

Tab 8



Resolution 2023-17
Acceptance of Internal Control Policy

The policy of the Town of Oriental is to continuously maintain and monitor the effectiveness of its internal control system to ensure that they are in line with the standards set forth by the Local Government Commission.

Internal control systems change overtime. One effective procedure can become less effective or perhaps are no longer performed. This can be due to the arrival of new personnel, the varying effectiveness of training and supervision, time and resource constraints or additional pressures. Internal controls, no matter how well designed and operated, can only provide reasonable assurance that the operations of the governmental entity are followed, that financial reporting is accurate, and laws and regulations are complied with.

1. General Controls

- a. Written organization plan – Town of Oriental Organizational Chart
 - Clear lines of authority and responsibility
 - Up-to-date job descriptions
- b. Governmental units should employ personnel with the ability and experience required to perform satisfactorily the responsibilities assigned to them. This includes continuing education for present employees.
- c. The Town has a two-signature check signing policy. One signature is by a member of the governing body and the second signature is an appointed signee from Administration.
- d. Monthly financial reports are presented to and reviewed by the Board. These monthly reports reflect the budget and actual revenues and expenditures.
- e. Cross training in job responsibilities has been implemented to allow employees to take time off and know that someone else can perform their job.

2. Controls in the Accounting System

- a. All journals completed monthly, ledgers and other accounting records are always kept up to date and are balanced.
- b. Duties are segregated where possible.
- c. A purchase order system is in place to make sure that the preaudit process followed properly.
- d. All expenditures are monitored and tracked so not to exceed yearly appropriations.
- e. Each maintains and follows records filing, retention and disposal policies in compliance with the Public Records Laws, G.S. Chapter 132 and the guidelines published by the Department of Cultural Resources.

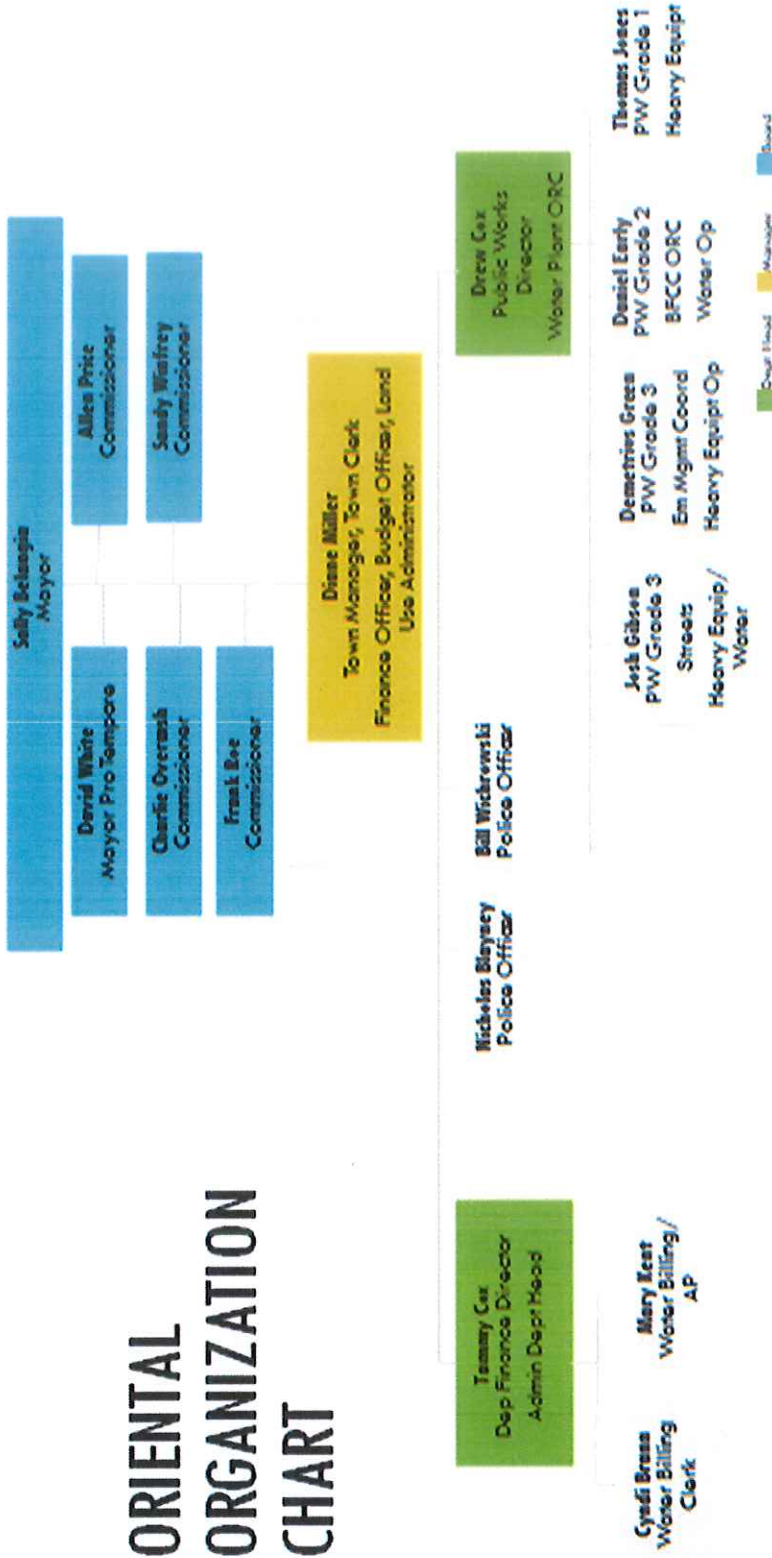
3. Controls- Statutory

- a. All minutes of the governing body are maintained in final form in the Town Clerk's office.
- b. All funds remaining unclaimed after one year are escheated to the State as required by G.S. Chapter 116B.
- c. The Town develops, approves, and adopts its budget according to G.S. 159-13.
- d. The Town's Finance Officer is individually bonded pursuant to G.S. 159-29 (a)
- e. A complete schedule of insurance coverage and limits is maintained by the HR Town Executive Administrator.

Specific Controls – Applicable to the Finance Department

Town of Oriental Organizational Chart

ORIENTAL ORGANIZATION CHART



We will address the major functions and the related internal controls. The procedures used in each function are outlined, following how duties are divided between staff members for more effective internal control.

The major functions addressed in this memo are:

Cash Receipts	Cash Disbursement Nonpayroll	Accounts Payable and Expenditures
Financial Institutions	Cash Disbursement – Payroll	Purchasing and Contracting
	Accounts Receivable	Inventories
Revenue-(including tax revenues	Investments	Capital Assets

1. Internal Controls – Cash Receipts

- a. All cash receipts received are entered into our A/R software. All checks are endorsed and prenumbered receipts prepared for all payments.
- b. A staff member receives the Daily Collection Report and prepares the deposit slip in duplicate. Bank deposits should be made in accordance with G.S.159-32. All deposits are made within 24 hours of the transactions made unless a weekend or holiday follows.
- c. The activity on the duplicate deposit slip (which should show validation by the bank) is compared to the Daily Collection Report to verify that all cash that was received has been deposited. The person performing this task should initial the deposit slip.
- d. The activity on the Daily Collection Report is recorded in the General Ledger by the system.
- e. Cashiers’ change drawers are located in a locked cabinet of the utility billing department. Only those with access to the utility billing department, including the manager and finance director, have access.

2. Internal Controls – Financial Institutions

- a. All deposits are made in authorized financial institutions authorized by the Town Council.
- b. The Finance Director is contacted about any unusual items or transactions occurring on the account, such as insufficient funds notices or checks made payable to cash.
- c. Signature cards have the current names of the selected officials and appointed staff.
- d. All bank statements should be reconciled promptly upon receipt to help identify any errors or discrepancies. Any discrepancies should be investigated immediately and acted upon accordingly.

3. Internal Controls – Revenues/Billing

- a. The Town has a separation of duties between the collections, billing, and receivable functions. Most revenues for the Town are directly deposited into the Town’s financial institution and documented by the Finance Director.

- b. All subsidiary records are reconciled with the control accounts monthly.
- c. All delinquent accounts are periodically reviewed by the Utility Supervisor outside of the collection function.
- d. Billings for enterprise and other service revenues are based on usage as determined by the water and electric meters.
- e. The Town has a primary meter reader. However, we have two additional meter readers that are in rotation and assist as needed.

4. Internal Controls –Tax Revenues

- a. Town tax collection is outsourced to the County for collection.

5. Internal Controls –Cash Disbursements (Non-Payroll)

- a. Prenumbered checks are used for all disbursements paid by check.
- b. The unused check supplies are locked up at all times.
- c. Voided checks are indicated in the check register and kept in a folder in the Finance Director's office. Checks are defaced with VOIDED written on them.
- d. Checks are signed once they are printed for payment and not before.
- e. Checks are prepared by the Deputy Finance Director who is authorized to sign them in the absence of the Finance Officer.
- f. All check requests have back up documentation including but not limited to the invoice, purchase order, or detailed information regarding the purchase or services rendered with prior approval for the expenditure.
- g. All purchase orders for purchases over \$1000, contracts, and checks have a properly signed pre- audit certificate (G.S. 159-28).
- h. Purchase orders and receiving reports are signed by the department head when goods are received and matched to the purchase order. The purchase order will eventually be matched to the invoice for payment.
- i. Two signatures are required on all checks per G.S. 159-25(b). The second signatory is someone who does not have access to the accounting records.
- j. All checks are mailed by the accounting Administrative Assistant, they do not prepare the checks.
- k. Disbursements are made to all authorized vendors in the Town's database of approved vendors.
- l. All wire or other electronic transfers are made by the Deputy Finance Director and or the Town Manager depending on the reason for the transfer.

6. Internal Controls –Cash Disbursements (Payroll)-The following procedures apply specifically to payroll, in addition to the other procedures for cash disbursements.

- a. Each employee has secure personnel file that includes, at a minimum, the following:
 - hiring authorization,
 - salary history,
 - hours authorized to work,
 - federal and state withholding forms,
 - health insurance and retirement deduction information, and
 - authorization for all other payroll deductions.
- b. The Town participates in Direct Deposit for all employees.
- c. The Town has written personnel policies prohibiting employment practices resulting in nepotism, conflicts of interest or discrimination.
- d. The Town's payroll functions including additions, deletions of employees and time keeping function are done by one staff member and reviewed and approved by the Town Manager.

7. **Internal Controls –Accounts Receivable-** Duties should be separated as much as possible between the three sectors of the revenue cycle-billing, collections, and maintenance of the receivable records.

- a. On a periodic basis (at least monthly), a list of delinquent accounts should be prepared. For utility services, a written "cut-off" policy should be in place to terminate services to all delinquent customers. The Utility Supervisor monitors all cut-off dates and reconnects as written in the Town's Utility Billing policy.
- b. Daily posting of receipts to accounts receivable ledgers are done by our accounting software and reviewed by the Deputy Finance Director.
- c. Subsidiary ledgers are reconciled monthly with the control ledgers.

8. **Internal Controls –Investments-**Per G.S. 159-30(a), the finance officer is responsible for managing investments subject to the law and to whatever additional restrictions and directions the governing board may impose.

- a. All investments are in compliance with G.S. 159-30.
- b. A written cash management and investment policy, approved by the governing board, should be on file.
- c. Electronic access to securities and brokerage accounts is limited to the Town Manager.
- d. Any approvals required by the unit's written cash management policy for purchases, sales or other investment activities should be obtained, with written evidence of such approval provided.
- e. A review of the investment accounts is completed by the Town Manager and the Finance Director to ensure that all interest is credited as due for the proper amount and to the proper funds.

9. **Internal Controls –Accounts Payable and Expenditures-**Internal controls in the accounts payable and expenditure areas should ensure that all expenditures are properly documented and made in accordance with the authorized budget.

- a. Expenditures are listed by line item in each fund.
- b. All budget appropriations are recorded in their respective expenditure account.
- c. The Town's year-end cutoff policy is scheduled for June 15 of each fiscal year for all liabilities and expenditures.

10. Internal Controls –Purchasing and Contracting

- a. The Town has a written procurement and contracting policy that clearly outlines levels of authorization and approvals necessary for all purchasing and contracting transactions.
- b. Prenumbered purchase orders should be used for purchases. Voided purchase orders are documented in the Town's accounting system and a copy is filed away.
- c. The preaudit certificate (G.S. 159-28) is present on purchase orders and invoices and signed by the Finance Director.
- d. Invoices and other supporting documentation are reviewed prior to the invoice being approved.
- e. Department heads receive a detailed list of revenues and expenditures with comparisons to the budget monthly.

11. Internal Controls –Inventories-Note that some of the procedures listed below may not be applicable to insignificant inventories as they are not cost effective. The costs of tracking inventory should be weighed against the potential benefits.

- a. An inventory list should be provided to the Finance Director by each department on June 30th of each fiscal year.
- b. Perpetual inventory systems should be maintained for all major classes of inventory.
- c. Inventory should be controlled with physical barriers, such as locked cabinets or storehouses.
- d. Keys to inventory should be controlled in such a manner that does not inhibit day-to-day operations. For utility departments, the engineer must have a key to the inventory. Ideally, no one else should have a key, so the inventory stays under the strict control of one person. However, a backup key should be maintained under dual control in case the engineer is unexpectedly absent.
- e. Physical inventory counts should be made once a year at a minimum. The count should be made by an independent staff member(s).
- f. Records should be maintained showing all additions, withdrawals, and transfers of inventory.
- g. Significant inventories should be insured against loss.

12. Internal Controls –Capital Assets

- a. Accounting records are maintained to identify and classify all capital assets, including capital

assets purchased with grant funds.

- b. Physical inventories of capital assets should be done on an annual basis by staff and verified by our independent auditor.
- c. All capital assets are tagged as applicable.
- d. All town property, buildings, titled equipment and vehicles, and other items are held in the name of the Town of Oriental.
- e. All capital assets purchased, transferred, sold, scrapped, or destroyed are photographed and recorded as such in a timely manner in the accounting system.
- f. All sales of surplus property are done through bid processes in accordance with G.S. Chapter 160A-268.

13. Internal Controls –Electronic Banking-This section has been included in recognition of the growth of electronic activities (Electronic Funds Transfers, Automated Clearing House transactions, direct deposits, etc.) Because connecting to the internet is a necessary part of the electronic banking process, units must recognize and anticipate vulnerabilities inherent in electronic activities.

Appendix A
Division of Duties between Staff Members

Cash Receipts-Two Accounting Positions

Task	Performed By
Prepare deposit slip	Staff Member #1
Prepare Daily Collection Report	Staff Member #2
Make the deposit	Staff Member #1
Compare activity listed on the deposit slip to the Daily Collection Report	Dep Finance Director
Record activity on Daily Collection Report in the general ledger	Dep Finance Director
Properly secure any undeposited funds	Staff Member #2

Financial Institutions-Two Accounting Positions

Task	Performed By
Make sure that deposits are in institutions authorized by the Board	Finance Officer/Designee
Maintain signature cards	Finance Officer/Designee
Receive notification of any unusual items or transactions	Finance Director
Reconcile bank statements	Finance Director/Dep Finance Director

Revenue/Billings-Two Accounting Positions

Task	Performed By
Prepare bills and review for reasonableness	Staff Member #1
Mail bills	Staff Member #2
Collect payments	Staff Member #2/#1/Dep Finance
Prepare deposit slip	Staff Member #1
Make deposit	Staff Member #1
Post payment to the general ledger	Dep Finance Director
Reconcile subsidiary ledgers with the control account	Dep Finance Director
Periodically review delinquent accounts	Finance Director

Cash Disbursements (Nonpayroll)-Two Accounting Positions

Task	Performed By
Prepare purchase order (if applicable)	Department Head
Review and approve purchase order and sign preaudit certification	Town Manager / Finance Director
Compare copy of purchase order to receiving report or to the actual goods received (if applicable)	Department Head
Match copy of the purchase order to the invoice (if applicable)	Finance Director
Review documentation and prepare check	Town Manager / Finance Director
Review documentation and sign check	Designated Elected
Second check signer reviews documentation and signs check	Finance Director/Manager/Dep Finance Director
Mail check	Accounting Admin

Adopted October 3, 2023.

Sally Belangia, Mayor

Diane Miller, Clerk/Manager