

<b>TOWN OF APEX</b>	<b>DRAFT</b> <b>Fiscal Policy</b>			
<u>PROCEDURE:</u>	NUMBER FIN - 002		EFFECTIVE DATE 01/14/2025	SUPERSEDES n/a
<b>DRAFT Internal Control Policy</b>	PREPARED BY: Antwan Morrison, Finance Director	REVIEWED BY: Finance Department	APPROVED BY: Randy Vosburg, Town Manager  APPROVED BY: TOWN COUNCIL TBD	

**Purpose:** To document how the management of the Town of Apex has fulfilled their responsibility for implementing and maintaining a sound and comprehensive framework of internal control. Internal controls are vital for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement.

**Internal Control Framework:** The Town of Apex’s internal controls are modeled after the internal control framework set forth in the Government Accountability Office’s Standards for Internal Control in the Federal Government (the “Green Book”). As described in the Green Book, Management is responsible for establishing and maintaining the internal control system in compliance with the duties outlined in the this policy. The Oversight Body’s primary role is to ensure management performs its internal control responsibilities. However, every employee bears some responsibility for the internal control process.

**Definition:** Internal Control is a process which is designed by an entity’s management to provide reasonable, but not absolute, assurance regarding the achievement of organizational objectives in the categories of: (1) reliability of financial reporting; (2) effectiveness and efficiency of operations; and (3) compliance with applicable laws and regulations.

**Components of Internal Control:** Understanding of the five components of the process is vital to properly structuring, implementing, and maintaining cost-effective internal controls.

1. *Control environment* provides the cultural atmosphere for human behavior within an organization. It is the foundation for all other components of internal control, providing discipline and structure.

Several key factors expected of management include:

- a. *Integrity and ethical values* of managers and staff. Management plays a key role in providing standards of behavior, removing temptations for unethical behavior, and providing discipline when required.
  - b. *Commitment to competence* so that all personnel receive the training, counseling, and performance evaluations required to perform their duties and understand the importance of maintaining good internal controls.
  - c. *Management's philosophy and operating style* will impact the amount of risk tolerated and what behavior is rewarded or disciplined.
  - d. *Organizational structure* impacts how internal control functions are communicated, respected, and reported.
  - e. *Assignment of authority and responsibilities* for operations and control functions establishes accountability for results.
  - f. *Human resource policies and practices* impact the control environment by establishing proper hiring, on-boarding, training, evaluating, counseling, promoting, compensating, and disciplinary guidelines.
2. *Risk Assessment* is necessary after management establishes certain objectives in order to anticipate and compensate for factors which may prevent management from fulfilling their responsibilities and goals. This involves management evaluating the risks the entity faces that could negatively impact its ability to achieve its objectives.
- a. *Operational objectives: all assets are appropriately safeguarded against risks of fraud, theft, loss, or abuse.*
  - b. *Reporting objectives: finance systems and processes produce accurate and reliable financial reporting.*
  - c. *Compliance objectives: for federal and state award, funds are expended in compliance with the award terms and conditions, federal and state law, and U.S. Treasury guidance.*
    - i. *The unit will evaluate risks of non-compliance in the following areas:*
      - 1. *Eligibility*
      - 2. *Allowable costs/cost principles*
      - 3. *Period of performance*
      - 4. *Financial management*
      - 5. *Property management*
      - 6. *Procurement*
      - 7. *Subrecipient monitoring*
      - 8. *Program income*
3. *Control activities* are those procedures, actions, or activities that help ensure that management's directives are carried out. These are actions taken by management to respond to risks that may prevent the town from achieving its objectives. These activities are either preventative or detective.

*The town uses a variety of control activities that support strong internal controls, including, but not limited to the following:*

- a. *Written policies and procedures*
  - b. *Segregation of duties: separating authorization, custody, record-keeping, and reconciliation functions*
  - c. *Authorizations to undertake projects/programs/expenditure*
  - d. *Reconciliation of accounts and records*
  - e. *Documentation and record-keeping*
  - f. *Physical controls, including locks, physical barriers, and security systems to protect physical assets*
  - g. *IT controls, including passwords, access logs, and firewalls to protect sensitive data and restrict access to electronic data and files*
  - h. *Staff training*
4. *Information and communication* of internal control features focus on the entity's human and technological systems to ensure that the right information is presented to the right individuals at the right time and in the right format.

Communication plays an integral role in the internal control system by helping to promote transparency regarding the use of public funds.

Management shall be responsible for communicating internal control processes to those employees directly involved in finance and/or grant administration. Management will communicate its policies, procedures, and internal controls through various handbooks, programs, training, and electronic communication. Information regarding pertinent policies, processes, and control activities will flow down, across, and up the organizational structure.

Internal control deficiencies should be reported upstream, with serious matters reported immediately to top-level management and/or to the governing board. Employees are required to report any critical issues within the internal control system to management as soon as possible after the discovery.

5. *Monitoring* internal controls on an ongoing basis is essential to make sure they are functioning as intended, and if not, for effective corrective action to be taken.

**Limitations of Internal Controls.** In this imperfect world, there are several factors which can reduce the effectiveness of internal controls.

1. *Cost-effectiveness.* The cost of a control in dollars or staff time should not outweigh the potential benefit.
2. *Management override* can easily circumvent control procedures, whether for expediency or personal benefit.
3. *Unintended snafus* such as employee errors, mistakes in judgment, carelessness, or misunderstanding of instructions can be impediments.
4. *Collusion* is the intentional act of two or more employees to circumvent existing controls. This is usually hard to detect, and the difficulty increases with the authority level of the employee.

**Management Objectives.** The purpose of internal controls is to help ensure the following management objectives are met:

1. *Safeguarding Assets.* The Town of Apex is responsible for prudent stewardship of cash and all items acquired with public funds including infrastructure, buildings, software, equipment, supplies, and for protecting other intangible items necessary for business functioning such as employee information.
2. *Integrity of financial information.* Financial authorized and accurate, complete, properly authorized, and produced in a timely manner.
3. *Compliance with laws and regulations.* The Town of Apex’s financial operation complies with all state and federal requirements, current Generally Accepted Accounting Principles and (GAAP) and the Local Government Budget and Fiscal Control Act, all provisions of installment financing obligations, and any applicable grant or other funding source.
4. *System promotes operational efficiency.* Controls are cost-effective and easy to maintain working as intended according to approved policy.

**Town of Apex Internal Controls in Place**

1. *Control Environment*
  - a. Keeping core values of trust, honesty, integrity, and accountability at the heart of management decisions and personnel evaluations
  - b. Hiring qualified financial personnel and providing continuing training and educational opportunities and encouraging appropriate certifications
  - c. Conducting an annual audit by well-qualified external CPA firm
  - d. Requiring responsible employee authorization for all accounting transactions

2. *Risk Assessment and Control Procedures*

Area	Risk	Control Procedures
Cash	Employee could pocket cash received from customers	<ul style="list-style-type: none"> <li>• Separate functions of receiving payments, making bank deposit and posting payments <i>from</i> bank reconciliation, customer</li> </ul>

Area	Risk	Control Procedures
		invoicing and authorizing write-offs to customer accounts <ul style="list-style-type: none"> <li>• <i>Security cameras in place</i></li> <li>• Post payments in automated system at time of payment and provide system generated receipt to customer</li> <li>• Review any voided receipts and verify/audit reason for void</li> <li>• Review system reports for consecutive receipt numbers</li> </ul>
Cash	Employee could pocket cash using false invoice	<ul style="list-style-type: none"> <li>• Separate functions of requisitioning, ordering, receiving, and approving invoices</li> <li>• Invoices are system generated, and access is secured by user ids and type of user</li> <li>• Review any voided invoices and verify/audit reason for void</li> <li>• <i>Invoices reviewed during accounts receivable and accounts payable process by the Accounting Manager or Assistant Finance Director</i></li> </ul>
Cash	Employee could pocket cash from petty cash box	<ul style="list-style-type: none"> <li>• Petty cash custodian has locked box and original receipts must be signed by employee receiving cash and approved by respective supervisor and/or Department Director.</li> <li>• <i>Reconciliation to replenish the petty cash fund reviewed by Accountant.</i></li> <li>• <i>Periodic audit by Accounting</i></li> </ul>
Cash	Criminals could try to steal cash by altering or counterfeiting checks	<ul style="list-style-type: none"> <li>• Daily verification of checks presented to the bank against town records in bank reconciliation module</li> <li>• <i>Positive pay protection with bank</i></li> <li>• <i>Monthly bank reconciliation – review of cleared checks</i></li> </ul>

Area	Risk	Control Procedures
Cash	Criminals could try to steal cash by forging ACH draft	<ul style="list-style-type: none"> <li>• Daily verification of ACH transactions processed by the bank against town records in bank reconciliation module</li> </ul>
Cash	Employee could try to steal cash using blank check	<ul style="list-style-type: none"> <li>• Check stock locked in fire proof cabinet – <i>finance vault</i></li> <li>• Check stock is blank and sequentially numbered on back (control numbers)</li> <li>• System generates next sequential check number</li> <li>• <i>Accountant and/or Accounting Manager verifies beginning and ending control and check numbers at the time checks are printed</i></li> <li>• Signatures are digitized and built into software module within the financial server. Access to the server is secured by IT staff and password protected.</li> </ul>
Cash	Cash transaction could be recorded improperly, such as typo error or NSF check notification not received from bank	<ul style="list-style-type: none"> <li>• Daily verification of checks and ACH transactions processed by the bank against town records in bank reconciliation module</li> <li>• <i>Positive pay protection with bank</i></li> <li>• Employee who does not record any cash transactions performs daily and monthly bank reconciliations</li> <li>• All transactions are approved by the Finance Director or Assistant Finance Director prior to posting</li> </ul>
Investments	Investment could be susceptible to theft	<ul style="list-style-type: none"> <li>• Have contractual arrangement with third-party financially reputable custodial company to take delivery of investment before funds released to seller</li> <li>• Internal reconciliation of purchase and sale confirmations on monthly statement from custodian by employee other</li> </ul>

Area	Risk	Control Procedures
		<p>than those who authorize and execute transactions</p>
Investments	Investments and/or related income could be improperly recorded	<ul style="list-style-type: none"> <li>• Compare financial records with statements prepared by custodian</li> <li>• <i>Accounting staff complying with GASB guidance</i></li> </ul>
Investments	Investments not allowed under NC law could be purchased	<ul style="list-style-type: none"> <li>• Adopted Investment Policy (<i>included in fiscal policies</i>) clearly identifying allowable investments</li> <li>• Authorization and execution of trades separated duties</li> <li>• <i>Periodic review of LGFCA NC GS 159</i></li> <li>• Semi-annual report of investments to LGC</li> </ul>
Revenues	Revenues could be improperly recorded or not received in their entirety	<ul style="list-style-type: none"> <li>• Separated duties of billing and recording payments</li> <li>• Approval of all invoice transactions prior to posting in ledger</li> <li>• Daily bank deposits and recording revenue</li> <li>• Monthly outstanding balance reports to responsible Departments</li> <li>• <i>Monthly financial summary reports to Town Council</i></li> <li>• <i>Monthly review and analysis of outstanding balances and reconciliation to sub-ledgers</i></li> <li>• Write-off authorization limited to Town Manager and Finance Director</li> </ul>
Debt	Debt could be issued improperly	<ul style="list-style-type: none"> <li>• All debt authorized by Town Council under auspices of LGC (if required)</li> </ul>

Area	Risk	Control Procedures
Debt	Debt service could be under-paid or inadvertently missed	<ul style="list-style-type: none"> <li>• Annual schedule of debt service corroborated with LGC and Trustee</li> <li>• Trustee notifies Finance Director if sufficient funding is not remitted</li> <li>• Monthly monitoring of budget to actual results</li> </ul>
Debt	Outstanding debt could be misreported in financial statements	<ul style="list-style-type: none"> <li>• Annual schedule of debt service corroborated with LGC and Trustee</li> <li>• Accounting staff aware of disclosure checklists and requirements</li> <li>• Monthly monitor budget to actual results</li> </ul>
Debt	Violation of debt covenants	<ul style="list-style-type: none"> <li>• Management aware of provisions of financing agreements</li> <li>• Allowable ratio computed annually and included in notes to financial statements</li> <li>• Annual review of provisions to ensure that there were no violations</li> </ul>
Expenditures	Unauthorized or unavailable funds could be expended	<ul style="list-style-type: none"> <li>• Board-approved budget entered into accounting software</li> <li>• Encumbrance module automatically prevents encumbrance if funds unavailable in line item</li> <li>• Invoices must be approved for payment by authorized Department Director or designee and respective Finance department designee</li> <li>• All AP transactions in batch are <i>reviewed and</i> approved prior to posting in the accounting software</li> </ul>



Area	Risk	Control Procedures
		<ul style="list-style-type: none"> <li>• <i>Approval of accounts payable transactions is driven by security level in accounting system</i></li> <li>• <i>Purchase Order required for expenditures greater than \$2,500</i></li> <li>• <i>Contracts are pre-audited by Finance Director, Assistant Finance Director, Accounting Manager and/or and Purchasing Manager</i></li> <li>• <i>Monthly review by Budget Department and Finance Director of budget to actual expenditures by department and line item</i></li> </ul>
Expenditures	Incorrect amounts could be recorded or correct amounts omitted	<ul style="list-style-type: none"> <li>• <i>Open PO report distributed quarterly to Department Directors to obtain authorization to close or liquidate Purchase Orders with open balances</i></li> <li>• <i>Department Directors review monthly budget-to-actual expenditure reports and detail transaction reports</i></li> <li>• <i>AP transactions are reviewed and approved prior to posting in the accounting software</i></li> <li>• <i>Approval of accounts payable transactions is driven by security level in accounting system</i></li> <li>• <i>Monthly review by Budget Department and Finance Director of budget to actual expenditures by department and line item</i></li> </ul>
Capital Assets	Capital Assets purchased could be incorrectly omitted from financial records	<ul style="list-style-type: none"> <li>• <i>Open PO report distributed quarterly to Department Directors to obtain authorization to close or liquidate Purchase Orders with open balances</i></li> <li>• <i>Department Directors review monthly budget-to-actual</i></li> </ul>

Area	Risk	Control Procedures
		<p>expenditure reports and detail transaction reports</p> <ul style="list-style-type: none"> <li>• AP transactions are approved prior to posting in the accounting software</li> <li>• <i>Finance Director, Assistant Finance Director, Accounting Manager and Budget Department along with external auditors carefully examine expenditures posted to repairs &amp; maintenance account and other large expenditures</i></li> <li>• Physical inventories taken every other year with unique asset identifier reconciling GL with subsidiary fixed asset module</li> <li>• <i>Finance reviews quarterly capital asset and updates accounting module</i></li> </ul>
Capital Assets	Capital assets no longer in service inadvertently left on financial records and/or impairment not properly disclosed	<ul style="list-style-type: none"> <li>• Physical inventories every 3 to 5 years with departmental staff</li> <li>• Annual review of capital asset records in software against automobile and property insurance schedules</li> </ul>
Capital Assets	Assets could be lost due to theft, employee error or casualty	<ul style="list-style-type: none"> <li>• Adequate property and liability coverage maintained</li> <li>• Buildings and storage areas locked after hours</li> <li>• <i>Physical inventories every 3 to 5 years with departmental staff</i></li> <li>• <i>Security systems and cameras installed at various locations</i></li> <li>• <i>Inventory listing of items less than capital asset threshold are maintained by various departments</i></li> </ul>
Inventory	Items could be stolen or removed from storage and not properly recorded	<ul style="list-style-type: none"> <li>• Buyer/Inventory Clerks record reductions in inventory through issue ticket process</li> </ul>

Area	Risk	Control Procedures
		<ul style="list-style-type: none"> <li>• <i>Issue tickets approved by Purchasing Manager before posting in system</i></li> <li>• <i>Purchasing Manager or designee releases items</i></li> <li>• <i>Storage area locked during absence of warehouse staff</i></li> <li>• <i>Purchasing staff performs annual inventory counts.</i></li> <li>• <i>Discrepancies between ledger and actual inventory amounts are investigated</i></li> </ul>
Inventory	Items purchased not properly recorded in perpetual inventory system	<ul style="list-style-type: none"> <li>• <i>Item numbers used on PO carry through in software module when recording receipt of items</i></li> <li>• <i>Invoices approved by Purchasing Manager (or designee) and Accounting Manager prior to posting in accounting software</i></li> <li>• <i>Purchasing Manager and staff performs inventory counts periodically</i></li> <li>• <i>Discrepancies between ledger and actual inventory amounts are investigated</i></li> </ul>
Inventory	Value of items not properly recorded in financial statements	<ul style="list-style-type: none"> <li>• <i>Invoices approved by Purchasing Manager (or designee) and Accounting Manager prior to posting in accounting software</i></li> <li>• <i>Purchasing and Warehouse staff conduct annual physical inventory counts. Discrepancies between ledger and actual inventory amounts are investigated</i></li> <li>• <i>Annual inventory identifies obsolete or damaged items</i></li> </ul>
Purchasing	Possible violation of state procurement laws	<ul style="list-style-type: none"> <li>• <i>Purchasing staff attend continuing education</i></li> <li>• <i>Adopted Purchasing policy and P-card policies in place</i></li> </ul>

Area	Risk	Control Procedures
		<ul style="list-style-type: none"> <li>• Policy and procedure manual incorporate legal mandates</li> <li>• Annual review of purchasing limits and delegations of authority to purchase and contract with Department Director</li> </ul>
Purchasing	Risk of not getting best value for taxpayer dollars	<ul style="list-style-type: none"> <li>• Follow formal and informal bid procedures in policy based on state law and best practices</li> <li>• Frequent RFPs and bidding for repeat or continuing contracts</li> <li>• Use Cooperative Purchasing groups and discount programs such as U.S. Communities as well as State Contract</li> </ul>
Payroll	Pay persons who are not town employees	<ul style="list-style-type: none"> <li>• New hire and termination forms are authorized by Human Resources, Finance Director and Town Manager prior to receipt by Payroll</li> <li>• Timesheet submission required for all employees except exempt employees (unless they have taken time off)</li> <li>• Each individual's time sheet per pay cycle approved by respective Departmental Supervisor prior to posting</li> <li>• Budget to actual monthly expense report to Department Heads</li> <li>• Monthly review of budget to actual expenditures by Finance Director</li> <li>• <i>Email notification received from Human Resources when employees separates from the town</i></li> </ul>
Payroll	Amounts paid and/or deducted are incorrect	<ul style="list-style-type: none"> <li>• Payroll file is maintained to document current pay rates and all deductions</li> </ul>

Area	Risk	Control Procedures
		<ul style="list-style-type: none"> <li>• Payroll Audit Checklist utilized to verify expected to actual pay, benefits and deductions for each pay run</li> <li>• Periodic audit of payroll file to verify rates and deductions</li> <li>• <i>Direct deposit notices distributed with detail for employee verification</i></li> </ul>

3. *Monitoring Internal Controls.* On a periodic basis, the Finance Director or designee will monitor the effectiveness of these controls and propose any modifications as indicated. Also, any malfunctioning of internal controls discovered by external auditors will be immediately investigated by the Finance Director and appropriate remedial action will be taken and documented.
4. *Misuse of Town of Apex Assets.* Any employee who suspects or becomes aware of the misuse or potential misuse of Town of Apex assets shall immediately notify the Finance Director. If the Finance Director is involved in the misuse or potential misuse, the employee shall immediately notify the Town Manager. The Finance Director and/or Town Manager, as appropriate, shall investigate and report to respective Department Director and/or Human Resources if additional action is required.

**Authority:** North Carolina General Statutes 159-25(a)(1) charges the Finance Officer with keeping the books of the government “in accordance with generally accepted principles of governmental accounting and the rules and regulations of the [Local Government] Commission. Statements on Auditing Standards (SAS) Numbers 55, 94, and 112 provide authoritative guidance for establishing and managing internal controls, and the North Carolina State Treasurer’s Manual prescribes internal control functions.

**Definitions:**

- **Management** refers to employees who have direct responsibility for the day-to-day operations of the entity, including the implementation of internal controls.
- **Oversight Body**, as referenced in the Government Accountability Office’s Standards for Internal Control in the Federal Government, refers to an appointed body designated to perform oversight at the direction of the governing board.

**Reference Materials:**

*Miller 2002 GAAS Guide*  
*Standards for Internal Control in the Federal Government* issued by the United States General Accounting Office

*Evaluating Internal Controls: A Local Government Manager's Guide* by Stephen J. Gauthier, published by GFOA  
*NC Department of State Treasurer Policies Manual—Internal Controls Chapter*  
*GFOA Recommended Practice—Enhancing Management Involvement with Internal Control* (2004)

DRAFT