

City of Martinsville/Utilities

Internal Control Policy



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Introduction

The purpose of this policy is to establish a better understanding of internal controls and present a set of policies, procedures, and preferred practices designed to safeguard the receipt and disbursements of cash and credit cards. It is the responsibility of each City Officer and Department Head to provide for the proper control of cash and credit cards within the guidelines set forth in this policy.

For the purpose of this policy, cash is defined as coin, paper currency and all forms of negotiable instruments. Examples include personal checks, cashier's checks, bank drafts, money orders and all other instruments that may be transferred by endorsement and delivery within the ordinary course of the business activity.

Indiana Code 5-11-1-27 requires each political subdivision to maintain a system of internal control to promote government accountability and transparency. The State Board of Accounts (SBOA) under Indiana Code 5-11-1-27(e) defined the acceptable minimum level of internal control standards. All political subdivisions subject to audit by SBOA are expected to adhere to these standards, and are evaluated accordingly in any audits that are performed by or on behalf of the SBOA.

CASH CONTROL – GENERAL POLICIES AND PREFERRED PRACTICES FOR THE CITY OF MARTINSVILLE/MARTINSVILLE UTILITIES

- (1) An employee other than the employee performing the function of cashier and bookkeeper or the person who issues receipts should complete or verify deposits.
- (2) Bank accounts should be reconciled not less than monthly by someone other than the employee performing the functions of cashier and bookkeeper or the person who makes the bank deposits.
- (3) The daily cash receipts should be posted from the duplicate receipts or from the cash register tape deposit slip.
- (4) No adjustments should be made to ledger accounts except by the bookkeeper or Clerk-Treasurer.
- (5) Employees should not co-mingle private money with City/Utility funds. Therefore, City/Utility funds shall not be used to cash payroll checks or other personal checks. Employees shall not borrow money or issue personal IOU's in exchange for City/Utility funds of any kind. Furthermore, employee personal funds shall not be used to reimburse shortages in cash funds nor shall overages be retained to "make-up" future shortages or for non-City/Utility purposes.
- (6) Designated Departments may accept payments for City/Utility services in the form of personal checks, money orders and cashier's checks for the exact amount of the purchase or service.
- (7) When accepting checks, the following safeguards should be followed:
 - a. Accept checks only for the exact amount of the payment
 - b. Ask for a form of identification
 - c. Compare the person with the description on the identification and take notice of the photograph. Write current phone number on check. Verify the address on the check is the current address.
 - d. Have personal checks made payable to City of Martinsville or Martinsville Utilities
 - e. Do not honor a check that is stale-dated or post-dated
 - f. Do not accept third party checks
- (8) A restricted endorsement stamp must be used on all checks and money orders at the time they are received. For checks and money orders to be deposited, the endorsement stamp should read: "FOR DEPOSIT ONLY" with Martinsville Utilities or City of Martinsville.
- (9) All cash should be deposited in a secure depository (a safe, drawer, or cabinet) and access should be restricted to as few employees as possible.
- (10) Offices should be locked during non-working hours and keys should be restricted to the minimum possible number of employees. A written record of office keys shall

be maintained by the Mayor's office, and it is the responsibility of the Department Head to ensure that office keys are returned by terminated or transferred employees.

- (11) During working hours, cash must be kept in a cash drawer, cash box, or cash register that is not accessible to unauthorized persons. Cash drawers or cash boxes must be closed when not in use.
- (12) When making change, count the cash twice before paying out; once when removing it from the cash drawer and again as it is given to the customer.
- (13) Never count currency directly into the cash drawer. Always place it on the counter away from the customer's reach, make the necessary change, and complete the transaction. Then, place the customer's payment in the proper compartments of the cash drawer. Keeping the money in sight until the transaction is completed will avoid controversies that might arise as to the amount given by the customer.
- (14) All cash receipts shall be deposited intact into the City or Martinsville Utility bank account daily, if the revenue volume warrants. Depositing intact means that the deposit must consist of the same checks and/or money orders and the same amount of currency and coins as indicated in the receipts for the deposit.

A. CHANGE AND IMPREST CASH FUNDS

1. General

The Clerk-Treasurer is authorized to establish a cash fund for use by a department for the following purposes:

- a. A change fund for use in making change to perform official City/Utility duties. The change fund is not to exceed \$500 for any one department.
 - b. A petty cash fund for purchasing services or materials that are a legal charge against the City or Utilities. A petty cash fund is not to exceed \$500 or any one department.
 - c. A Buy-money fund for use by the Drug Task force for on-going investigations. The money is to be funded out of old project income from the Detect Fund.
2. The Department Head is personally liable for any losses that may occur. The Department Head of authorized employee may use the fund for making change, when necessary in carrying on their official work.
 3. Receipts for any disbursements must be kept. A claim must be processed to replenish the fund following disbursements. The receipt must accompany the claim for reimbursement. In the case of buy-money, a receipt will be written by the Chief and the receipt will refer to the case number.

B. BANK ACCOUNTS

1. General

No bank accounts may be opened under the City of Martinsville or Martinsville Utilities except as authorized by the Clerk-Treasurer.

2. Authorization Procedures

In order to ensure timely and efficient deposits, Departments may be authorized to make deposits directly to the Bank rather than turning the money over to the Office of the Clerk-Treasurer if authorized by the Clerk-Treasurer. Duplicate or triplicate deposit slips will be used whichever is authorized by the Clerk-Treasurer. A detail of the money received matching the deposit slip will be turned over to the Clerk-Treasurer's office to match up with the deposit slip. Both deposit slips will be deposited with the money, the duplicate will be picked up by the Clerk-Treasurer's office. Departments authorized to make deposits directly to the Bank will follow the same receipt and deposit procedures outlined under Receipts.

C. CONTROL POLICIES AND PROCEDURES

1. All depository accounts shall be established to conform with the following policies and with such other policies as may from time to time be directed by the Clerk-Treasurer.
 - a. All depository accounts shall be maintained in the name of the City of Martinsville or Martinsville Utilities. Under no circumstances shall accounts be maintained in an individual's name or department name.
 - b. Depository accounts shall be used only for official City/Utility business.
 - c. A record of all deposits and disbursements will be maintained so as to provide the following:
 - Date of deposit or disbursement
 - Amount of deposit or disbursement
 - Payee or purpose of each disbursement
 - Source of each deposit amount
 - Account balance
 - d. The Clerk-Treasurer or their designee shall reconcile the accounts at least monthly.
 - e. Duplicate deposit slips and bank statements shall be maintained until audited and allowed to be destroyed per the approved retention schedule.
 - f. In addition to the policies set forth in this section, the handling of funds shall be subject to the cash control procedures outlined in this manual.

RECEIPTS

GENERAL RECEIPT PROCEDURES

1. Types of Receipt Systems
 - a. A receipt shall be issued for all money received by any officer or employee of a department. A receipt shall be pre-numbered and contain an original copy and a copy for the recipient. City of Martinsville or Martinsville Utilities should be printed on the receipt unless receipt is printed by a special computer program (i.e. Animal Shelter adoption program)
 - b. When receiving payment for a utility bill, the stub of the utility bill can be given instead of a receipt.
 - c. Cash register systems may be used by some departments.
 - d. A copy of the original receipt/part of the utility bill is retained in the city's records
2. Receipt Control
 - a. The City/Utility will purchase all official City/Utility receipt books and will maintain a supply of these for distribution to departments.
 - b. The Department Head is responsible for providing a secure, restricted-access location for the storage of receipt books. Receipt books should not be accessible to customers or unauthorized employees.
 - c. The Department Head shall maintain accountability over receipts issued for use by the department. Only one person in each department should be assigned the responsibility for the issuance and control of bank receipts.
 - d. All receipts shall be issued in numerical sequence.
 - e. Receipts should be written in ink and all parts should be completed. The form and composition of payment should be clearly noted. Both parties should initial all "cross-outs" and "strike-overs".
3. Voided Receipts
 - a. If it becomes necessary to void a receipt being written in an official receipt book, the word "VOID" shall be printed in large letters on the receipt.
 - b. If it becomes necessary to void a receipt when a cash register is being used, the detail audit tape shall be annotated with the word "VOID" and the receipt shall be attached to the cashier reconciliation of the day's business.
 - c. The reason for the void should be written on the receipt and the receipts initialed by the highest ranking employee present.
4. Utility Office Receipting Activities:
 - a. Each individual will reconcile their cash drawer against their payment edit list from the computer system. Following reconciliation of their drawer, the day's transactions are turned over to the Accounts Receivable/Head Cashier or their designee. The Head

Cashier reconciles the day's cash and checks against the grand total payment edit list and prepares the bank deposit for the day. A representative from the bank picks the deposit up and takes it to the bank.

- b. The next morning, the Credit Officer or their designee then reconciles the bank deposit against the payment transaction log from the Utility Billing software system to verify that the totals match.
 - c. After the stamped bank deposit is received, the Clerk-Treasurer reconciles the deposit with the daily receipt journal and receipt journal for that date. The journals indicate the type of payments received (cash, check, credit card, etc.).
 - d. Posting of receipts is automatically done in Keystone when a receipt is generated and is done through the computer system following the Utility Billing Software System interfacing with Keystone.
 - e. If a receipt is entered incorrectly and needs to be voided or reversed, a description should be entered on the receipt explaining why. The receipt should be initialed by the individual voiding/reversing the receipt and a second individual.
 - f. The Credit Officer processes the Utility bills.
 - g. Adjustments to accounts are completed by the Credit Officer and done with a change sheet. The change sheet is checked by the Bookkeeper.
5. City Receipting Activities:
- a. A receipt shall be issued for all money received by any officer or employee of a department. A receipt shall be pre-numbered and contain an original copy and a copy for the recipient. City of Martinsville should be printed on the receipt unless receipt is printed by a special computer program (i.e. Animal Shelter adoption program)
 - b. Cash register systems may be used by some departments.
 - c. A copy of the original receipt is retained in the city's records.
 - d. Posting of receipts is automatically done in the Keystone Software System when a receipt is generated.
 - e. The deposit will be prepared daily by comparing the cash and checks against the receipt posting journal. A second individual should check and initial both the deposit and posting journal. The posting journal shows the type of payments received (cash, check, credit card, etc.).
 - f. The Clerk-Treasurer reconciles deposit against the revenue shown in the Keystone Software System at least monthly.
 - g. If a receipt is entered incorrectly and needs to be voided or reversed, a description should be written on the receipt explaining why. The receipt should be initialed by the individual voiding/reversing the receipt and a second individual.
 - h. If an error is discovered that must be corrected through a posting error, the Clerk-Treasurer will be notified and will make the correction.

6. **CASH REGISTER PROCEDURES**

Cash registers are used for the receipt and control of monies received by the Park Department at the Concession Stand and Pool. The Park Superintendent, in coordination with the Clerk-Treasurer, is responsible for developing and adopting the necessary operating procedures for the use and operation of the cash register to provide adequate controls in the cash receipting function of the department. Such procedures shall be based on the following:

- At the start of each business day, the designated employee will count the change drawer.
- Cash registers should have the capability of printing transaction numbers in numerical sequence.
- Duplicate imprints of transactions made should be recorded on a detail audit tape.
- If an error is made by keying an incorrect amount of distribution, the employee(s) performing the function must note the error and a brief explanation in ink on the detail audit tape, key in the proper amount and at the end of the day, subtract the erroneous amounts from the register total. All corrections made on cash register tapes must be reviewed by and verified by the supervisor in charge.
- At the end of each business day, the supervisor in charge shall clear out the register totals for the day's business. The supervisor should reconcile the cash register tape total with the monies turned in by the employee(s) performing the functions of the cashier(s). When reconciled, the audit tape and reconciliation should be used for the daily posting to the journal (or preparation of a deposit) and should be retained by the department until approved for destruction per retention schedule or permitted by the Public Records Commission.
- A deposit slip will be completed and deposited with the cash in the bank night deposit each night.

7. **RETURNED CHECKS**

A. General

1. There are a number of reasons a check may be returned unpaid from the bank. The most common of these is due to insufficient funds on deposit by the maker of the check. For the purposes of this section, all unpaid checks shall be referred to as NSF items.
2. A letter will be sent to the individual requesting payment by cash, or cashier's check for the NSF item.
3. If a collection does not appear possible within 30 days, a report must be made with the Police Department for prosecution no later than 90 days after check is received, per I.C. 36-1-8-13.

8. **CASH OVERAGES AND SHORTAGES**

A. General

1. Any employee experiencing a cash overage or shortage must notify their supervisor “at the close of each business day, setting forth the exact sum of any cash overage/shortage in the account for that day.”

B. Procedures

1. All cash overage of over \$1.00, should be deposited on a separate deposit slip to the respective entity bank account daily and intact, at the same time as all other cash receipts collected by the responsible department or activity. This deposit shall be identified as being a cash overage.
2. When the source of a cash overage is known, then the account will be credited.
3. A cash overage of \$25 or more should be reported to the Clerk-Treasurer. The report should set forth the facts and circumstances and be forwarded not later than the close of the business day on which the overage is discovered.
4. Occasionally, errors will occur in making change and other cash transactions that result in cash shortages. Any employees experiencing an unresolved cash shortage must report the exact sum of any cash deficit to his/her Department Head or supervisor at the close of each business day. A shortage of \$500 or more shall be reported to the Clerk-Treasurer immediately.
5. Whenever warranted by the size of the shortage, the Department Head or supervisor should make a thorough attempt to determine the reason for the shortage. The review might include recounting the cash, reviewing the transactions and/or checking the amounts of all checks to ensure that receipts were written for the correct amounts.
6. The shortage should be reimbursed by using the change fund so that the total receipts for the day will be deposited intact. An explanation should be maintained in the records of the cash fund to describe the source and nature of all shortages.
7. A claim to reimburse the cash fund will be prepared charging the department for the amount of the cash shortage.
8. If an individual continues to have a shortage or overage, the Department Head will discuss the situation with the individual to clear up any problems occurring.
9. If an individual has more than 4 shortages/overages in a month, the Clerk-Treasurer and Board of Works should be notified.
10. Any person suspecting theft or negligence shall report such irregularities to the Department Head. The Department Head shall contact the Clerk-Treasurer and Mayor and discuss the circumstances of the suspected theft or negligence.
11. The Clerk-Treasurer shall contact the State Board of Accounts if the amount is over the materiality policy.

DISBURSEMENTS

1. All disbursements, except from authorized petty cash funds, shall be made by City or Utility warrant, check, ACH or EFT.
2. The Department Head will stamp or sign that the invoice is correct and service or items have been received and are ready to be paid for. Department Head is responsible for turning in invoices immediately upon receiving goods and services. Department Head is personally responsible for any late fees or finance charges due to not turning in invoices or credit card charges in a timely manner.
3. Invoices are due the Monday before the next Common Council meeting in order to be paid on Tuesday following the Common Council meeting. The Clerk-Treasurer's office will notify Department Heads if no Accounts Payable will be paid during a week for any reason (i.e. beginning of the year and switching years).
4. Accounts Payable Clerk or the designee by Department Head or Clerk-Treasurer will enter the invoice in the computer system for preparing claim and payment.
5. The Accounts Payable register should be ran before checks are printed and double-checked by a separate individual other than the one entering the invoices into the system.
6. After the register is double-checked, the checks and claims register are printed.
7. The claims are updated to the computer system.
8. The claim forms are handwritten or printed. Invoices or other receipts are attached to each claim supporting the disbursement.
9. The claims and claim register are reviewed and approved by the members of the Common Council with at least four members required to sign the claim register.
10. Checks are mailed out following the Common Council meeting.
11. The Clerk-Treasurer reconciles the disbursements with the fund report.
12. Other employees are to be cross-trained on the accounts payable process for when the employees normally processing accounts payable are off-duty.

PAYROLL ACTIVITIES

1. Salaries and wage rates will be verified by the Chief Deputy and the Deputy Clerk/Human Resource. The Clerk-Treasurer will periodically check the salaries and wage rates.
2. The Common Council hires, terminates and approves promotions based on recommendations of the Department Heads/Supervisors. Department Head may terminate with approval from the Mayor.
3. The Department Head/Supervisor will approve and sign each time sheet before turning the time sheet in to the Clerk-Treasurer's office.
4. Payroll adjustments are signed by the employee and one of the Deputies or Clerk-Treasurer.
5. Department Heads/Supervisors are responsible for periodically double checking their attendance records with the records in the Clerk-Treasurer's office.
6. Department Heads/Supervisors should report any changes in employment status (i.e. shift changes, retirement, leaving employment, etc.) to the Clerk-Treasurer's office immediately.
7. Payroll disbursements are listed on check stubs for review by each employee. Changes in payroll disbursements will be made on a payroll change form and signed by the employee.
8. Access to payroll software is only available through computer logins with passwords.
9. All employees have the option of being paid by Direct Deposit.
10. Common Council reviews, approves, and signs the Payroll register.
11. Payroll stubs and checks are distributed by the Clerk-Treasurer's office every other Friday. All payroll checks are signed by the Clerk-Treasurer.
12. The Clerk-Treasurer and Deputy Clerk/Human Resource are both cross-trained on the payroll process for when the Chief Deputy is on vacation.

RECONCILIATION

1. A reconciliation between the recorded cash balance and the bank balance is completed at least monthly by the Clerk-Treasurer or their designee.
2. A reconciliation between the receipts ledger and the credits to the bank account is completed periodically by the Clerk-Treasurer or their designee.
3. A reconciliation between the disbursement ledger and the debits to the bank account is completed periodically by the Clerk-Treasurer or their designee.
4. The monthly reconciliation between the cash balance and the bank balance is given to the Mayor for review monthly and to the Common Council periodically.
5. Disbursements from and reimbursements to petty cash funds are reviewed by the Common Council through the claims process.

CREDIT CARD TRANSACTIONS

1. The Department Head oversees the issuance and use of the credit cards.
2. Receipts are turned in to the Department Head with the credit card after each use.
3. The employee is responsible for notifying and supplying the vendor with a tax exempt form.
4. The Department Head is responsible for maintaining a log of individuals using the cards including the dates the individual had responsibility of the credit card.
5. Detailed itemized receipts must be kept and turned in upon the return of the employee.
6. The Department Head is responsible for turning in all credit card transactions for payment to the Clerk-Treasurer's office in a timely manner to avoid finance charges and late fees. Any late fees or finance charges are the personal responsibility of the Department Head or the Employee to pay.