

Town of Atlantic Beach
**INTERNAL CONTROL
POLICY**

COUNCIL APPROVED

MARCH 17, 2008



Internal Control Policy

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.

Purpose:

The Town of Atlantic Beach's internal control policy is to establish proper procedures and to safeguard the Town of Atlantic Beach's assets. This policy applies to all assets whether they are monetary or physical.

The Town Council, Town Manager, Finance Officer and Department Heads must use resources efficiently. By optimal use of those resources placed under our control, and effective management of the resources, the Town can achieve its goals, ensure compliance with all applicable laws and regulations and ensure reliability in financial reporting. Ultimately, the Town must report to the stakeholders who provide the resources.

As the Town designs and implements internal controls, an important fact to remember is that the cost of internal controls should never exceed the financial and non-financial benefits. When it is feasible or possible to separate incompatible duties, a rotation of duties should occur.

Definitions:

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| Fraud Triangle | Consists of opportunity, motivation/pressure and rationalization. These are the same factors to consider when looking to prevent fraud. |
| Deficiency | Exists when the design or operation of a control does not allow management in the normal course of performing assigned functions to prevent or detect misstatement on a timely basis. |
| Stakeholders | Citizens, customers and taxpayers |
| Causes of Fraud | Financial stress, addiction, disaffection, pathologies, and opportunity can all be causes for people to commit fraud. |

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| Cost of Fraud | Fraud is expensive not only monetarily but it causes a loss of confidence in the unit, loss of reputation of innocent third parties and cost the perpetrator. |
| Types of Fraud | There are many types of fraud but some of the common ones include kiting, lapping, bid rigging, payroll fraud, healthcare beneficiary fraud, false claims, double payments, charge-off and disposal fraud. |

Roles:

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| Council and Town Manager | Set the standards for the control environment Maintain ultimate accountability for internal controls and for risk management citywide Support the Town's control and risk management activities |
| Department Heads | Are directly responsible and accountable for the operations Are responsible for the effectiveness of internal controls and how they relate to the Town's objectives Shall periodically assess risks and the control environment Develop and implement action plans for improvement |
| Finance | Monitors the financial implications of operating management responsibilities Provides financial management and guidance to design Establishes, executes and monitors for the adequacy of internal controls Provides support for risks and control assessment activities Monitors exposure and makes recommendations Validates adequacy and effectiveness of controls Challenges and validates management control environment assertions |
| Employees | Will have the ability to communicate information without fear of negative repercussions Will have the ability to communicate upstream and downstream with management Will have regular and direct communication with management |

Elements:

The essential elements of an effective internal control structure include environment, accounting system, and control policies and procedures. Controls can be preventive in nature, detective, automated and manual. The Town's internal controls need

to be defined, managed, measurable, repeatable, and ongoing. The Town's controls should be designed to remove as many elements from the fraud triangle as reasonable. All controls need to be reviewed periodically.

Environment:

Management must be aware of the importance of internal controls, which requires an ongoing investment of time, effort and money. Management must resist the natural breakdown of internal controls and not create an environment where employees view controls as "red tape" in the way of doing a real job. Management has to set the tone, educate employees and provide resources. The Town must communicate the importance of internal controls to employees at all levels.

Management must create a "corporate culture" that stresses the importance of internal controls and led by example. This requires the Town to have a rational and well-defined organizational structure with employee's assigned specific powers and responsibilities for which they are accountable. The assignment of authority and responsibility must be clearly communicated and documented along with clear reporting lines.

It is important for the Town to avoid situations where "everyone is responsible" but "no one is responsible" The Organization needs to have sound personnel polices and practices with well-defined job descriptions and appropriate job qualifications. This can help to ensure that employees are competent for their assigned tasks. Applicants should be screened with background and reference checks before a job offer is extended. Depending on the position, a driving and credit report may need to be checked. All employees should receive a periodic evaluation and documentation of employee performance along with corrective action if needed. The Town needs to ensure that employee skills remain up-to-date by providing continual training and evaluation. Equal treatment of all employees regardless of position or title is a necessity. The Town will create and maintain a culture of honesty integrity and ethics.

Management needs to monitor operations and investigate discrepancies between actual performance and anticipated results. Management should watch for red flags i.e. budget overruns, declining revenue, etc... The Governing Body oversees management on a continuing basis with the Governing Body having the final level of accountability for management.

Management's style affects "accepted" behavior for employees. Management's tone offsets if there are insignificant penalties for improper behavior or if there is pressure to meet unrealistic goals.

Risk Assessment, Identifying potential risks and Compensating controls

After the Town Council and the Town Manager have established objectives, the Town's Management Team can id risks to achieving those objectives, evaluate risks-

likelihood and magnitude, prioritize the risks and design control activities to mitigate them. Management should consider the possible risks or exposures. The first would be to recognize the risks that currently exist or that have occurred in the past. Management needs to be complete and remember the rights and obligations of the stakeholders that are allocating the resources to the Town.

It is important that the Town align process-level risks with city-level risks. The risk assessment should be on-going and modified as changes occur in the operating environment. In identifying compensating controls, Management should consider who can authorize a transaction or event and is there a proper recording system and are the proper records being maintained. Additionally, Management must consider the security of assets and records. Is there proper segregation of incompatible duties such as the authorization of a transaction, proper record keeping and who has custody of the assets? Additionally, all processes should be evaluated for inherent risks and potential fraud, whether unintentional or through intentional error.

Types of Control:

There are various types of controls that can be implemented. These include detective controls where the Town uncovers problems after the fact or the Town can implement preventative controls where we attempt to stop problems from occurring in the first place. Additional controls can be manual where we consider the competence, experience and diligence of the persons performing the tasks or controls can be automatic through the use of information technology. Controls should also be quantitative and qualitative. These controls would include volume of activity, complexity of activities and exposure to losses.

Control policies and procedures to implement

1. Identify critical processes and establish objectives for those processes.
2. Identify risks to achieve objectives and evaluate the likelihood and magnitude of the risks. Consider quantitative and qualitative factors.
3. Prioritize the risks and design control activities to mitigate them.
4. All transactions must be properly authorized.
5. Incompatible duties are segregated. Ideally no one individual should be able to perform record and authorize the transaction.
6. The custody of the asset resulting from the transaction needs to be ensured.
7. Accounting records and documentation are properly designed and maintained. The persons performing a transaction should not be entering the transactions in the Town's ledger. Periodic backups should be made and the Town's disaster recovery plan should be updated annually at a minimum.
8. Access to both assets and records is controlled.
9. Accounting data are periodically compared with underlying items they represent. At a minimum there should be periodic reconciliation of ledger accounts to include verifications and analytical review.

These policies and procedures should be in writing stating which individuals have authority to authorize each different type of transaction. The policies and procedures should include documentation of how transactions and events are processed. A narrative “memo” describing how various transactions and events are processed along with who is performing each step of the process should be written. Additionally, the documentation should include what is involved in each step of the process being performed. Authorization should be obtained in advance and in writing and documentation of authorization should be maintained for later inspection.

Internal Controls for Revenue and Collections

The Town’s billing system should be designed and maintained such that the wrong person or account is not billed (meter read matches meter billed), that incorrect amounts (wrong reads) are not billed and that the billing is recorded correctly ensuring reliable data for financial reporting.

The Town of Atlantic Beach’s Finance Staff shall design, implement and maintain safeguards such that cash cannot be recorded yet deposited, cash deposited yet not recorded and that the cash amount is not recorded incorrectly whether it is to the wrong account, the wrong amount or the wrong period.

In the handling of cash receipts, they must be recorded accurately and deposited along with being allocated correctly in the correct period and applied properly. This includes posting to the general ledger and the subsidiary ledgers (utility billing system), maintenance of the cashbook and the making of deposits.

Specific Controls

Cash is secured at all times either locked in the cash drawer or vault.

Cash deposits are not counted at the counter in front of the customer.

No more than \$100 in twenty’s or ten’s will be in the cash drawer.

Cash is counted daily and deposited.

Deposits shall be compared to receipts and bank statement reconciled to the general ledger.

Performance indicators or “outliers” will be researched and reconciled.

The Finance Officer will review the number and reasons in regards to adjustments watching for significant monthly changes.

The Finance Officer will review the aging accounts receivable report (dollar amount and age of the accounts).

The Finance Officer will watch and identify any trends and will suggest an action plan to the Town Manager and Council.

Internal Controls for Purchasing and Accounts Payable

The Town’s purchasing and accounts payable system should be designed and maintained such that the wrong person or account is not paid (vendor and invoice paid

matches goods delivered), that incorrect amounts are not paid and that the purchasing and accounts payable activity is recorded correctly ensuring reliable data for financial reporting.

The Town of Atlantic Beach's Finance Staff shall design, implement and maintain safeguards such that all purchases are properly (authorization, budget, compliance with bidding procedures, etc.) recorded and paid timely after verification that the goods or service have been supplied. Additional safeguards shall be in place to ensure that all transactions are accurate and complete (payment made yet not recorded or purchase made but not recorded).

Specific Controls

Prior to purchase there is proper authorization and a purchase order issued.

Prior to purchase initiation bid requirements have been satisfied.

Prior to purchase that there is sufficient budget available.

The Accounting Technician shall ensure that the proper recording and release of encumbrances occurs.

The requisitioning of supplies and services shall be initiated in such manner as to take advantage of discounts due to volume, timing and discounts, shipping, etc.

All expenditures shall be reflected in accounting records in the proper line item.

The payment amount will match the invoice and purchase order amounts.

All expenditures will be allocated to the correct period.

All expenditures will be charged to the correct fund or account.

All invoices will contain sufficient information to identify the payee's existence and for verification of the occurrence of the expense.

The Accounting Technician shall compare invoice, purchase order quantities and price.

The Accounting Technician shall match purchase order number and original invoice number to avoid duplicate payments.

Checks shall be matched to invoice and purchase order before being issued checking for correct vendor and dollar amount.

Departmental Directors and the Finance Department shall monitor all grant funds to ensure that all purchases and payments are in grant compliance to avoid ineligible expenditures.

The Finance Officer will monitor all purchases and expenditures and watch for exception.

All new vendor requests shall be properly authorized by the Department Head and contain physical address, mailing address, telephone number, contact and federal tax identification number. No vendors will be entered in the system without the proper tax information.

Internal Controls for General Ledger

The Town's general ledger system should be designed and maintained such that activity is accurate and complete ensuring reliable data for financial reporting. The general ledger accounts shall be reconciled monthly and match the subsidiary systems.

Specific Controls

All accounts will be reconciled monthly..

The Finance Officer will complete a budget to actual monthly report for the Town Council watching for variances and unexplained increases in cost.

The bank reconciliation will be reviewed to see if there are any unexplained differences between cash reported by the bank and unit's accounting records.

An annual physical inventory of equipment will be completed and compared to the accounting records. Any unaccounted differences will be reported to the Town Manager.

Internal Controls for Payroll

The Town's payroll system should be designed and maintained such that the wrong person is not paid nor paid the wrong amount that terminated employees are not paid and that changes to the system are properly authorized. Payroll activity recorded should be recorded correctly to ensure reliable data for financial reporting.

The Town of Atlantic Beach Finance Staff shall design, implement and maintain safeguards such that all payroll expenditures are properly (authorization, budget, match time sheet, city personnel policy, etc.) recorded and paid timely. Additional safeguards shall be in place to ensure that all transactions are accurate and complete (payment made yet not recorded or payment worked but not recorded).

Specific Controls

The Senior Accounting Technician shall ensure that all pay calculations are correct and error free and paid to actual employees.

The Senior Accounting Technician shall watch that employees are not overpaid, that pay is not inflated nor that employees are paid for work not done. All salary increases must be properly authorized. Also, will watch that the reverse with underpayment does not occur.

All payroll expenditures shall be allocated to the correct fund and line item.

All payroll expenditures shall be charged to the correct period.

All payroll documentation including time cards/sheets and overtime are properly approved by the Departmental Director prior to payroll preparation.

All payroll and personnel records should be properly designed so that changes in salaries and wages are properly documented in personnel file.

All payroll and personnel records will be secure.

All payroll payments will be by direct deposit.

There will be segregation of incompatible duties ensuring that the allocation of wages and salaries is accurate.

Periodic reconciliations of payroll records will include a reconciliation of the current payroll to the previous payroll; hours keyed and paid will be compared to the time sheets.

Periodic verifications of payroll will include payroll calculations checked by a second employee and eligibility for fringe benefits verified.

Periodically a manual calculation of fringe benefits will be used to verify system calculations.

Internal Controls for Personnel

Specific Controls

All applicants will complete a Town of Atlantic Beach application, which will be checked for completeness and reasonableness.

All positions will have a job description.

A background check will be completed on all potential employees along with a driver's license and credit check as necessitated by the position.

The Town of Atlantic Beach will only hire qualified applicants who have demonstrated evidence of integrity and ethical behavior.

Job descriptions should be designed such that areas of responsibilities and authority are clearly defined and understood.

The Town shall provide employees with ongoing and relevant training.

The Town will take appropriate disciplinary action for deviating from policies.

The Town has a zero tolerance for unethical or dishonest behavior.

There will be equal treatment for all employees regardless of position or title.

Internal Controls for Information Technology (IT)

Specific Controls

IT will ensure that the content is appropriate and needed information is available to users.

IT will ensure that the information is timely and available when requested.

IT will ensure that information is current and the latest available.

IT will ensure that information is accessible and easily obtained by appropriate parties.