

**ORDINANCE NO. 2016-04**

**COMMON COUNCIL OF THE CITY OF LEBANON, INDIANA**

**AN ORDINANCE ESTABLISHING INTERNAL CONTROL STANDARDS AND  
ESTABLISHING A MATERIALITY THRESHOLD**

WHEREAS, Ind. Code § 5-11-1-27 requires all Indiana political subdivisions to adopt minimum levels of internal control standards developed by the State Board of Accounts as published in the Uniform Internal Control Standards for Indiana Political Subdivisions prior to June 30, 2016; and

WHEREAS, the Clerk-Treasurer for the City of Lebanon, Indiana ("Clerk-Treasurer") has reviewed and recommends adoption of the proposed internal control standards and materiality threshold.

NOW, THEREFORE, BE IT ORDAINED BY THE COMMON COUNCIL OF THE CITY OF LEBANON, INDIANA, THAT:

Section 1. The City of Lebanon, Indiana hereby adopts the Internal Control Policy attached hereto and incorporated herein as Exhibit A.

Section 2. The Clerk-Treasurer is directed to ensure that all personnel receive training concerning the internal control procedures adopted and approved herein prior to June 30, 2016.

Section 3. The City of Lebanon, Indiana hereby adopts a materiality threshold of \$500 for purposes of the internal control procedures adopted and approved herein.

Section 4. This Ordinance shall be in full force and effect from and after its passage, approval and publication according to law.

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PASSED AND ADOPTED by the Common Council of the City of Lebanon, Indiana, this \_\_\_\_\_ day of \_\_\_\_\_, 2016.

\_\_\_\_\_  
John Copeland, President  
Lebanon Common Council

FOR:

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\_\_\_\_\_

Keith Campbell  
John Copeland  
Mike Kincaid  
Corey Kutz  
Jeremy Lamar  
Dan Fleming  
Dick Robertson

AGAINST:

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\_\_\_\_\_

ATTEST:

\_\_\_\_\_  
Tonya Thayer, Clerk-Treasurer

The foregoing within and attached Ordinance passed by the Common Council of the City of Lebanon, Indiana, on the \_\_\_\_\_ day of \_\_\_\_\_, 2016, is presented by me this \_\_\_\_\_ day of \_\_\_\_\_, 2016, at \_\_\_\_\_ O'Clock \_\_.M., to the Mayor of the City of Lebanon, Indiana.

\_\_\_\_\_  
Tonya Thayer, Clerk-Treasurer

The foregoing within and attached Ordinance passed by the Common Council of the City of Lebanon, Indiana, on the \_\_\_\_\_ day of \_\_\_\_\_, 2016, is signed and approved by me this \_\_\_\_\_ day of \_\_\_\_\_, 2016, at \_\_\_\_\_ O'Clock \_\_.M.

\_\_\_\_\_  
Matt Gentry, Mayor of  
the City of Lebanon, Indiana

**EXHIBIT A  
(ORDINANCE 2016-04)**

**Internal Controls Policy Pursuant to Ind. Code § 5-11-1-27**

**I. Policy**

The purpose of this policy is to communicate the Common Council's internal control objectives to all employees and elected officials of the City of Lebanon ("City") and to firmly commit the City to the seventeen (17) key principles of internal controls as established by the Indiana State Board of Accounts.

**COMPONENT ONE: CONTROL ENVIRONMENT**

**Principle 1: The oversight body and management demonstrate a commitment to integrity and ethical values.**

The City has the responsibility to establish and maintain an adequate system of internal control and to furnish to the Lebanon Common Council ("Council"), various boards and commissions, governmental agencies, creditors and others reliable financial information on a timely basis. An adequate system of internal control is necessary for the City to discharge these responsibilities.

Controls help ensure that assets are not exposed to unauthorized access and use, transactions are properly recorded in the financial records, and the resultant financial information is reliable. External organizations and stakeholders of the City rely on financial information to make decisions toward appropriations, loans and other debt, grants, and other contractual relationships. City resources are dependent upon the system of internal control. Auditors are required annually to report upon the adequacy of the City's systems for control over financial reporting and compliance per I.C. 5-11-1-27(e). The safeguarding of City assets and the reliability which the City and others can place upon its financial records is dependent upon the effectiveness of the internal control process.

As the fiscal body, the Council expects the City administration to implement an internal control environment with policies and procedures necessary to provide reasonable assurance that practices cause effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

The system of internal control is meant to keep the City on course toward its mission and to minimize surprises. The system promotes efficiency, minimizes risks of asset loss, helps ensure the reliability of financial information, and compliance with applicable laws, rules, and regulations.

Internal control is a process; a means to an end, and not an end unto itself. The control environment is the foundation upon which all components of internal control are based. It sets the tone for City operations. Internal control is about people, operations, communications, and the work environment. It is not about policies and forms though it takes shape through the implementation of relevant policies, procedures, and practices. Internal control can provide reasonable assurance, but no system of control can provide absolute assurance to the Council and other users of financial information.

The Clerk-Treasurer for the City of Lebanon ("Clerk-Treasurer") shall be charged with:

- Conveying periodic messages of the City's internal control philosophy and expectations to all employees;

- Evaluating the City's internal control system for weaknesses on a periodic (but no less frequently than annual) basis, providing solutions to any discovered weaknesses, and inform employees of necessary changes in procedures;
- Working with the City Departments to establish a confidential reporting system for individuals to report suspected fraud and abuse of internal control policies; and
- Working with the City Departments to institute procedures to address violations of policies and consequences for violations.

**Principle 2: The oversight body oversees the entity's internal control system.**

As the fiscal body for the City, the Council is responsible for setting the institutional expectations for internal control, ensuring management is aware of those expectations, requiring the upward communications channels are open through all levels of management, and evaluating management's effectiveness toward monitoring the control environment and implementing sound control policies and procedures. As the City's Chief Fiscal Officer, the Clerk-Treasurer will be the Council's chief agent in implementing and managing the internal control policies and procedures.

**Principle 3: Management establishes an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives.**

Individuals with delegated approval authority, e.g. Elected Officials and Department Heads are responsible for establishing, maintaining, and supporting a system of internal controls within their areas of responsibility and for creating the control environment that encourages compliance with City policies and procedures.

Adequate supervision is necessary to monitor that internal controls are operating as intended, and to help ensure the reliability of accounting and operational controls by pointing out errors, omissions, exceptions, and inconsistencies in procedures. Staff in leadership roles are responsible for the application of this policy and the design, development, implementation, and maintenance of systems of internal controls focusing on the effectiveness of operations and the safeguarding of assets within their respective areas of responsibility. All levels of management and supervision are responsible for strengthening internal controls when weaknesses are detected. Department managers should periodically review departmental procedures to ensure that the general principles of internal control are being followed.

The Clerk-Treasurer's Office has the primary responsibility for internal control over financial reporting and compliance with applicable laws, rules, and regulations. The Clerk-Treasurer is the City's chief source for information and assistance to staff and Department Heads on this topic and will make resources available to assist in administering this policy.

The Clerk-Treasurer's Office is responsible for internal controls over employee recruitment, hiring, separation, promotion, job classification, employee rights, and salary administration. The Clerk-Treasurer's Office and the City's Employee Handbook and supporting policies and procedures for each Department are the sources for information and assistance on this topic and will make resources available to assist in administering this policy.

All levels of internal control are subject to examination by external auditors who are required to report on the adequacy of internal controls over finance and compliance.

Department Heads are responsible for prompt corrective action on all internal control findings and recommendations made by internal and external auditors. The audit process is completed only after Department Heads receive the audit results and take action to correct internal control weaknesses,

improve systems, or demonstrate that management action is not warranted. Department Heads have the responsibility to ensure that those who report to them have adequate knowledge, skills, and abilities to function within, and contribute to, an effective internal control environment. This includes providing access to appropriate training on topics relevant to their job responsibilities.

**Principle 4: Management demonstrates a commitment to recruit, develop, and retain competent individuals.**

The City Employee Handbook provides a roadmap for recruiting and maintaining quality employees. Prior to employment individuals may be subject to pre-employment background screening and/or a credit history check. While employed, City Employees are entitled to a benefits package including Health and Disability Insurance and certain other Employment Benefits. The City will continue to assess the best recruitment pools and tools for the different skill sets of skills necessary to adequately implement and maintain quality internal controls.

Job descriptions will be updated where necessary to reflect internal control responsibilities and duties. Employees will be regularly trained in internal control methods and all training will be documented in employees' personnel files. Employees will be regularly evaluated by their supervisors on internal control duties and receive feedback on possible improvements.

**Principle 5: Management evaluates performance and holds individuals accountable for their internal control responsibilities.**

Individuals are held accountable for their internal control responsibilities through a recognized structure which includes relevant job descriptions, operating procedures, periodic reviews, regular feedback, and a progressive disciplinary policy. Additionally, City Administration seeks to address issues in specific departments and positions through regular one-on-ones with Department Heads.

**COMPONENT TWO: RISK ASSESSMENT**

**Principle 6: Management defines objectives clearly to enable the identification of risks and risk tolerances.**

Through the creation of standard operating procedures and accurate organizational reporting charts management conveys and identifies objectives, missions, policies, and risk tolerances to employees. The Clerk-Treasurer's Office will lead a risk analysis of three major areas:

1. The effectiveness and efficiency of operations.
2. The reliability of reporting for internal and external use.
3. Compliance with applicable laws and regulations.

For each category, the Clerk-Treasurer's Office will define objectives in specific measurable terms in order to enable the design of internal control for related risk, increase understanding at all levels, assess performance, identify what is to be achieved, who is to achieve it, how it will be achieved, when it will be achieved and incorporate external requirements.

**Principle 7: Management identifies, analyzes, and responds to risks related to achieving the defined objectives.**

The Clerk-Treasurer's Office will identify, analyze and respond to the risks identified in Principle 6 by determining:

1. How likely is the risk to occur?
2. How will it impact the objective?
3. Is the risk based on complex or unusual transactions?
4. Is the risk based on fraud?

Once each risk has been identified and analyzed, the Clerk-Treasurer's Office will work with Department Heads to determine how to respond to each risk with a specific solution and action.

**Principle 8: Management considers the potential for fraud when identifying, analyzing, and responding to risks.**

Management is committed to fraud prevention by utilizing a "trust but verify" approach. The potential for fraud, misappropriation, and outright theft are contemplated as controls are designed for various City divisions. Fraud responses will include statutorily required responses to fraud, including, but not limited to Ind. Code § 5-11-1-27(l) relating to the Report of Misappropriation of Funds to State Board of Accounts and Prosecuting Attorney and Ind. Code § 5-11-1-27(j) relating to the Report of Material Variances, Losses, Shortages or Thefts to the State Board of Accounts. The City shall utilize a materiality threshold of \$500.

**Principle 9: Management identifies, analyzes, and responds to significant changes that could impact the internal control system.**

The Clerk-Treasurer's Office, in coordination with Department Heads, will regularly evaluate and adjust internal control policies in order to accommodate for the impact of future changes, including but not limited to, personnel changes, newly elected officials, new programs, new technology, new laws and regulations, and financial fluctuations.

**COMPONENT THREE: CONTROL ACTIVITIES**

**Principle 10: Management designs control activities to achieve objectives and respond to risks.**

The Clerk-Treasurer's Office will establish and maintain a system of internal controls that satisfies the City's objectives in the following categories:

1. Risks are identified and effectively managed
2. Safeguarding of City assets
3. Reliability and integrity of financial information
4. Compliance with City policy, plans, procedures, laws and regulations
5. Economical and efficient use of City resources
6. Meeting established objectives and goals for City operations and programs.

**A. General internal control principles for Departments are:**

1. Separation of duties

- a. Duties are separated so that one person's work routinely serves as a check on another's work.
    - b. No one person has complete control over more than one key function or activity (e.g., authorizing, approving, certifying, disbursing, receiving, or reconciling).
  2. Authorization and approval
    - a. Proposed transactions are authorized when proper and consistent with City policy and the department's plans.
    - b. Transactions are approved by the person who has delegated approval authority, which is usually delegated on the basis of special competency or knowledge.
  3. Custodial and security arrangements
    - a. Responsibility for physical security/custody of City assets is separated from record keeping/accounting for those assets.
    - b. Unauthorized access to City assets and institutional data is prevented.
  4. Timely and accurate review and reconciliation
    - a. Departmental accounting records and documents are examined by employees who have sufficient understanding of the City accounting and financial systems to verify that recorded transactions actually took place and were made in accordance with City policies and procedures.
    - b. Departmental accounting records and documentation are compared with City accounting system reports and financial statements to verify their reasonableness, accuracy, and completeness.
  5. The general internal control principles should be applied to all departmental operations, especially accounting records and reports, payroll, purchasing/receiving/disbursement approval, equipment and supply inventories, cash receipts, petty cash and change funds, billing and accounts receivable.
- B. All City systems, processes, operations, functions, and activities are subject to evaluations of internal control systems. The results of these evaluations provide information regarding the City's overall system of control.
- C. Information and communication – Information must be timely and communicated in a manner that enables people to carry out their responsibilities.
1. All covered employees must be trained on Internal Controls according to Ind. Code § 5-11-1-27(g).

All personnel must receive a clear message from the City's administration that control responsibilities are to be taken seriously. Failure to comply with established practices will subject individuals to the terms of disciplinary action or dismissal.

2. Employees must understand their own roles in the internal control system, as well as how individual activities relate to the work of others. To this end, whenever a new budgetary unit, financial activity, etc. is set up, the Clerk-Treasurer will provide notification to the appropriate parties of the responsibilities incumbent on them for good business practices and sound financial management, including reference to the principles within this policy.
  3. Employees must have a means of communicating significant information to the City's administration.
  4. The City must communicate effectively with external parties, such as auditors, creditors, contractors, suppliers, regulators and other stakeholders.
- F. Internal control is meant to keep the City focused on achieving its mission while avoiding surprises. There is a balance between effective controls and mission accomplishment. Costs associated with internal controls should not exceed their benefit, nor should controls be allowed to stifle mission effectiveness and timely action. All levels of management must assess the costs, benefits, and risks when designing controls to develop a positive control environment and compensate for the risks of non-compliance, loss of assets, or unreliable reporting while accomplishing the City mission.

The following specific internal control policies are adopted for use by City Departments:

#### **Payroll Activities**

- Salaries and wage rates are verified by the Department Head and Clerk-Treasurer's Office.
- The responsibilities for hiring, terminating, and approving promotions are segregated from those preparing payroll transactions or inputting data.
- The responsibilities for approving time sheets are segregated from those for preparing payroll transactions or inputting data.
- Payroll adjustment reports are submitted by someone outside of the payroll process.
- Employees' time and attendance records are approved by their supervisors.
- Corrections to recorded time and attendance records are approved by the employee and employee's supervisor.
- Procedures are in place to ensure that changes in employment status are promptly reported to the Clerk-Treasurer's Office.
- Payroll disbursements are reviewed and approved by an authorized individual prior to payment.
- Access to payroll applications is appropriately controlled by user logins and passwords.
- Changes to a payroll disbursement are approved by an individual other than the ones authorized to process the changes.
- Payroll checks (to the extent utilized) are accounted for in numerical order and reconciled to the payroll check register.
- Access to the signature stamp used to sign payroll checks is adequately controlled.
- Payroll checks for full-time employees are electronically deposited (EFT) in the employee's bank account. Absent an emergency, written payroll checks are only utilized for seasonal or part-time employees and are mailed or distributed by someone outside the normal payroll distribution function.
- Unclaimed payroll checks are returned to the Clerk-Treasurer's Office by the Department Head.
- Employees are cross-trained on the payroll process; those assigned to payroll take regular vacations.



### **Disbursement Activities**

- The responsibility for approving claims is segregated from those preparing the claims.
- Checks are written by an individual other than the one approving the claim.
- Checks are signed by an individual other than the one preparing them.
- Claims for payment are reviewed and approved by the Board of Works ("Board")/Council prior to payment.
- A reconciliation is completed between the claims for payment approved by the Board/Council and the actual disbursements posted to the ledger.
- The responsibility for acknowledging the receipt of goods or services is segregated from those preparing claims and writing checks.
- Vendor checks are accounted for in numerical order and reconciled to the disbursement ledger.
- Invoices or other receipts are attached to each claim to support the disbursement.
- A review is completed by an individual outside the disbursement process in which the claim amount is compared to the supporting documentation attached to the claim and the amount of the check.
- Access to disbursement applications is appropriately controlled by user logins and passwords.

### **Receiving Activities**

- The responsibility for collecting money and issuing receipts is segregated from those preparing the bank deposit.
- The responsibility for making bank deposits is segregated from those preparing the monthly bank reconciliation.
- Pre-numbered receipts are issued for all money collected and the receipt is retained with supporting documentation.
- Receipts are reconciled to the cash receipts ledger by an individual other than the one collecting money and issuing receipts.
- Posting of receipts to the ledger is completed by an individual other than the one who collects money and makes the deposit.
- Receipts indicate the type of payment received (cash, check, etc.) and this is reconciled to the make-up of the bank deposit.
- Accounts receivable records are maintained by an individual other than the one(s) involved in the billing process.

### **Cash Activities**

- A reconciliation between the recorded cash balance and the bank balance is completed monthly by an individual separate from the receipting and disbursing processes.
- A reconciliation between the receipts ledger and the credits to the bank account is completed periodically by an individual separate of the receipting process.
- A reconciliation between the disbursement ledger and the debits to the bank account is completed periodically by an individual separate of the disbursement process.
- The monthly reconciliation between the cash balance and the bank balance is thoroughly reviewed and approved by the Clerk-Treasurer.
- Disbursements from and reimbursements to petty cash funds are periodically reviewed by an individual other than the one responsible for maintaining the petty cash fund.

### **Credit Cards Transactions**

- A designated official or employee oversees the issuance and use of the credit cards.
- An ordinance or resolution specifically states the purposes for which the credit card may be used.

A designated person separate from disbursement process reviews transactions listed on the credit card statements for sufficient documentation and inclusion in claims to the Board/Council.

**Principle 11: Management designs the political subdivision's information system and related control activities to achieve objectives and respond to risks.**

The Clerk-Treasurer's Office and Department Heads will work with the Information Technology Department (or designated IT Contractor) to ensure that information technology is used as an integral part of the internal control system. This may include, but not be limited to:

- Setting permission such that only certain users may perform certain tasks
- Using technology to accomplish segregation of duties by forcing duties to be completed by different users
- Automating certain processes and calculations
- Limiting the authority to access different components of various software to employees with duties specifically related to that component
- Prohibiting user ID and password sharing among employees
- Restricting the authority to correct or make adjustments to records to key employees
- Requiring the use of prescribed forms or the approval of alternative forms

**Principle 12: Management implements control activities through policies.**

The City has an Employee Handbook that is periodically updated to communicate policies to employees. Additionally, certain Departments (e.g. Police and Fire) have SOG's, policies and procedures for their individual employees. The Clerk-Treasurer's Office regularly works with departments and employees who handle financial transactions to recommend and ensure best practices. All procedures are in writing and communicated frequently to all relevant employees.

**COMPONENT FOUR: INFORMATION AND COMMUNICATION**

**Principle 13: Management uses quality information to achieve the political subdivision's objectives.**

The City strives to lead in the areas of financial transparency and accountability. By adopting standards and investing in systems that exceed State mandated minimums, City management provides employees and stakeholders with high quality information and informatics systems. The Clerk-Treasurer's Office attend training and industry seminars to stay abreast of changes and developments in requirements and communicate that information effectively to impacted employees.

**Principle 14: Management internally communicates the necessary quality information to achieve the political subdivision's objectives.**

Internal communications on internal controls are communicated through adoption of formal policies by relevant boards and commissions and/or the legislative body or documented through memos from the Clerk-Treasurer's Office or relevant Department Head. Internal memos and reports are maintained to document communication.

**Principle 15: Management externally communicates the necessary quality information to achieve the entity's objectives.**

Communications with the State Board of Accounts, other State agencies, grantor agencies, and regulatory agencies are documented by email, memos, letters, and other forms of written correspondence. All documents are maintained in accordance with the City and state's record retention policies. Reports and policies are cross checked for accuracy, relevancy, and timeliness of information.

#### **COMPONENT FIVE: MONITORING ACTIVITIES**

##### **Principle 16: Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.**

City Administration monitors and evaluates compliance with internal control policies via multiple vectors. Separation of duties, redundancy policies, layered approval systems, monthly reports, and physical controls such as video monitoring allow management to both review and evaluate control systems.

The Clerk-Treasurer's Office shall implement a system of monitoring that includes:

- Periodic checks to determine if controls are in place and working effectively;
- Reviewing control activities to determine if the actual activities are in compliance with established procedures; and
- Documenting deficiencies in the internal control processes and remediating them quickly.

Monitoring activities will be documented by signatures, initials, or other appropriate methods.

##### **Principle 17: Management remediates identified internal control deficiencies on a timely basis.**

Breaches of internal controls are subject to significant levels of internal scrutiny. If informed of a material breach of internal controls, the Clerk-Treasurer's Office will actively investigate and address the alleged breach and adjust policies and procedures to prevent such occurrences in the future, if a material breach is substantiated. Once breaches are identified and investigated, a formal or informal corrective action plan will be developed.