

TOWN OF EMERALD ISLE INTERNAL CONTROL POLICY

Goals

The Town of Emerald Isle has set forth the following internal control procedures to ensure compliance with all applicable laws and regulations.

Internal control means a process, affected by an entity's governing board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.
- Segregation of Duties.

Effectiveness and efficiency of operations:

Controls within the Town organization are meant to encourage efficient and effective use of its resources, including personnel, to optimize the Town organization's goals. Good internal controls should also provide for a more streamlined operational system. Unnecessary duplication of effort or inefficient processing of work can be detected by a good internal control system.

Physical assets of an entity can be stolen, misused, or accidentally destroyed unless they are protected by adequate controls. The same is true in other assets, such as cash, accounts receivable, records, tax scrolls, journals and other important documents. Safeguarding information stored electronically has also become increasingly important. The subsequent increase in electronic transactions and "electronic access" will require increased security for electronic information resources.

Reliability of financial reporting:

Management of the Town organization is responsible for preparing financial statements. Management has both a legal and professional responsibility to be sure that the information is fairly prepared in accordance with Generally Accepted Accounting Principles (GAAP). Information concerning the operations and financial condition of the unit must be accurate in order to be useful.

Compliance with applicable laws and regulations:

For units of local government, a good system of internal controls should identify applicable laws and regulations and provide reasonable assurance that the local government complies with those laws and regulations. These laws include the Local Government Budget and Fiscal Control Act, (G.S. 159), other general statutes, and grant agreements applicable to local units of government.

Segregation of Duties

Adequate segregation of duties reduces the opportunities for someone to be in a position to both commit and hide errors or irregularities in their duties.

Generally this is achieved by dividing the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets between staff members.

Internal controls in small units of government, like the Town of Emerald Isle, presents a problem in that there are not enough financial management staff members to adequately segregate duties while performing day-to-day tasks. Recognizing this limitation, the Town organization strives to take the necessary precautions in order to adequately protect its assets.

Internal Control in the Accounting System

- The Town maintains an accounting system according to the N. C. Local Government Budget and Fiscal Control Act.
- All general ledger accounts are reconciled monthly and match the subsidiary ledgers.
- The Finance Officer provides the Town Manager with a monthly financial report showing all budget revenues and expenditures along with cash and investment balances.
- All journals, ledgers and other accounting records are kept up-to-date and balanced.
- The Town Hall Administrative Assistant receives all cash, (i.e. tax payments, building permits, reentry permits, parks and recreation fees, etc.) and records all of those cash transactions on a daily collection sheet and then enters in the computer system. The Town Hall Administrative Assistant balances the cash drawer and money is sent to the bank for deposit. Once that is completed, the Town Hall Administrative Assistant proceeds to send all cash reports to the General Ledger. The Finance Officer, after all transactions have been posted by the Town Hall Administrative Assistant, verifies that all cash has been properly recorded, but is not involved in the actual posting of cash transactions.
- The Town Hall Administrative Assistant handles all mail and distributes it accordingly. All money received from taxes is opened by the Town Hall Administrative Assistant Clerk and not by the Tax Collector. The Tax Collector is responsible for processing and billing taxes and not in the collection of cash money.
- Development permit fees are collected in the Planning and Inspections Department and all money collected is turned over to the Town Hall Administrative Assistant on a daily basis. The money is verified for accuracy and deposited along with all other cash. The Finance Officer reconciles all money received by the Planning and Inspections Department monthly to insure all transactions are in balance and are posted to the proper receivable accounts.

The Finance Officer meets with the Planning and Inspections Director periodically to review all transactions to make sure all monies have been properly recorded.

- Parks and Recreation fees are collected by a full and/or part time employee in the Parks and Recreation Department. The employee enters the amount in the cash register with the appropriate code (1= Taxpayer Membership, 5-Mothers Morning Out, etc.). A two part receipt is then written and the cash register receipt is stapled to the hard copy of the receipt that remains in the book. The top copy of the receipt is given to the customer. Every morning, the cash register is totaled out by the Parks and Recreation Director or the Program Supervisor and the money is sent to Town Hall for deposit by the Town Hall Administrative Assistant. The Finance Officer meets with the Parks and Recreation Director periodically to review all transactions to make sure all monies have been properly accounted for.
- The Public Works Department only collects money via a check when they deliver white goods (refrigerators, stoves, hot water heaters) to a disposal site. A check is issued to the Town and the check is turned over to Town Hall Administrative Assistant for deposit. The Finance Officer periodically requests a list of all check transactions from the company and reviews them with the Public Works Director to make sure all checks have been accounted for.
- The Police Department only collects money from parking tickets and civil citations. A Police Lieutenant is responsible for following up on all unpaid violations. The Police Lieutenant prepares a letter, signed by the Chief of Police, to send to the person that has received the violation. This is followed up with a second request letter if necessary. The Chief of Police opens all mail and forwards the citation money to the Police Records Clerk who records the payment to the appropriate account in their system. The money is then turned over to the Town Hall Administrative Assistant on a daily basis. These amounts are usually minimal in nature. The Finance Officer will meet periodically with the Chief of Police to review the paid/unpaid citations to make sure all monies are properly accounted for.
- The Fire Department empties the money from their drink machine and snack box periodically and turns the money over to the Town Hall Administrative Assistant for deposit. No other monies are collected. The Finance Officer meets periodically with the Fire Chief to review the collection procedures.
- Bank deposits are made daily in accordance with NCGS 159-32, unless the amount of money to be deposited is less than \$250.
- Bank statements are received from the bank monthly and are reconciled by an outside CPA firm. If adjustments and/or journal entries are required, the Finance Officer makes the necessary adjustments on the advice of the CPA firm.
- Journal entries, except for standard entries, are approved by the Town Manager and properly supported with documentation.

- All subsidiary records are periodically reconciled to the control accounts.

The Town maintains an official Fiscal Policy that was adopted by the Board of Commissioners in August 2003, and amended from time to time.

Internal Control Procedures - General and Statutory

- The Town of Emerald Isle develops and approves an annual budget according to NCGS 159-13. The budget shows in detail the revenues and expenditures to fund the operations of the Town.
- All minutes of the governing body are approved by the Board of Commissioners and become permanent records of the Town.
- All funds remaining unclaimed are escheated to the State as required by N.C.G.S. 116B.
- All employees who handle public money or have access to inventories are bonded under a blanket bond. The Finance Officer is bonded as required under NCGS 159-29 and the Tax Collector is bonded under NCGS 105-349.
- Records filing, retention, and disposal policies are in compliance with Public Records Law.
- A complete schedule of insurance coverage and limits are maintained showing expiration dates, premiums, co-insurance clauses and other essential information. The Town Clerk maintains all insurance schedules and they are reviewed periodically by the Town Manager.

Internal Control Procedures for Tax Collections

- All taxes are levied within statutory limitations and for the purposes permitted by the North Carolina General Statutes.
- Taxes receivable are reconciled monthly to the control accounts.
- The tax scroll is adequately maintained and balanced to the control accounts.
- All releases, refunds and write-offs of taxes are authorized by the Board of Commissioners and recorded in the minutes.
- All discoveries are properly recorded as part of the current levy.
- All uncollected taxes more than ten years old are written off, unless collections procedures are underway.

- The Town participates in the NC League of Municipalities' debt setoff collection program, and may utilize this program to collect unpaid taxes and / or other fees and charges.

Internal Control in Cash Disbursements / Accounts Payable

- Expenditures are controlled using the budget ordinance. All expenditures have a sufficient budgeted revenue or available fund balance to cover the expenditure.
- All budget appropriations in the current year are recorded in the appropriate expenditure account.
- All expenditures are charged against an appropriation account.
- All accounts payable are reconciled to the general ledger on a monthly basis.
- All adjustments are fully documented.
- The Department Head approves all invoices before payment is made.
- The Finance Officer prepares all check disbursements.
- The Town Manager and Town Clerk are signers of the disbursement checks. The Mayor and Mayor Pro-Tem are authorized to sign disbursement checks as well.
- Pre-numbered checks are used for all cash disbursements.
- Voided checks are marked "VOID" across the face of the check so that no one can use them. Voided checks are maintained on file in numerical order with other cancelled checks.
- Blank checks are never signed in advance.
- Check signers review documentation supporting the disbursements prior to signing the checks.
- All checks have properly signed pre-audit certificates (NCGS 159-28) stamped on the face of the check.
- Two signatures are required on all checks. If facsimile signatures are used, they are adequately controlled.
- Prior to making disbursements to a vendor, the Town requires the necessary IRS Form 1099 information.

- All wire transfers are made by the Finance Officer and reviewed by the Town Manager.
- The department head must approve all requests for travel reimbursement for an employee along with supporting documentation. The Town Manager approves all travel requests for department heads.

Internal Control Procedures Specific to Payroll Disbursements

- An individual seeking employment with the Town will complete an application which will be kept on file with the Town Clerk.
- All positions will have a job description outlining his/her responsibilities along with the following:
 - Hiring Authorization
 - Salary history
 - All salary amounts are approved by the Town Manager
 - Hours authorized to work
 - Federal and State withholding forms.
 - Health Insurance and Retirement deduction information.
 - Authorization for all other payroll deductions.
- Any changes in an employee's status should be supported by the appropriate documentation in the employees' personnel file.
- Payroll checks are handled like other cash disbursements except that a time sheet or card signed by the employee and approved by the appropriate supervisor will be supporting documentation for disbursement.
- All payroll payments are made by direct deposit to the employee's chosen bank account.
- Payroll checks for employees are processed by the Town Clerk and checks are written using the information obtained from the supervisor.
- Payroll checks are signed by the Town Manager and Finance Officer.
The Mayor and Mayor Pro-Tem are authorized to sign payroll checks as well.

The Town maintains an official Personnel Policy that was adopted by the Board of Commissioners in December 2005, and amended from time to time.

Internal Control Procedures for Purchasing

- The Town's department heads are authorized to purchase small items less than \$1,000 without a purchase order. Department heads must submit an invoice or receipt to the Finance Officer to request payment.

- Purchases less than \$1,000 are not required to submit competitive price quotes, however, Town staff is encouraged to be economical in all smaller purchasing decisions.
- All purchases of \$1,000 or more must be made with the use of a purchase order / requisition issued by the Finance Officer.
- The Finance Officer shall have the authority to approve all purchases orders / requisitions of \$1,000 to \$5,000.
- Purchases of \$1,000 - \$5,000 must have price quotes from at least three (3) vendors. In case of limited availability for the supplies needed, every effort will be made to obtain price quotes from at least two (2) vendors. The price quotes should be documented on the purchase order/requisition.
- Purchases over the \$5,000 limit will be handled in accordance with NCGS.
- If items can be purchased under State contract, then price quotes are not required.
- The Town Manager must approve all purchases from \$5,000 to \$90,000.
- The Board of Commissioners must grant approval of all purchases greater than \$90,000.

The Town maintains an official Purchasing and Contracting Policy that was adopted by the Board of Commissioners in January 2004, and amended from time to time.

Internal Control Procedures for Investment Management

- All investments are made in compliance with NCGS 159-30.
- The Finance Officer shall be responsible for the investment of idle funds.
- The Finance Officer maintains sufficient funds in the Town's checking account to meet current liabilities.
- The majority of funds are invested in the N. C. Capital Management Trust Fund. A maximum of 20% of the Town's cash balance may be invested in a federally insured Certificate of Deposit with a maturity date no longer than one year. No other investments are authorized.

The Town maintains an official Fiscal Policy that was adopted by the Board of Commissioners in August 2003, and amended from time to time.