

## **Internal Controls Policy and Procedures Town of Camden**

**Through the avenue of the policies and procedures set out, the Camden Town Council, Clerk-Treasurer and employees have established and maintained an environment that sets a positive attitude towards internal controls and conscientious management. There are several key factors that have been considered in achieving these goals: integrity, competence, operating style, organization structure, assignment of responsibility, employee policy & procedure and oversight. All aspects of the town's finances are in compliance with the Accounting and uniform Compliance Guidelines Manual of Cities and Towns, keeping financial records in conformance with Generally Accepted Accounting Principles (GAAP) and General Accounting Standards applicable to governmental units.**

Cash handling procedures are necessary to ensure proper internal controls, segregation of duties and adequate safeguard of the Town's assets. No one person should have complete control over a transaction, and, in a perfect situation, a separation of duties between at least three (3) persons is preferred in any cash handling transaction. The Town's limited office staff does not permit three persons to be involved in all cash handling situations but safeguards have been put in place and the Town assumes responsibility for the limited controls. Personnel are responsible for complying with the cash handling policies and procedures to ensure funds are accepted following the same process each time so that funds can be deposited in a timely manner and easily tracked while keeping both the funds and the personnel handling the funds secure. All aspects of the Town's cash policy and procedures are to be in compliance with IC 5-11-1-27 (j) regarding erroneous or irregular variances, losses, shortages and thefts. Amended Directive issued by the State Board of Accounts (SBA) dated April 7, 2016, states: "Materiality policies must consider Ind. Code § 5-11-1-27(l), which requires public officials who have actual knowledge of or reasonable cause to believe that there has been a misappropriation of public funds to immediately send written notice of the misappropriation to the State Board of Accounts and the prosecuting attorney. There is *no* materiality threshold applicable to Ind. Code § 5-11-1-27(l). Thus, whenever a political subdivision has actual knowledge or is reasonably certain that a misappropriation of public funds has occurred (regardless of the dollar amount), the political subdivision must send written notice of the misappropriation to the State Board of Accounts and the local prosecuting attorney. Misappropriation occurs when an employee or in-house contractor of the political subdivision wrongly takes or embezzles public funds. When there is a known misappropriation or embezzlement of public funds by an internal actor, materiality is irrelevant. Indiana law requires the political subdivision to report the activity to the State Board of Accounts and the local prosecutor. Ind. Code § 5-11-1-27(l)."

Certain pre-conditions must be met before cash handlers are authorized. This will be done through verifying the employee's employment history, being subject to a background check and the ability to secure a proper bond. The statements made on the employee's application will be verified to provide confirmation of the person's honesty and integrity. A back-ground check is a pre-condition for delegating cash handling responsibilities. Employees are given a copy of their job description defining specific task related to their duties.

All employees are also given a copy of the town's Employee Policy and Procedure Manual and by signature acknowledge receiving it. The manual sets out the integrity and ethical values expected of town employees and communicates the code of conduct and appropriate ethical and moral behavior standards, addressing acceptable operation practices and conflict of interest. In addition, the Policy and Procedure Manual indicates what kind of behavior is unacceptable, penalties of unacceptable behavior and what to do if one becomes aware of unacceptable behavior. The adoption of the Employee Manual by the Town Council establishes a positive tone and emphasizes integrity and ethical values.

All handlers of cash are to be bonded and the bonds properly recorded at the Carroll County Recorder's Office. Accountability for cash will be maintained throughout all cash handling operations. The internal controls set out are necessary to prevent mishandling of funds and to safeguard against loss. These strong controls will also protect employees from inappropriate accusations or charges of mishandling funds. The Keystone System provides for unique employee password and user name which will not be shared. The Deputy Clerk and the Clerk-Treasurer will each have their own identity for accessing the system.

A well trained staff knowledgeable about the funds, regulations and requirements is necessary for successful internal controls. Those handling cash are required to take at least yearly training on internal controls and attend the annual Keystone User Meeting to remain current on the function of the processing systems. Attendance at additional training which may be offered by Indiana Association of Cities and Towns (IACT), the State Board of Accounts and the Department of Local Government Finance or other professional associations is encouraged. The staff welcomes and cooperates with the State Board of Accounts auditors. The Clerk-Treasurer and Council President review the audit results during the exit interview and the audit is available for public inspection either in the town office or at the SBA's web site.

#### Receiving Cash, Checks and Credit Card Payments

Cash transactions are events with a beginning and an end and unless the proper documentation is in place and followed there is no way to track the movement of money. All cash, checks and credit card payment records are kept in a locked file cabinet in the locked Clerk-Treasurer's office during non-business hours. Access to this office is limited to only those person's who need access and have been designated to have access. During business hours, all cash is maintained in the cash drawer or file cabinet drawer. The Clerk-Treasurer and the Deputy Clerk-Treasurer are the only persons authorized to have access to the cash and when lunch or a break is taken, the cash is to be in the locked file cabinet. The keys to the file cabinet are kept on the person and not left in a desk drawer or other similar location. Cash should be counted when it is least likely to have customers in the office - if others do not know the amount of cash in the office, there will be a reduced likelihood of someone demanding the cash. During certain times of the month there may be several cash payments resulting in an unusually large amount of cash on hand on a given day. On those days, the extra cash should be removed from the drawer and stored in a bank bag in the locked file cabinet.

The cash drawer balance is recorded on the Daily Cash Record. In the instances where the cash drawer does not balance, the difference will be investigated and corrected following the standards set in the Ordinance 2016-2, Uniform Internal Control Standards in Accordance with IC 5-11-1-27.

If a loss is found and not an error, the loss must be reported. Most cash differences can be traced to a clerical error but any mysterious losses or patterns of loss must be reported to the Clerk-Treasurer who will then notify the State Board of Accounts (SBA) and the Carroll County Prosecutor's office. If the Deputy does not feel comfortable reporting the loss to the Clerk-Treasurer the suspicious loss must be reported to the Town Council President who will then notify the SBA and the prosecutor (Ordinance 2016-2).

To reduce the risk of error, all cash in the cash drawer is separated according to denomination and should face the same direction. Checks are endorsed when received and kept together separate from the cash in the cash drawer. Credit card receipts are kept separate and secure due to the sensitive nature of the information. Cash is deposited within twenty-four (24) hours of receipt if the total deposit is greater than Five Hundred Dollars (\$500.00) (Amended IC 5-13-6-1).

Every time cash is received, controls must be followed. When cash payments are received they are recounted in front of the customer to confirm the amount and change is counted back to verify the correct amount is given. A receipt is issued for all cash received. This receipt may be a hand written receipt (standard money/rent receipt) or the customer payment stub stamped "Paid" and returned to the customer. All customer deposits for new accounts are recorded on Form NO. 310, Prescribed by the State Board of Accounts. A proper receipt will be mailed to customers who deposit a cash payment in the night deposit box.

Checks are to be made out to the "Town of Camden", "Camden Utilities", "Camden Municipal Utilities" , "Camden Water Department" or some similar manner. The check is reviewed to ensure it is properly completed - payable to Camden, numerical amount of check matches script amount of check, properly dated and signed. Post dated checks will not be accepted. The check is endorsed with the endorsement stamp and placed in the cash drawer. In the event a customer pays without having the bill, a handwritten replacement stub will be completed and put with the check.

Credit card payments can be made in the office, over the phone or through the Town's website, [www.townofcamden.org](http://www.townofcamden.org), using the Paygov portal. Customers who make a payment by charge in the office are given a copy of the receipt printed when the payment is processed. A receipt is mailed in the event a customer makes a credit card payment over the phone. Information provided when a credit card payment is made is confidential and must be protected to avoid any type of identity theft. Paygov emails copies of the credit transactions to the Clerk-Treasurer which are printed and given to the Deputy Clerk as a cross check. These emails are retained in a "Paygov" folder in the email account.

In the rare event a check or cash is received and it is not immediately clear as to which account the money should be applied, the Deputy Clerk and Clerk-Treasurer will review the accounts and determine if a logical application can be made. A review of past postings may show a prior payment made by the person to a specific account. If a phone number is printed on the check, a call will be made asking for instructions. If it is not possible to determine where to apply the payment, the check/cash will be photocopied and funds deposited into the General Fund, 101499, Misc. Once the purpose of the payment is identified, a transfer of funds will be made to correctly apply the payment.

Cash handlers are not allowed to exchange checks for currency to make change nor are they to cash personal checks for themselves or co-workers. A cash portion of the deposit may not be replaced with a personal check.

### Utility Billing

Internal controls are set to ensure the utility operations run efficiently, effectively and are in compliance with state regulations and local ordinances. Effective internal controls provide reasonable assurances the town's assets are being protected and utility billing is accurate. Breaking of the utility billing and utility collections into segments would be ideal but limited office staff presents a unique set of circumstances. The Town assumes the responsibility of lack of segregation of duties. Oversight of the billing process is the responsibility of the Clerk-Treasurer who is also responsible for review of voids and refunds.

The meters are read monthly by the utility department who rotate the meter sheets so a different person periodically reads a given set of meters. Bills are estimated only when the weather prohibits the meter pits being opened for a true reading. When the reads are entered into the computer, the Deputy-Clerk sets the program to compare the present usage with past averages and alerts are issued for readings with a 25% or greater variance. An "Input Meter Transactions List" is generated and the numbers entered are compared to the meter read sheet checking for errors. From this transaction list, a "Re-read List" is generated. Prior usage is compared to the present to spot potential problems. If a problem is suspected, the customer's meter is re-read for verification. A formula is applied to generate a month's usage and this is compared to the customer's average usage. If there is a problem, the customer is notified either by phone a door hang tag. Charges are calculated and printed. This report is checked to verify all charges are correct and edited if necessary. During the billing process, duplicate or missing readings are brought to attention. The printed bills are checked against the calculated charges to assure accuracy. Late fees and other appropriate charges are applied in a timely manner.

Unmetered water is billed through Keystone's Budget Program. The vendor is allowed to take water from one fire hydrant and is billed for the number of gallons taken. Billing is calculated based on the current Water Rate Ordinance. A customer is allowed to charge the water and an invoice is mailed. This privilege is suspended for any vendor who fail to pay in a timely manner.

The Deputy Clerk-Treasurer is responsible for the customer utility billing using the Keystone system. In order to ensure proper billing to accounts and payments received certain internal controls and actions must be taken. The daily posting of payments is done as follows:

#### *Posting of Utility Billing Payments*

The first step is to peruse the checks to make sure the date is correct, the signature is on the check and the numerical amount matches the script amount. The check is then endorsed with the endorsement stamp. The cash payments are separated out to be tallied by themselves. The checks are then totaled on the adding machine. The figures are checked to make sure they were entered correctly. The tally sheet is then initialed by the Deputy Clerk. The cash receipts are then also tallied on the adding machine and double checked. The total amount of cash is removed from the cash drawer. It is separated by denominations, put in

the bank bag and the bag is put in the Deputy Clerk's file drawer. The remaining cash in the cash drawer is counted and recorded on the Daily Cash Record. This amount should be \$200.10. Payments are then posted to the customer accounts. The total amount posted is cross checked with the adding machine tally to ensure the dollar amount posted to accounts is the same as the dollar amount to be deposited at the bank.

Once the postings are updated, deposit tickets are prepared for the three accounts: water, sanitation and sewer. The total check amount and the total cash amount is added together for a grand total. It is then deposited into the three accounts according to the figures on the updated cash summary. Once these are made out, the Deputy Clerk tallies the amounts on the adding machine to see that all matches back to the total amount posted. A photocopy of the deposit slips is made. At this point the deposit is ready for banking. Printed reports are given to the Clerk-Treasurer for review and initialed. When the Deputy Clerk returns from the bank the deposit slips are attached to the copy of the deposit slips and is then filed in the Deputy Clerk's drawer until the month end procedure is started. The daily postings and reports are filed in a notebook for audit.

#### *Adjustments to Customer Accounts*

Periodically it is necessary to prepare an adjustment to a customer's account due to a verified water leak. Ordinance 2014-5 states a customer qualifies for an adjustment if a leak increased the usage more than two times their six month average. The water bill is adjusted to the customer's monthly average times 2 and the sewage is billed at the six month average. The sales tax is also adjusted to reflect the corrected water billing. A letter is sent to the customers who qualify for an adjustment. This letter must be signed stating whether they want to take the adjustment or not. These are kept on file in the Deputy Clerk's Drawer until month end. Once the adjustment has been entered into the computer, the printed report is given to the Clerk Treasurer to check the Master File Balance. This report is then filed with the signed letter in the Deputy Clerk's drawer. At month end, all reports are filed in the proper notebook for audit. Reports reflecting adjustments are given to the Clerk-Treasurer at month end so the adjustments can be taken into account when the monthly sales tax report is prepared.

#### *Return Check Process (NSF Checks)*

When a check is returned, the posting for the transaction is reversed. The report, which includes the Master File Balance, is given to the Clerk-Treasurer to be checked and recorded. It is then filed in the folder with the daily transactions until month end. When repayment is made, the account is posted again making sure the funds are allocated to the accounts in the same amount as the reversal posting. A charge of \$27.50 is added to the account for the NSF check. Repayment of the NSF check is made to the General Checking Account, the account dedicated for NSF checks. This report is given to the Clerk-Treasurer for review.

### *Shut Off Process*

When an account has been shut off for non-payment, a \$25.00 reconnect fee is added to the account. When paid, the fee is deposited into the water checking account.

### *Month-End Procedures*

A report from PayGov is printed showing all transactions for the month (transactions for events other than customer utility billing is noted). A Cash Summary Report is printed for the month's postings. Calculator slips are run on each account: sanitation, water, hydrant fee and wastewater. These totals should match the Cash Summary Report totals. If they do not, the error must be found. These calculator slips are stapled to the original summary report and a copy is made for the Deputy Clerk's notebook. A form is completed to separate the credit card totals from the cash totals for the month. The credit card totals are tallied for each account; then the cash deposits are tallied and the two totals added together which gives the total receipts for each fund for the month. This amount is expected to match the Cash Summary report. This form, along with the original Cash Summary report is given to the Clerk-Treasurer. The daily postings and reports are filed for audit.

The Deputy Clerk is responsible for posting utility payments on the days worked. The Clerk-Treasurer will periodically count the cash drawer and post payments.

Each day that a utility billing bank deposit is made, the Deputy Clerk presents the Clerk-Treasurer a packet which includes copies of the day's deposit slips, the Cash Update Summary Report, Form MM12-12 Master File Balance and the Cash Entry Batch List. The Clerk-Treasurer reviews the deposit slips checking the amounts to balance to the amounts on the Cash Update Summary Report and to ensure the deposits are correct and made into the correct fund. The Cash Entry Batch List is reviewed for posting of payments. The Clerk-Treasurer maintains a running total which will match the Master File Balance. The Cash Update Summary Report and Master File Balance are initialed following review and returned to the Deputy for filing after the bank deposit slip is attached. Any discrepancy is investigated immediately.

### Utility Billing Month-End Procedure through the Budget Program

Following the completion of the monthly Billing procedure, the Clerk-Treasurer is given photocopies of the daily deposits with the bank deposit slips attached, the month-end Cash Summary Report with the adding machine tapes for the cash deposited balanced to the Cash Summary Report, Paygov's month-end report for all credit card transactions for the month and the Credit Card Transaction Report.

### *Reconciliation of the month end Billing will be done as follows:*

The daily deposits are added for the month which will include cash and credit card payments. For ease in separating the two functions (cash and credit card payments) the cash deposits are recorded first and then the credit card payments which are also highlighted to draw the distinction. The Clerk-Treasurer verifies the totals on the Credit Card Transaction Report and notes any differences - payments through the credit card which may be for a

customer deposit or some other reason and not a utility billing payment. There may be instances where the Paygov report reflects a completed transaction but the funds are not yet in the checking account. In those instances, the funds are shown on the reconciliation report as an outstanding deposit. The credit card transactions are recorded and again balanced to the total by fund and bank transfers are made from the General Checking to Water and Sewer Checking. The other credit card transactions are reviewed to confirm a proper receipt has been recorded and any other transfer necessary is completed.

A receipt is prepared for the total monthly deposit for each revenue account in water, wastewater, sanitation, and general (return check fee). The proper revenue codes are found in the "Budget Account Numbers" binder. The total of this receipt will equal the "Total Cash Received" on the Cash Summary Report. The receipt is filed in the Receipt Book and the records from Billing are filed in the appropriate monthly folder.

### Petty Cash Control

The Clerk-Treasurer is the custodian of the Petty Cash Fund (\$20.00) which is maintained to pay small or emergency items of operating expense (Cities & Towns Bulletin, March 2016). A receipt is required for each expenditure from the fund. On a monthly basis, the funds are reconciled. If necessary a voucher, with all original receipts totaling the cash claimed expended attached, is prepared and filed to reimburse the fund for the expenditures. This voucher must be approved, allowed and processed in the same manner as other claims for the town. The Petty Cash check is cashed at the bank and the money returned to the Clerk-Treasurer to replenish the fund back to Twenty Dollars (\$20.00)

### Bank Accounts and Protecting Checks

All bank accounts are in the name of Town of Camden with a sub-title to specific funds (General Checking, Sewer Checking, Water Checking, etc.), utilizing the Town's EIN obtained from the IRS. The number of accounts is limited to what is necessary to manage the town's business. Certificates of Deposit may be purchased from time to time to achieve a higher interest rate. Two persons are authorized on the accounts, the Clerk-Treasurer and Deputy, but only one signature is required on the checks. The bank signature card is updated anytime there is a change in personnel to prevent unauthorized banking transactions. It is prohibited to write checks payable to "Cash". Voided checks are defaced and retained. A listing of date, check number and reason for the void is recorded in the Check Book under the proper account. Blank checks are kept in a locked cabinet. Checks will be signed only when all proper documentation (invoice) is present to support the check and attached to a corresponding voucher. It is prohibited to issue an advance check. Checks are mailed promptly after being approved and prepared.

At month-end, the Deputy Clerk accesses the bank accounts online and print the bank statements. The accounts are reviewed and images of the returned checks will be inspected for proper signature, amounts and vendor. The numeration of the cancelled checks are scanned to insure no checks were issued out of order. The statements are initialed and passed to the Clerk-Treasurer for reconciliation. After the statements are balanced Form No. 206 Depository Statement and Cash Reconcilement and monthly Finance Statement are completed. These forms and the currently month Fund Report are then presented to the Council President for review and initialling. Bank

statements are reconciled monthly and any variance explained and reconciled. The statements and reconciliation forms are filed in the Check Book for audit.

### Credit Card Use

Only authorized persons are allowed to use the Town's credit cards. All credit cards are kept in a locked file cabinet and must be signed out. The cards are used only for town business and all purchases must have a valid receipt returned with the card. Ordinance 2009-1 Credit Card for Town Use will be adhered to. Credit card statements and corresponding receipts are examined each month, independently, to determine whether charges are appropriate and related to Town business.

Solicitation for credit cards that come through the mail and "checks" received promoting extended credit are shredded for proper disposal.

### Payment of Claims

Internal controls are designed to minimize errors in bookkeeping where there is a great deal of detailed information and data. Equally important, controls are necessary to deter employee fraud, embezzlement, and theft, as well as fraud and dishonest behavior against the town from the outside. Fraud, theft or loss is a significant problem for communities of all sizes and locations. The Uniform Internal Control Standards for Indiana Subdivisions addresses the issues and requires the Town Council to set the minimum level of internal control standards and procedures. Separation of duties is a primary means to deter losses but a small office staff presents challenges in achieving this goal. In order to attain an acceptable level of separation persons outside of the office staff are called into service in reviewing records.

The Clerk-Treasurer is responsible for the disbursement of funds for payment of all legal claims against the Town. These funds are disbursed to vendors, employees or other agencies for payment for goods and/or services rendered. The town's records are maintained on a cash basis using the Keystone System. The Keystone accounting system includes, but is not limited to, general ledger, accounts payable, and accounts receivable. A payment voucher system is used for disbursement of funds. The Town makes payments by credit card, electronic fund transfers (EFT) and checks. The only cash payment is when Petty Cash is expended.

There are specific claims which may be processed and checks issued prior to the monthly Town Council meeting (Ordinance 2006-1, amended 10-14-2010) (IC 36-4-8-14 and IC 36-5-4-12). Invoices for the Streets, Water and Wastewater Departments are reviewed for correctness and authorized by the Superintendent. All claims are prepared and listed on the monthly Account Payable Voucher Register (Form No. 364) and the payroll Allowance Docket for Council approval. Completed claims with supporting documentation for the current and previous month are presented to the Council Members at the monthly meeting for review. As the Council reviews the claims the Members should pay particular attention to expense reports, credit card statements and telephone bills to determine charges are appropriate and related to town business. It is recommended the Members initial the claims reviewed.

The yearly budget and tax rate are set by the Town Council with input from the department heads and Clerk-Treasurer. The Town Council supports a conservative approach towards the budget and



revenue estimates. All financial and budgetary information needed to fully understand the operations and financial condition of the town is accurately disclosed by the Clerk-Treasurer. At no time will any fund expend more than is budgeted, unless an additional appropriation is approved, and no fund will have a negative balance. The Council monitors the town's financial activity on a regular basis, comparing actual budget to budgeted revenues and expenses. Accurate monthly financial statements (Fund Report, Appropriation Report and Revenue Reports) are provided to the Council in a timely manner after the records are reconciled.

### Payroll

Internal control procedures are especially important when recording, preparing and distributing payroll. Having proper procedures in place protects the town's assets by reducing the risks of fraud and eliminating errors. In payroll there are four categories of task - hiring, recording and maintaining accurate time sheets, preparing payroll and payroll taxes. Where possible these duties should be divided to provide proper internal controls but due to the small office staff this is not possible. Once again, help from outside the office is used to monitor the payroll procedures.

Time sheets are prepared and signed by the employees and reviewed for accuracy by the Clerk-Treasurer. Comp time, paid time off and unpaid absences are reflected in the appropriate manner on the time sheets. The Town's Employee Policy and Procedure Manual should be consulted if any question arises in regards to payroll. The manual dictates calculation of comp time, paid holidays, number of vacation days and is adhered to. Completed time sheets are reviewed & initialed by the Council President. Once completed, the employee does not have access to the time sheets.

Changes to an employee's payroll are documented either through an ordinance (Salary Ordinance) or through a signed and dated tax form. All tax forms and other employee records are maintained in the employee's file and the files are kept in a locked cabinet. Employees are paid as per the current year salary ordinance. Payroll is processed through the Keystone System which has controls in place to help reduce errors and changes are noted through a "Change Log". Payroll checks are distributed to the employees who are on duty on payday. The remainder of the completed checks are kept in a locked cabinet until the next day the employee works.

Payroll taxes are paid monthly and the Payroll Fund, which serves as a pass through fund, should have a zero balance on the month-end Fund Report. Taxes are calculated and checked on the Month End Payroll Report and paid online through IN.gov and EFTPS.

Information on earned vacation time, holidays and all related employee matters are detailed in the Town's Employee Policy and Procedure Manual. Authorization to pay an employee comp time must be given by the Council President.

### Back-up of Data File

Keystone System are backed-up on a regular basis as the processing system suggest. Having current back-ups are important not only in the event of a system failure but also to retain transactional detail that could be used to prove fraud. A back-up should be made daily and taken off-site nightly. Quarterly back-ups are to be kept off site in the bank safe deposit box.