BILL NO. S-16-12-01

SPECIAL ORDINANCE NO. S-_____

A RESOLUTION ADOPTING A MINIMUM LEVEL OF INTERNAL CONTROL STANDARDS FOR THE CITY OF FORT WAYNE INDIANA

WHEREAS, in 2015, the Indiana General Assembly passed, and the Governor signed, P.L. 184-2015, which is codified at IC 5-11-1-27;

WHEREAS, in compliance with IC 5-11-1-27, the State Board of Accounts ("SBOA") has defined the minimum level of internal control standards and internal control procedures for internal control systems of political subdivisions;

WHEREAS, in compliance with IC 5-11-1-27, the SBOA has developed personnel training materials for training key personnel on the internal control standards;

WHEREAS, after June 30, 2016, the legislative body of a political subdivision shall ensure that (1) Internal Control Standards and Procedures are adopted and 2) personnel receive training concerning the adopted internal control standards and procedures;

WHEREAS, after June 30, 2016, the fiscal officer of the political subdivision shall certify in writing that (1) minimum internal control standards and procedures have been adopted and (2) personnel, who are not otherwise on lease status, have received training (collectively, "Certification");

WHEREAS, the Certification shall be filed with the SBOA at the same time as the annual report required by IC 5-11-1-4, and shall be electronically filed in the manner prescribed under IC 5-14-3.8-7;

WHEREAS, the Internal Controls Standards Policy document satisfies the requirements of IC 5-11-1-27, and

WHEREAS, after thoughtful consideration and in order to comply with IC 5-11-1-27, Fort Wayne believes it is in the best interests of its citizens to adopt Attachment A - Internal Controls Standards Policy;

NOW, THEREFORE, BE IT RESOLVED BY THE COMMON COUNCIL OF THE CITY OF FORT WAYNE, INDIANA AS FOLLOWS:

SECTION 1. The City adopts the attached Internal Controls Standards Policy which conforms to IC 5-11-1-27e and satisfies 5-11-1-27g(1).

SECTION 2. The Controller is directed to ensure that certain City "Personnel" as that term is defined in IC 5-11-1-27(c) whose official duties include receiving, processing, depositing, disbursing, or otherwise having access to funds that belong to the federal government, state government, City, political subdivision, or another governmental entity, shall receive training concerning the internal control standards and procedures adopted by this Ordinance.

SECTION 3. All officials and employees of the City are required to comply with the internal control standards.

SECTION 4. Employees who fail to comply with the internal control standards are subject to discipline, up to and including termination of employment.

SECTION 5. An elected or appointed official who fails to comply with the internal control standards may be subject to any action allowed by law.

SECTION 6. If any portion of this Ordinance is for any reason declared unconstitutional or invalid, such decision shall not affect the validity of the reaming portions of this Ordinance so long as enforcement of same can be given the same effect.

SECTION 7. That this Ordinance shall be in full force and effect from and after its passage and signing by the Mayor.

_____

Councilmember

APPROVED AS TO FORM AND LEGALITY

_____

Carol Helton, City Attorney

ATTACHMENT A

CITY OF FORT WAYNE, INDIANA

Internal Control Standards Policy

I. INTRODUCTION

Pursuant to IC 5-11-1-27(e) Fort Wayne Common Council has the obligation to ensure that adequate internal control standards and internal control procedures for internal control systems, as defined by The State Board of Accounts, are developed and adopted. The City fiscal officer is required to certify annually in writing that the minimum internal control standards and procedures have been adopted and required personnel have received the necessary training.

Moreover, the City has the responsibility to establish and maintain an adequate system of internal control and to furnish to the Fort Wayne Common 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 entities 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.

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

As the fiscal body, Common Council expects the City administration to effect 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.

II. COMPONENT ONE: CONTROL ENVIRONMENT

The control environment is the basic commonality for all and comprises the integrity and ethical values of the political subdivision established by the oversight body and management (elected officials and division heads). The standards, processes, and structures which form the control environment pervasively impact the overall system of internal control. The oversight body and management convey leadership expectations, and overall tone which are reinforced by all officials and management throughout the various offices and departments. The control environment also contains the overall accountability structure for all employees through performance and reward measures. Within this structure, leadership demonstrates commitment to the political subdivision by having a process for attracting, developing, and retaining competent individuals. This component is static in that its underpinnings do not generally change with a given objective.

In order to ensure the desired control environment the City adopts the following principles:

Principle 1

The oversight body and management demonstrate a commitment to integrity and ethical values.

The oversight body and management demonstrate these values through directives, attitudes and behavior. Established standards of conduct are expected to be observed by all throughout the political subdivision and are used when evaluating adherence to the values of the political subdivision.

The City believes that the proper operation requires that public officials and employees, elected, appointed or employed to perform duties on behalf of the City and its citizens, be independent, impartial and responsible to the citizens; that government decisions and policy be made in the proper channels of government structure; that public office or position not be used for personal gain or advantage; and that the citizens must maintain confidence in the integrity of its government and its officials. In this respect, the City is committed to:

a. Developing, widely distributing, and practicing the Ethics Code and Policy and Procedures Manual;

b. Establishing the City's values and operating style and communicating them to all employees through various methods, such as by example, the code of conduct, policies, and procedures;

c. Consistently communicating to management and employees the importance of integrity and ethical values.

Principle 2

The oversight body oversees the entity's internal control system.

There is an oversight structure in place. The oversight body oversees management's design, implementation, and operation of the political subdivision's internal control system.

As the fiscal body for the City, the Common Council is responsible for setting the institutional expectations for internal control, ensuring management is aware of the 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.

The Audit Committee, as established by the City's Code of Ordinances, is charged with the oversight of the financial reporting practices and internal financial, compliance and operational controls of the City. The Committee reports annually to the Common Council on how it has discharged its duties and met its responsibilities. The Common Council and the Audit Committee assume the oversight responsibilities by:

a. Maintaining a structure to provide input to management for the remediation of deficiencies in the internal control system;

b. Ensuring the completion of periodic risk assessments;

c. Following up on the status of audit findings.

Principle 3

Management establishes an organizational structure, assigns responsibility, and delegates authority to achieve the political subdivision's objectives.

Organizational structure is designed, responsibilities are assigned and authority delegation is identified to enable the political subdivision to plan, execute, control and assess achievement of objectives. The organizational structure is designed so that it is clear where responsibilities are, especially for those areas where statute has not assigned particular responsibilities. When needed, management will go back to the legislative body to enact the policies that will clearly define these areas, specifically when the organizational structure extends beyond office or department boundaries to affect the political subdivision as a whole. Management develops and maintains documentation of the internal control system.

Individuals with delegated approval authority, such as Elected Officials and Division 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. The City will ensure adequate level of supervision is in place by:

a. Considering and evaluating the City's organizational structure in terms of its size and the nature of its operation;

b. Establishing reporting lines to enable execution of authorities, responsibilities, and flow of information to manage the activities of the City;

c. Using appropriate processes and technology to assign responsibility and segregate duties as necessary at all levels.

The Common Council shall retain authority over significant decisions and review management assignments and any limitations of management's authority and responsibilities as outlined by the City Ordinances.

Division Heads shall establish directives, guidance, and control to enable management and other employees to understand and carry out their internal control responsibilities.

Employees should understand the City's operational style and the code of conduct and carry out management's plan of action to achieve the objectives.

Principle 4

Management demonstrates a commitment to attract, develop and retain competent individuals.

Policies pertaining to the recruitment, training, mentoring, and retention of employeesl consider the objectives of the political subdivision, including succession and contingency plans for key roles.

Competence is the qualification to carry out assigned responsibilities. It requires relevant skills and expertise, which are gained largely from professional experience, training and certifications. The commitment to competence is supported by and embedded in the human resource management process for attracting, developing, mentoring, evaluating, and retaining the right fit of management, other personnel, and outsourced service providers.

a. *Attract* – Seek out candidates who fit the City's needs and possess the competence for the position;

b. *Develop* – Enable individuals to develop competencies appropriate for assigned roles and responsibilities. Establish expectations and tailor training based on roles and needs;

c. *Mentor* – Guide employee performance toward expected standards of conduct and competence, and align the employee's skills and expertise with the City's objectives;

d. *Evaluate* – Measure the performance of employees in relation to achievement of objectives and demonstration of expected conduct;

e. *Retain* – Provide incentives to motivate and reinforce expected performance.

The City seeks to achieve a high level of competence in its management and employees by:

a. Establishing policies and practices reflecting expectations of competence;

b. Evaluating competence across the City;

c. Providing the mentoring and training needed to attract, develop, and retain sufficient and competent employees;

d. Develop contingency plans to ensure that candidates for succession are trained and coached to assume a target role so that internal controls do not lapse.

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, understood structure which includes corrective action procedures. Additionally, management evaluates for excessive pressures on personnel and adjusts these pressures accordingly.

Performance is greatly influenced by individual accountability. Performance measures support an effective system of internal control insofar as they are adapted to the City's objectives and evolve dynamically with its needs. Management seeks to achieve the highest level of performance by:

a. Establishing mechanisms to communicate and hold individuals accountable for performance of internal control responsibilities across the City and implement corrective actions as necessary;

b. Establishing performance measures appropriate for responsibilities at all levels;

c. Adjusting performance measures regularly based on a systematic evaluation of the potential impacts of risks as they evolve over time.

III. COMPONENT TWO: RISK ASSESSMENT

Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. Each identified risk is evaluated in terms of its impact and likelihood of occurrence. Overall, risk assessment is the basis for determining how risk will be managed.

In order to ensure that the desired risk assessment processes are developed and implemented, the City adopts the following principles:

Principle 6

Management defines objectives clearly to enable the identification of risks and defines risk tolerances.

Objectives defined in clear terms will include information such as: who is to achieve the objective, how the objective will be achieved, and when the objective will be achieved.

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 objectives will cover the following areas:

a. *Operational objectives* address the City's effectiveness and efficiency in meeting its mission, goals, and objectives. Effective operations yield the outcomes expected and efficient operations produce those outcomes at minimal cost. Management will define the objectives to ensure effectiveness and efficiency of operations:
    i. Ensure that the City's resources are adequately safeguarded;
    ii. Provide taxpayer services efficiently and effectively ;
    iii. Provide for the long-term stability of the City;
    iv. Provide a stable and rewarding work environment for employees.

b. *Reporting objectives* relate to the preparation and reporting of financial and nonfinancial information that is necessary or required in accordance with applicable laws and regulations:
    i. Objectives are consistent with reporting principles suitable and available for the City;
    ii. Management considers materiality in financial statements presentation;
    iii. Management reflects the required level of precision and accuracy suitable for user needs;
    iv. Internal reporting provides management with accurate and complete information needed in managing the City.

c. *Compliance objectives* concern the City's ability to identify and follow all applicable laws, regulations:
    i. Management recognizes the applicable laws and regulations as the minimum standard of conduct for the City;

ii. Management considers the acceptable levels of variation relative to the achievement of compliance objectives.

For each category, management 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 risk related to achieving the defined objectives.

Management identifies risks to the achievement of the political subdivision's objectives across the unit as a whole and within each office or department. Analysis of risk through determination of objective measures and variance tolerances is the basis for determining how the risks should be managed. The response to risk is selected: acceptance, avoidance, reduction, or sharing.

Management will identify, analyze and respond to the risks identified by determining:

a. What must go right for the department to achieve its objectives?

b. What events or conditions can prevent the department from achieving these objectives?

c. Which of the department's assets are most liquid or desirable and, therefore, in most need of protection?

d. What information does the department rely on to achieve its objectives? What are the threats in obtaining this information?

e. What typical decisions are made in the departmental operations? Which of these decisions require the most judgments?

f. What are the most complex activities? What potential legal liabilities can result from the department's operations?

g. Where does the department spend most of its budget?

h. What changes does the department see on the horizon?

Principle 8

Management considers the potential for fraud when identifying, analyzing, and responding to risks.

The types of fraud which could impact the achievement of objectives include fraudulent financial reporting, misappropriation of assets, and corruption. As a part of this analysis, fraud risk factors are identified: pressure, opportunity, and rationalization. The response to fraud risk exercises the same process used for all analyzed risks.

Management is committed to fraud prevention by utilizing a "trust but verify" approach. The potential for fraud, misappropriation, and outright theft are considered, as controls are designed for various City departments. Fraud responses will include statutorily required responses to fraud, including, but not limited to IC 5-11-1-27(l) regarding reporting of any misappropriation of public funds or assets to the State Board of Accounts and the prosecuting

attorney and IC 5-1-11-27(j) regarding reporting of any erroneous or irregular material variances, losses, shortages or thefts to the State Board of Accounts.

Principle 9

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

Internal control is a process, and part of that process is the responsibility for management to be continually aware of changes, both external and internal, that could affect the achievement of the political subdivision's objectives. Those changes should be analyzed for both their immediate effect and for any future impact. Management would then determine any modifications needed in the internal control process to adapt to these changes. The following changes have a significant impact on City's internal control:

a. Changes in the operating environment;

b. New personnel;

c. New or revamped information systems or technology;

d. Rapid growth;

e. Staff reductions.

IV. COMPONENT THREE: CONTROL ACTIVITIES

Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same action. Separating the ability to record, authorize, and approve the transactions along with the handling of the related asset reduces the risk of error or fraudulent actions. It also reduces the risk of management override.

If segregation of duties is not practical, compensating activities should be implemented which may include additional levels of review for key operational processes, random and/or periodic review of selected transactions. These additional levels of review may take the form of managerial review of reports of detailed transactions, periodic review of performance of reconciliations, and periodic counts of assets and comparison to records. Certain situations may require management to go outside of the office or department for help in implementing controls and these reviews might be performed by governing boards or other elected officials.

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. Clear documentation should be maintained for continuity as well as ease of communication to outside parties.

In order to ensure sufficient control activities are developed, implemented and maintained, the City adopts the following control principles:

Principle 10

Management designs control activities to achieve objectives and respond to risks.

Control activities are designed to fulfill defined responsibilities and address identified risks. An evaluation of the purpose of the control activity is performed as well as an evaluation of the effect a deficiency would have on objectives.

Control activities can be either preventive or detective. A preventive control activity prevents an entity from failing to achieve an objective or address a risk. Examples of preventive controls include authorization lists, segregation of duties, and prior supervisory approval. A detective control activity discovers when an entity is not achieving an objective or addressing a risk before the entity's operation has concluded, and corrects the actions so that the entity achieves the objective or addresses the risk. Examples of detective controls include reconciliation, exception reports, and supervisory review.

Control activities can be implemented in either an automated or a manual manner. Automated control activities are either wholly or partially automated through the City's information technology system. Automated control activities are preferred over manual control activities as tend to be more reliable because they are less susceptible to human error and are typically more efficient.

When designing the control activities management will focus on the following areas:

a. Top-level reviews of actual performance;

b. Reviews by management at the functional or activity level:

    i. 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;

    ii. Departmental accounting records and documentation are compared with City accounting system reports and financial statements to verify their reasonableness, accuracy, and completeness.

c. Management of human capital;

d. Controls over information processing;

e. Physical control over vulnerable assets;

f. Establishment and review of performance measures and indicators;

g. Segregation of duties:

    i. Duties are separated so that one person's work routinely serves as a check on another's work;

    ii. No one person has complete control over more than one key function or activity (e.g., authorizing, approving, certifying, disbursing, receiving, or reconciling).

h. Proper execution of transactions:

i. Proposed transactions are authorized when proper and consistent with City policy and the department's plans;

ii. Transactions are approved by the person who has delegated approval authority, which is usually delegated on the basis of special competency or knowledge.

i. Accurate and timely recording of transactions;

j. Access restrictions to and accountability for resources and records:

i. Responsibility for physical security/custody of City assets is separated from record keeping/accounting for those assets;

ii. Unauthorized access to City assets and institutional data is prevented;

k. Appropriate documentation of transactions and internal control.

Principle 11

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

Control activities are designed to support the completeness, accuracy, and validity of information processing by technology including the design of security management. Management evaluates changes to systems and updates control activities in response. For example:

a. Disaster Recovery ensures that critical accounting information will be processed in the event of interruption of computer processing capacity;

b. Back-Up Processing provides for accounting information to be backed up on a periodic basis sufficient to allow restoration of the information in a timely manner;

c. Physical Security protects the computer system and the associated telecommunications equipment from environmental damage and unauthorized access;

d. Logical Security requires access to accounting information and processes be controlled by operating system software and by the computerized accounting application through user identification codes and passwords;

e. Change Controls are internal controls over changes made to the accounting system's computer programs;

f. Audit Trails allow for sufficient documentation to trace all transactions from the original source of entry into the system, through all system process, and to the results produced by the system;

g. Input Controls provide input edits and controls to assure that information entered into the system is accurate, that all appropriate information is entered into the system;

h. Segregation of Duties can be achieved within information technology systems by appropriate assignment of security profiles that define the data the users can access and the functions they can perform;

i. Output Controls are features that assure all accounting information is reported

accurately and completely;

j. Interface Controls allow for Information generated in one computer application system to be transferred to another computer application system accurately and completely;

k. Internal Processing provides written verification procedures and actual verification results that document accurate calculating, summarizing, categorizing, and updating of accounting information on a periodic basis.

An information system is the people, processes, data, and technology that management organizes to obtain, communicate, or dispose of information. An information system represents the life cycle of information used for the entity's operational processes that enables the entity to obtain, store, and process quality information. An information system includes both manual and technology-enabled information processes. Technology-enabled information processes are commonly referred to as information technology.

Information processing objectives may include the following:

a. *Information Technology* – enables information related to operational processes to become available to the department on a timely basis. Additionally, information technology may enhance internal control over security and confidentiality of information by appropriately restricting access;

b. *Completeness* – Transactions that occur are recorded and not understated;

c. *Accuracy* – Transactions are recorded at the correct amount in the right account (and on a timely basis) at each stage of processing;

d. *Validity* – Recorded transactions represent events that actually occurred and were executed according to prescribed procedures.

For information systems, there are two main types of control activities: general and application control activities. General controls include security management, logical and physical access, configuration management, segregation of duties, and contingency planning. Application controls include controls over input, processing, output, master file, interface, and data management system controls.

Control activities over the information technology infrastructure are designed to support the completeness, accuracy, and validity of information processing by information technology.

Objectives for security management include confidentiality, integrity, and availability. Confidentiality means that data, reports, and other outputs are safeguarded against unauthorized access. Integrity means that information is safeguarded against improper modification or destruction, which includes ensuring information's nonrepudiation and authenticity. Availability means that data, reports, and other relevant information are readily available to users when needed.

Management is required to protect the City's equipment, information, documents, and other resources that could be wrongfully used, damaged, or stolen. The department head is responsible for maintaining accountability for the custody and use of resources and shall assign qualified employees for that purpose. Management can protect resources by limiting access to authorized individuals. Access may be limited by various means such as locks, passwords, electronic firewalls, and encryption. Also, management must occasionally inventory the physical resources and the records to reduce the risk of unauthorized use or loss of resources and protect against wasteful and wrongful acts.

Department management must determine each individual's enterprise system security access by both business area and security level. Management can limit access to one or more specific business areas, such as Accounts Receivable, Payroll, or Fixed Assets. Within each business area, management must also select the appropriate security levels.

Data security is the means of protecting data, whether in hard media (paper, microfilm) or in computer and communications systems, against unauthorized disclosure, transfer, modifications or destruction whether accidental or intentional. Therefore, data security helps to ensure privacy. It also helps in protecting confidential data concerning clients, consumers and employees. Data security consists of procedures that prevent unauthorized access to computer resources. Security procedures protect data from unintentional acts, as well as intentional ones. Examples of data security include:

a. Select appropriate password safeguards;

b. Require periodic password changes;

c. Alphanumeric characters per password;

d. Keeping passwords confidential;

e. Require screen-saver passwords;

f. Assign each user a unique user ID;

g. Limit user access to system software;

h. Control access to specific applications and data files;

i. Limit access to what is required to perform a person's job function and to allow for appropriate segregation of duties;

j. Review security logs and user activity reports;

k. Limit concurrent logins;

l. Activate intruder detection and prevention mechanisms;

m. Implement adequate virus protection procedures.

Access to enterprise systems should be reviewed quarterly, as well as when significant turnover occurs in sensitive positions or in realignment of duties.

Physical security is the protection of facilities that house data, personnel, clients, records, and other assets. This includes protection from fire, natural disasters, burglary, theft, vandalism, and terrorism. Security engineering involves three elements of physical security:

a. Obstacles to frustrate trivial attackers and delay serious ones, such as locks and swipe card access;

b. Detection devices such as alarms, security lighting, and security guards to make it likely that attacks will be noticed; and

c. Security response to repel, catch or frustrate attackers when an attack is detected.

Principle 12

Management implements control activities through policies.

Management works with each office or department in determining the policies necessary

to address the objectives and related risks for the operational process. Further defined policies through day-to-day procedures may be warranted. These policies are periodically reviewed for continued relevance and effectiveness.

Each department will need to identify specific control activities and areas of risk such as:

a. Cash deposits:

   i. Bank reconciliations are effective tools to detect mistakes, errors, or embezzlements if they are prepared timely, reviewed in detail, and approved by a second person;

   ii. Transfers between accounts involve two people (one to initiate and one to approve), to prevent misappropriation of assets;

   iii. To ensure proper segregation of duties, the person involved with the bank reconciliation should be prohibited from performing the following duties:

      - Collection of cash receipts in any form (cash, check, wire, electronic, credit card, etc.);
      - Deposit of cash collections with the bank;
      - Disbursements; and
      - Authorized signer on the account(s).

b. Investments:

   i. The purchase or sale of investments should require authorization prior to execution, to ensure the transactions are in compliance with the City's investment policy, the Indiana Code, or any other authoritative guidance regulating the purchase or sale;

   ii. Performance of the investment portfolio should be reviewed periodically to ensure it is meeting the objectives and expectations of the City.

c. Payroll (Compensation-related Disbursements):

   i. To ensure proper segregation of duties, access to the human resources module (add, delete, and modify employee data) should be segregated from access to the payroll module (payroll processing);

   ii. To ensure accuracy and authorization, a second person should be required to review and approve the following:

      - Timesheets;
      - Addition or deletion of employees;
      - Changes to the payroll data (existing employees);
      - Time entry; and
      - Payroll register.

   iii. Internal financial reports should be reviewed and compared to budget on a periodic basis and variances should be investigated.

d. Non-compensation-related Disbursements/Procurement:

i. To ensure proper segregation of duties, access to the vendor database (add, delete, and modify vendor data) may be segregated from access to the accounts payable module (disbursements processing);

ii. Invoices should be checked for mathematical accuracy and approved for payment prior to processing;

iii. Check/warrant registers should be reviewed for accuracy by a person independent from the accounts payable process and approved prior to finalization;

iv. Purchasing guidelines should be established that detail authorization limits, when contracts are required, and when purchases are subject to bidding or informal quotes. Otherwise, the applicable contract procurement sections of the Indiana Code, or other authoritative guidelines, should be followed;

v. Positive pay, or a similar procedure, should be employed;

vi. Internal financial reports should be reviewed and compared to budget on a periodic basis and variances should be investigated.

e. Capital-related Expenditures:

i. Procedures should be established to ensure capital expenditures are authorized, identified, and capitalized;

ii. Policies and procedures should be established to ensure that capital assets are safeguarded against misuse or theft;

iii. Periodic physical inventories should be performed to ensure that the records are accurate and differences investigated/explained. Inventory counts should be performed by a person that is not responsible for safeguarding the assets and differences investigated/explained.

f. Revenue:

i. To ensure proper segregation of duties, the person responsible for the collection of customer payments should be prohibited from being involved with, or having access to, the following:

- Producing customer bills or reimbursement requests;
- Customer database (add, delete, and modify customer or rate data);
- Approving voided transactions; and
- Posting receipts to the general ledger.

ii. Bills should be reviewed by a second person prior to issuance, on a sample basis at a minimum;

iii. When subsidiary ledgers are used, the detailed ledgers should be reconciled to the general ledger on a periodic basis and any differences investigated;

iv. Internal financial reports should be reviewed and compared to budget on a periodic basis and variances should be investigated.

g. Debt:

i. Policies should be established to define when the governing body or staff may authorize the issuance of long-term debt, including bonds, capital leases, loans, lines of credit, etc.;

ii. Procedures should be established to ensure timely repayment and compliance with on-going debt covenants;

iii. To ensure compliance with limitations on use, the use of debt proceeds should be subject to review and approval;

iv. Trustee or bank accounts should be reconciled by a person not involved with the authorization for the disbursement of debt proceeds.

h. Financial Reporting:

i. A policy should be used to establish budgetary control and approval required for budget amendments;

ii. Financial reports should be reviewed for accuracy;

iii. Financial reports should be periodically produced and distributed or made available to departments and the governing body for review;

iv. Analyses of financial data, including comparing actual results to budget forecasts and prior year actuals, should be performed to ensure variances are in accordance with expectations, considering internal and external factors. Any unexpected variances should be investigated.

V. COMPONENT FOUR: INFORMATION AND COMMUNICATION

Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information. Internal communication enables personnel to receive a clear message that control responsibilities are taken seriously by the entity. External communication enables relevant outside information to be internalized and internal information to be clearly communicated to external parties.

In order to communicate information effectively, the City adopts the following control principles:

Principle 13

Management uses quality information to achieve the political subdivision's objectives.

Management defines the types of information needed and the acceptable sources of information. Then, management processes and evaluates the information for relevancy. Information should be appropriate, current, complete, accurate, accessible, and timely.

Information requirements will consider the expectations of both internal and external users. Management should define the identified information requirements at the relevant level

and requisite specificity for appropriate personnel.

Reliable internal sources (i.e. financial reports, performance metrics, transaction analyses and incident management systems) as well as external sources (i.e. profit and non-profit organizations, industry publications, professional association memberships and websites) will be selected to provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Sources of data can be operational, financial, performance or compliance related.

Management will identify quality information that meets the identified information requirements. Quality information is information that is appropriate, current, complete, accurate, accessible, and provided on a timely basis. Management will process relevant data from reliable sources into quality information within the City's information system.

Principle 14

Management internally communicates the necessary quality information to achieve the political subdivision's objectives.

Information is communicated using established reporting lines. Appropriate communication methods consider the audience, nature of the information, availability, cost, and any legal or regulatory requirements.

Communication is the exchange of useful information between and among people and entities to support decisions and coordinate activities. Information should be communicated to management and other employees who need it in a form, and within a timeframe, that helps them to carry out their responsibilities.

Communication is multi-dimensional – from the top down, bottom up and across the entity. Effective communication informs all levels of the City and must be ongoing. Management will select the appropriate communication systems for both formal and informal communication. Formal communication systems, from computer technologies to staff meetings, will provide input and feedback relative to City's activities, including the achievement of goals and objectives. Informal conversations with employees, contractors, vendors and regulators will help provide some of the most critical information needed to identify risks and opportunities.

Communication is multi-faceted – verbal, non-verbal and written. Effective verbal communication is two way. Management will welcome, and listen to, suggestions and feedback. Management will strive to create a safe environment where staff must be comfortable enough to share their awareness of problems with managers who can act on this information.

Verbal communication should be in support of, not in place of, written documentation of policies and procedures. All written documentation, whether it is official policy/procedure, memo, or e-mail, shall be distributed to anyone who requires the information in order to perform his or her responsibilities.

Principle 15

Management externally communicates the necessary quality information to achieve the entity's objectives.

Management identifies external parties and communicates relevant information. Appropriate communication methods are developed and should include the same consideration as outlined for internal communication.

External communication can take a variety of forms, including statutorily mandated annual reports and financial reports, web sites, press releases, newsletters, and informational brochures. Other methods of communication include focus groups, presentations at conferences, budget hearings and oral updates. Regardless of the methods used, maintaining open lines of communication with outside parties will enhance a department's internal control. Management will make all efforts to maintain open communication channels with external parties such as:

a. Vendors, service providers, and consultants that can provide significant input on the quality and design of agency products and services;

b. Internal and external auditors, advocacy groups, and other outside reviewers that can alert management to minor problems before they become major difficulties;

c. Suppliers and contractors who are made aware of the City's ethical standards that can help deter or detect inappropriate purchasing or bidding practices;

d. Complaints or inquires can point out control problems, or the City's ability to supply accurate information to the media or concerned citizens.

Management should consider the following factors in selecting the appropriate method of communication:

a. Audience – The intended recipients of the communication;

b. Nature of information – The purpose and type of information being communicated;

c. Availability – Information readily available to the audience when needed;

d. Cost – The resources used to communicate the information;

e. Legal or regulatory requirements – Requirements in laws and regulations that may impact communication.

VI. COMPONENT FIVE: MONITORING ACTIVITIES

Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators.

In order to ensure that monitoring activities are developed and effective, the City adopts the following control principles:

Principle 16

Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented.

Potential changes to the internal control system are identified. Control and monitoring activities may be the same, but it is the intent of the activity that distinguishes which component the activity is supporting. For example, a review of reconciliation with the intent to detect errors would be a control activity while a review of the same reconciliation with the intent to determine if internal control procedures are in place and functioning properly would be a monitoring activity.

Newly emerged goals or objectives require an assessment of the risks to be encountered in the effort of achieving those objectives. When new risks are identified a review of internal control activities is necessary. Changes that impact the internal control system require gathering the necessary information for proper analysis, and communicating the changes to all responsible parties.

Management will ensure that ongoing monitoring occurs during normal operations that include regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performance of their duties. Monitoring may include automated tools, which can increase objectivity and efficiency by electronically compiling evaluations of each internal control system component.

Management will allow separate evaluations that provide greater objectivity when performed by reviewers who do not have responsibility for the activities being evaluated. Internal Audit will have an active role in providing independent evaluation of the relevance and/or effectiveness of the controls designed by management.

The monitoring performed by managers, supervisors and staff will focus on the major divisions within the City, emphasizing the City's internal environment, mission and goals:

a. Managers must be watchful for new risks that might impact business processes, and assess how well internal controls function in multiple units within the City;

b. Supervisors will monitor all activities within their respective units to ensure staff is performing assigned responsibilities, internal control activities are functioning properly, and the unit is accomplishing its goals and objectives;

c. Staff monitors own work to ensure it is being done properly;

d. Staff will be trained by supervisors and management regarding internal controls and be encouraged to report any irregularities;

e. Access to systems and sensitive data will be reviewed periodically to ensure employees have adequate access, but not more than what is needed to complete their responsibilities.

Results of the ongoing monitoring and component evaluations will be documented and reviewed to identify issues that could compromise the effectiveness of the internal control system.

Principle 17

Management remediates identified internal control deficiencies on a timely basis.

Management establishes a mechanism for personnel to report internal control issues identified while performing their responsibilities. These issues are documented and evaluated on a timely basis.

Management remediates identified issues. Corrective actions include resolution of audit findings.

Personnel should report issues and deficiencies through established reporting lines to the appropriate internal parties on a timely basis to enable the department to promptly evaluate those issues.

When deficiencies in compliance or internal control lead to formal audit findings, corrective actions will be taken to remediate the finding in a timely manner. The audit resolution process begins when audit or other review results are reported to management, and is completed only after action has been taken that:

a. Corrects identified deficiencies;

b. Produces improvements; or

c. Demonstrates that the findings and recommendations do not warrant management action.