environment.
- B. An effective control system provides reasonable, but not absolute assurance for the safeguarding of assets, the reliability of financial information, and the compliance with laws and regulations. Reasonable assurance is a concept that acknowledges that control systems should be developed and implemented to provide management with the appropriate balance between risk of a certain business practice and the level of control required to ensure business objectives are met. The cost of a control should not exceed the benefit to be derived from it.
- C. The degree of control employed is a matter of good business judgment. When business controls are found to contain weaknesses, we must choose among the following alternatives:
 - 1. Increase supervision and monitoring;
 - 2. Institute additional or compensating controls; and/or
 - 3. Accept the risk inherent with the control weakness (assuming management approval).
- D. The guidance presented in this document should not be considered to "stand alone." This guide should be used in conjunction with existing policies and procedures, as well as all applicable State Statutes.

III. BALANCING RISK AND CONTROL

- A. Risk is the probability that an event or action will adversely affect the organization. The primary categories of risk are errors, omissions, delay and fraud. In order to achieve goals and objectives, management needs to effectively balance risks and controls. Therefore, control procedures need to be developed so that they decrease risk to a level where management can accept the exposure to that risk.

By performing this balancing act “reasonable assurance” can be attained. As it relates to financial and compliance goals, being out of balance can cause the following problems:

Excessive Risks

Loss of Assets, Donor or Grants
Poor Business Decisions

Excessive Risks

Noncompliance
Increased Regulations
Public Scandals

Excessive Controls

Increased Bureaucracy
Reduced Productivity

Excessive Controls

Increased Complexity
Increased Cycle Time
Increase of No-Value Activities

- B. In order to achieve a balance between risk and controls, internal controls should be proactive, value-added, cost-effective and address exposure to risk.

INTERNAL CONTROLS

IV. GENERAL INTERNAL CONTROLS THAT AFFECT THE CONTROL ENVIRONMENT

The following is a discussion of basic internal controls that are an essential part of the operation of a unit of government as a whole.

- A. Each unit should have an organization chart that clearly defines the lines of authority and responsibility.
- B. Up-to-date job descriptions should be on file for each position within the unit of government.
- C. Management and the governing body collectively set the organization’s objectives, define strategies to achieve those objectives, and establish governance structures and processes to best manage the risks in accomplishing those objectives.
- D. Monthly financial reports should be prepared on a timely basis and should be reviewed and understood by management and the governing body.
- E. All employees should take annual, uninterrupted vacations. Other adequately trained employees should perform the tasks of those employees on vacation.
- F. All personnel performing fiscal functions must be adequately trained. Any staff member in this area who is not adequately trained should be currently enrolled in the proper course(s) to ensure that any deficiencies are eliminated.
- G. Management and the governing body should take steps, in a timely manner, to implement suggestions for improvement made by the auditor.

V. INTERNAL CONTROL IN THE ACCOUNTING SYSTEM

The following is a discussion of the basic internal controls that are applicable to every unit's accounting system.

- A. All journals, ledgers, and other accounting records should be kept up-to-date at all times and should be balanced.
- B. All subsidiary records should be periodically reconciled to the control accounts. This reconciliation should be documented and maintained on file.
- C. All journal entries should be approved, explained, and properly supported with the correct documentation.
- D. The City should maintain the minimum number of funds possible to meet legal and operating requirements.
- E. Duties should be segregated as much as possible between custody of the assets and recording of the transactions.
- F. The City should maintain and follow records filing, retention, and disposal policies in compliance with the Public Records Laws, G.S. Chapter 132, and the guidelines established by the Record Services Branch, Division of Archives and History, Department of Cultural Resources. Detailed information can be found on their website, www.ah.dcr.state.nc.us/sections/archives/rec.

- G. All accounting fees should be maintained in a secure place. Computerized accounting systems should be controlled with the use of passwords and other safeguarding procedures.
- H. All expenditures made in excess of appropriations and other deviations from the adopted budget should be investigated and resolved.
- I. Reserves should be established for the following:
 - 1. Encumbrances.
 - 2. Interfund receivables for which cash is not available in the debtor fund or which are not expected to be repaid promptly.
 - 3. Inventories and other assets, including non-current receivables.
 - 4. Restricted revenues.
 - 5. Fund balance reserved by State Statute (G.S. 159-8).
 - 6. Any other reserves required by the governing body.

PREVENTIVE AND DETECTIVE CONTROLS

VI. CASH MANAGEMENT AND INVESTMENTS

A. PROCEDURES

- 1. All bank accounts should be authorized by the governing body.
- 2. Bank accounts should be properly collateralized in accordance with G.S. 159-31(b).
- 3. Bank accounts should be reconciled promptly after the end of each month by someone who does not participate in other cash procedures including handling currency, receipts or signing of checks.
- 4. Unopened bank statements should be delivered directly to the individual making the reconciliation.
- 5. The bank should be instructed to contact an authorized official who is independent of the recordkeeping and cash receipting functions for unusual items such as insufficient funds notice.
- 6. All wire transfers should be authorized by a responsible official.
- 7. The City should make sure investments are in compliance with G.S. 159-30.
- 8. All investments are to be made in accordance with Section 5 of the Fiscal Policy Guidelines adopted August 17, 2015 and as amended.

B. DUTIES

- 1. City Manager should be notified by the bank for unusual items, such as insufficient funds.
- 2. Make all wire transfers. Bank software requires all wire transfers to be approved by someone other than the individual who initiates them.
- 3. Review bank accounts for proper collateralization.
- 4. Receive unopened bank statement.
- 5. Perform bank reconciliation every month and check for the following:
 - a. Deposits.
 - (1) Compare dates and amounts of daily deposits as shown on the bank statement with the cash receipts journal.
 - (2) Investigate bank transfers to determine that both sides of the transaction have been recorded on the books.
 - b. Disbursements.
 - (1) Account for sequence for check numbers including all voided checks.
 - (2) Prepare Positive Pay report and monitor for rejections.

C. SEPARATION OF DUTIES

<u>Accounting Technician</u>	<u>Finance Officer</u>	<u>City Manager</u>
(2)	(2) (3) (4) (5)	(1)

VII. INTERNAL CONTROL IN PETTY CASH

1. When petty cash funds are used, they are to be maintained on the imprest basis at the minimum effective amount. One individual should be responsible for the fund and should maintain sole control over it. Back-up, dual control access to the fund should be instituted in the event of an emergency.
2. Petty cash vouchers are required for all petty cash disbursements. These vouchers should be signed by the payee and should be approved by the payee's supervisor.
3. All petty cash funds are to be replenished at month-end at a minimum. All petty cash vouchers are to be cancelled by someone other than the fund custodian when the fund is replenished.
4. All petty cash funds are subject to surprise cash audits from time to time.
5. Police investigation funds are not considered petty cash and will be maintained by the Investigations Department and the Chief of Police. The Finance Officer will review cash on hand and disbursement registers on a quarterly basis to ensure accuracy and to update the accounting records.

VIII. CASH RECEIPTS

A. PROCEDURES

1. Deposit should be made when the monies on hand amount to \$250 or more, per the board's adoption on August 17, 2015.
2. Receipt of payment should be separated from recording transactions. The person who receives payment should enter the transaction into the cash receipts system but should not be posting to the accounts receivable ledger.
3. Pre-numbered receipts should be issued for all cash receipts other than those payments received by mail, unless specifically requested.
4. Cash receipts posted to the general ledger should be balanced with monthly summary report at least monthly, preferably weekly.

B. DUTIES

1. Receive payments, enter into cash receipts software recording amount received, and endorse all checks by stamp "for deposit only" to unit account if endorsement by computer system should fail. All checks must be endorsed.
2. Prepare daily collection report and reconcile to total checks and cash received.
3. Review prepared deposit slip and reconcile using the payment edit list, distribution report and/or G/L work file report for accuracy. After verifying deposit, place in bag for transport to depository.
4. Transport to depository.
5. Update recording receipt of cash to general ledger after duplicate deposit slip is returned.

C. SEPARATION OF DUTIES

<u>Customer Support Assistant</u>	<u>Accounting Technician</u>	<u>Finance Officer</u>
(1) (2)	(4) (5)	(3)

IX. CASH DISBURSEMENTS - NONPAYROLL

A. PROCEDURES

1. Pre-numbered checks should be used for all disbursements.
2. The supply of unused checks should be adequately controlled and safeguarded.
3. Voided checks should never be destroyed or thrown away. The signature space should be cut off the voided check. All copies of the check should be filed in numerical order with check copies.
4. All paid invoices and vouchers effectively stamped "paid" to prevent re-use.
5. The practice of signing blank checks in advance is prohibited.
6. Checks written to the order of "cash" should only be used when necessary and detailed records should be kept regarding the reason and distribution of cash.
7. The proper authority should approve all expense reports.

8. The City needs to maintain effective control over mailing or distribution of checks after they are signed. The creation and proper review of a positive pay report by the Finance Officer is used to ensure the checks that are signed are the checks that are issued.
9. The City requires a second signature of an official or employee who does not have access to the accounting records on all disbursements.

B. DUTIES

1. Initiate purchase.
2. Type purchase order (at least one original and one copy).
3. Review and approve purchase order by signing pre-audit certification [G.S. 159-28(a)].
4. Sign off on copy of purchase order for receipt of goods after comparing purchase order to goods received.
5. Match invoice to copy of purchase order and compare goods received report to invoice (mathematical check of footings).
6. Prepare and review check.
7. Review documentation and sign check. Prepare positive pay to ensure checks signed are those delivered.
8. Present purchase order, receipt report, invoice, check and addressed envelope for second signature.
9. Review supporting documentation and sign check. Bring any concerns to the attention of the Finance Officer.
10. Mail check to vendor and file return supporting documentation. (In the absence of a Positive Pay Function this duty would require reassignment away from the Accounting Technician.)
11. Sign checks and prepare positive pay in the absence of the Finance Officer.

C. SEPARATION OF DUTIES

<u>Accounting Technician</u>	<u>Finance Officer</u>	<u>Asst City Manager</u>	<u>City Manager or Official</u>
(2) (4) (5) (6) (10)	(1) (3) (7) (8)	(11)	(9)

X. CASH DISBURSEMENTS - PAYROLL

A. PROCEDURES

1. Every employee should have a personnel file which includes authorization for hiring, salary history, hours authorized to work, federal and state withholding forms, and support for any payroll deductions.
2. All paychecks should be supported by time sheets which are reviewed and approved by signature of the appropriate supervisor.

B. DUTIES

1. Hire personnel and set salary and working hours.
2. Prepare the Personnel Action Form.
3. Review and approve (by signature) time sheets and leave records.
4. Prepare payroll report from authorized salary and time sheets and review work.
5. Review payroll reports (gross and net pay) for reasonableness and authorize.
6. Submit payroll report to payroll provider for processing.
7. Receive sealed processed payroll report and direct deposit information from payroll provider and review for accuracy.
8. Distribute direct deposit statements to employees.
9. Prepare payroll journal entries and post to general ledger.
10. Complete quarterly payroll reconciliation to 941s.

C. SEPARATION OF DUTIES

<u>Asst City Manager</u>	<u>Dept Head</u>	<u>Accounting Technician</u>	<u>Finance Officer</u>	<u>City Manager</u>
(2)	(3)	(4) (6) (8) (9)	(5) (7) (10)	(1)

XI. INTERNAL CONTROL PROCEDURES SPECIFIC TO TRAVEL EXPENDITURES

- A. There should be a definite, written policy for reporting travel expenses and requesting reimbursement.
- B. All reimbursed travel expenses should be made in accordance with the travel policy as adopted February 16, 2016, and as amended.

XII. INTERNAL CONTROL IN ACCOUNTS PAYABLE, EXPENDITURES, ENCUMBRANCES, PURCHASING, AND CONTRACTING

- A. G.S. 159-28(a) states that “no obligation may be incurred in a program, function, or activity accounted for in a fund included in the budget ordinance unless the budget ordinance includes an appropriation authorizing the obligation and unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year.” Internal controls in the expenditures, encumbrances, purchasing, and contracting areas should ensure that all expenditures are properly documented and made in accordance with the authorized budget. Within the expenditure function, purchasing and contracting require special procedures.
- B. Internal control procedures for accounts payable, expenditures, and encumbrances.
 - 1. Expenditures should be controlled using the budget ordinance. For any annually budgeted fund, all expenditures must be budgeted, and there must be sufficient budgeted revenues or available fund balance to cover each expenditure.
 - 2. All budget appropriations in the current year should be recorded in the appropriate expenditure account.
 - 3. All expenditures must be charged against an appropriation account. The exact timing of the accounting entry will vary depending on the type of transaction.
 - 4. An effective year-end cut-off policy should be in place for all liabilities, including accounts payable; therefore purchasing and contracting deadline will be May 30th each year.
 - 5. All accounts payable subsidiary records should be reconciled to the general ledger on a monthly basis by the Finance Officer or Accounting Technician.
 - 6. Any adjustments to recorded accounts payable should be fully documented and approved by the Finance Officer.
 - 7. Any debit balances in accounts payable should be investigated thoroughly.
- C. Internal control procedures for purchasing and contracting.
 - 1. The approval of invoices for payment should be independent of the purchasing function. The preaudit certificate (G.S. 159-28) should be signed by the Finance Officer for the City. The Finance Officer may assign a designee to perform this function in his or her absence.
 - 2. All purchase orders and contracts or checks and warrants should have properly signed pre-audit certificates (G.S. 159-28).
 - 3. All items that are outstanding for a year should be escheated to the state treasurer in accordance with G.S. 116B.
 - 4. A detailed listing of controls over purchasing and contracting can be found in the Purchasing Policy, Resolution 2016-R-34 and as amended.

XIII. INTERNAL CONTROL OVER INTERFUND TRANSFERS OR LOANS

- A. While interfund transfers are permissible with the approval of the governing body, there are certain statutory restrictions to which the City must adhere. There also are several standard procedures that should be followed. Some restrictions and procedures also apply to interfund loans.
- B. Internal control procedures for interfund transfers and loans propriety.
 - 1. There should be no transfers or loans whatsoever from the following funds, as the revenues in these funds are restricted for use as defined by the fund itself:
 - a. Funds to account for taxes specifically voted by the people.
 - b. Funds to account for taxes or other revenues collected for others.
 - c. Public assistance funds.

- d. School funds.
 - e. Reappraisal fund (G.S. 159-13(b) (17)).
2. All transfers and loans from the following funds should be checked for legality and propriety:
 - a. Capital reserve fund (G.S. 159-22).
 - b. Capital project fund for bond issue proceeds (G.S. 159-13(b) (19)).
 - c. Debt service funds.
 - d. Enterprise funds (G.S. 159-13(b) (14)).
 - e. Funds that account for taxes other than those voted by the people or those collected for others, on which there is no restriction as to the amount of levy.
 - f. Service district funds (G.S. 159-13(b)(18)).
 3. Each interfund transaction should be authorized in the minutes of the meetings of the governing body. Interfund loads that will remain outstanding for more than one fiscal year must be approved by the board and should be included in the budget. Authorization for interfund loads should include provisions for the method and time of payment.

XIV. INTERNAL CONTROL OVER CURRENT LIABILITIES, BONDS PAYABLE, AND OTHER LONG-TERM DEBT

- A. Internal control procedures for liabilities and debt outstanding are primarily statutory requirements that must be met.
- B. Internal control procedures for current liabilities:
 1. Detailed records of all outstanding contracts should be maintained.
 2. All amounts withheld from contract payments upon completion of a project should be reflected on the books (retainage).
 3. All bid and other deposits held by the City should be adequately controlled. The subsidiary ledger should be reconciled to the control accounts on a periodic basis.
- C. Internal control procedures for bonds payable:
 1. Each bond issue should be approved in the minutes of the meetings of the governing body. These minutes should also authorize the bond election (G.S. 159-60). Publication of the notice of referendum should be made and should agree with the purposes and restrictions contained in the board meeting minutes (G.S. 159-61).
 2. All proceeds from a bond issue must be used in accordance with the stated purpose of the issue.
 3. Separate accounting records should be maintained for each bond order as required by G.S. 159-26(b)(6).
 4. All debt service and other fiscal requirements of revenue bond resolutions should be complied with.
 5. All bond order and secondary market disclosure requirements should be complied with and appropriate IRS forms filed.
 6. All proceeds from bond issues subject to arbitrage rebate requirements should be accounted for separately from the City's other funds to facilitate tracking of the investment earnings.
- D. Internal control procedures for other long-term debt:
 1. All lease-purchase agreements, installment contracts to purchase land or other fixed assets, and contracts involving purchase of realty and assumption of existing debt should be properly reflected on the financial records as long-term debt and fixed assets.
 2. All contracts should be approved by the Local Government Commission if the Commission's approval is required (G.S. 160A-20, G.S. 159-148).
 3. The City should be meeting the arbitrage rebate requirements for all tax-exempt financing.