

TOWN OF CAROLINA BEACH, NORTH CAROLINA INTERNAL CONTROLS

CONTROL ENVIRONMENT

Individuals seeking employment with the Town must complete a Town employment application. Applications are obtained through a link on the Town's website and processed by NEGOV. The application includes the individual's name, address, education, employment history and experience. Completed applications are sent to the Human Resource Department, who performs a prescreening and ranks them in order based on the applicant meeting the job requirements. The ranking and applications are given to the hiring department for review by a committee. Applicants, selected for interview by the department committee, are contacted by HR Director. The department committee will inform HR Director which applicant they wish to hire. HR Director will prepare a conditional hiring letter for the applicant to review and accept. If required, the HR Department will schedule a drug test and background check. Department Head and HR Director will discuss the approved pay rate for the applicant based on pay ranges set by the Town for each department and job description. All new hires are reviewed and approved by the Town Manager. The Town pays for classes for employees to obtain or maintain job required certifications as well as other training opportunities. Performance of employees of the Town are evaluated annually by the Department Heads who submit evaluation forms to the HR Department. The HR Department and Town Manager will approve suggested Merit Increases that fall within the pay guidelines and budget of the Town.

RISK ASSESSMENTS

Access to the Town's financial software is controlled by individual login names and passwords. It's against Town policy for anyone to share their password and violators will be written up. Access for the majority of the system users is limited to entering purchase orders and viewing reports. Finance department, Billing department and Human Resource department staff only have access to the functions required to perform their daily duties. The Finance Director is responsible for adding new users and assigning user rights.

CONTROL ACTIVITIES

Cash - Bank Reconciliation:

The Town has several accounts including Operating, Parking and Payroll Accounts with Truist; and Investment Accounts and Bond Account with North Carolina Capital Management Trust (NCCMT). On a monthly basis, Assistant Finance Director prepares the bank reconciliation for the payroll bank account, which is a ZBA account. Accounting Technician II prepares the bank reconciliation for the Operating, Investment and Revenue Bond Accounts. Finance Director reviews and approves the bank reconciliations. Each month the Investment Account statements

are used to prepare and post the journal entries for the monthly investment income and activity. The Town has several restricted cash amounts: Unspent Bond Funds (held in Bond Account) and Powell Bill Funds (held in the NCCMT Investment Account), with subledgers for the amounts used to reclass for financial statement presentation. Unspent American Rescue Plan Funds and State Grants are held in the NCCMT Investment Account until needed.

Cash Receipts:

Property taxes (collected by New Hanover County) and most intergovernmental taxes, etc. (collected by the State of North Carolina) are received as an ACH deposit. The Town receives a detailed listing which is used to correctly receipt funds into the General Ledger. The receptionist of the Town sorts the incoming mail, and all checks are given to the Billing Department for processing. There are two cashiers and a supervisor who receipt the various payments. Payment types include business registrations/licenses, permit fees, parking, and utility bills. The accounting software has payment codes which dictates how the receipts will be recorded in the General Ledger. At the end of the day, the cashier's drawers are closed, counted, and balanced for the day. The next day, Assistant Finance Director gets the drawers, verifies the count, and prepares a deposit slip. Assistant Finance Director will also compare the amounts to the close out report to ensure all receipts were posted to the correct general ledger account. The Town's police officers take the deposits to the bank (daily) and give the validated deposit slip back to Assistant Finance Director, which is entered into a cash summary excel spreadsheet. This spreadsheet, the validated deposit slip, and the close out reports are attached together and filed by month for future reference. The Accounting Technician II reviews the spreadsheet information on a daily basis and then again monthly when preparing the operating bank account reconciliation. The only receipts not processed by the Billing Department will be those funds collected by the Parking Department (parking permits, tickets and Freeman Park Passes). The Parking Department collects cash daily, prepares the deposits and makes the deposits. The cash reports from the Parking Department are given to the Assistant Finance Director for entry into the accounting system through the cash receipts process in the General Ledger. Monthly, the Utility Department performs readings on the customers' accounts, which are automatically read from cell towers located throughout the Town and transmitted to the Utility Department for processing. The accounts are read around the third week of the month. Utility bills are processed and emailed or mailed to the customers by the end of the month. These bills also include the fees for stormwater and trash collections for the month. Around the 15th of the following month, customers' bank accounts are drafted, and the ACH reports are given to the Billing Department for recording. The Town does have credit card payments through the website, which are processed by Invoice Cloud. The Billing Department imports the daily file from Invoice Cloud and posts to customer accounts.

Cash Disbursements:

All expenditures are approved by the Finance Director and Town Manager or their designees. The Town requires a purchase order for all disbursements over \$200. Each Department Head or their

assistant will enter the purchase information in the computer to generate a purchase order. Purchase Orders are pre-audited by the Finance Director who prints and sends them to the Town Manager for his approval. A pre-audit of the transaction means that the Finance Director has reviewed it for proper authorization and coding; ensured that the Town has enough funds to cover the disbursement; and confirmed that it complies with the budget as well as the laws and regulations of the State of North Carolina. Approved purchase orders are sent back to the department for the Department Head's signature and final processing with the vendor. Invoices that are under \$200 and do not require a PO are stamped received by the Assistant Finance Director and distributed to the various departments for review and approval. The departments submit approved PO's and all invoices to the Finance Director for approval. After approval, the Assistant Finance Director enters the invoices into the computer system for payment and matches them to the purchase orders in the system to clear the encumbrance. The Assistant Finance Director prints the checks. The Assistant Finance Director also prints a check register for the Finance Director's review and approval (this is considered a "pre-audit" of the checks). Each check requires two signatures, which are applied electronically; one for the Finance Director and one for the mayor (the Town Manager does not have the authority to sign checks). A detailed check register is emailed to all Council members for their review prior to checks being mailed. The Assistant Finance Director prepares the checks for mailing. A copy of the check is attached to the approved invoice and purchase order and filed by vendor for future reference if needed. The Accounting Technician II reviews the processed invoices and compares to the General Ledger posting to verify accuracy of data entry. She prepares correcting journal entries if errors are found.

Human Resource/Payroll:

HR Benefits Coordinator or HR Administrative Assistant will enter new employees into the payroll system. Employees are classified as either Salary or Hourly and are paid on a bi-weekly basis via direct deposit. All employees are required to prepare a weekly digital timesheet which is reviewed and approved by the Department Head. Approved timesheets are received by HR Benefits Coordinator and HR Administrative Assistant for entry or importation into the payroll system. The HR Benefits Coordinator or HR Administrative Assistant will prepare a pay register which is used to prepare a journal entry to record the payroll, taxes and benefits paid electronically. The journal entry is given to the Assistant Finance Director for review and posting to the General Ledger. HR Benefits Coordinator also prepares all necessary payroll reports such as 941's and year-end W-2's for HR Director's review and approval. The payroll system tracks each employee's vacation and sick leave, which is updated through the entry of the timesheets. HR Benefits Coordinator will print the accrued vacation and sick leave reports for year-end accrual entries. When an employee is terminated by the Town, a termination notice is sent to the HR Department to remove the employee from the payroll system and to have their final paycheck computed and paid out.

Capital Assets and Debt:

The Town has a \$5,000 capitalization threshold for their capital assets. Two general ledger accounts (one for purchases over \$10,000 and one for purchases less than \$10,000) are used to budget capital asset additions. At year end, the Finance Director reviews the individual items recorded to these accounts and decides whether they should be capitalized in Capital Assets and depreciated. Capital Assets are tagged and entered in the Town's Fixed Asset System. If an asset is no longer needed by the Town, it is removed from the Fixed Asset System and sold as surplus property by the Town Clerk unless the asset has no value. The invoices for capital assets are prepared and processed similar to those noted within the Cash Disbursement section of this policy.

Capital asset purchases or construction projects are funded by debt or grants. These construction projects are set up as capital project funds and are approved (budgeted) by the Town Council, which includes the authorization to issue new debt or accept grant funding to pay for those assets/projects. For debt issuance, the Town will request quotes from several financial institutions. The bank issuing the debt provides the Town with maturity schedules and due dates of debt payments. These debt payments are prepared and processed similar to those noted within the Cash Disbursement section of this policy. The debt documents do not hold any covenants or liens (other than on the assets purchased or constructed).

Journal Entries:

Finance Director, Assistant Finance Director, and Accounting Technician II are the only individuals within the Town that can prepare and post journal entries. The Town has a journal entry standard sheet that is prepared for any correcting entries needed. The standard sheet includes the account number, account name, amount, and description of the purpose of the entry. These standard entry sheets are printed and supporting documentation for the entry is attached and filed monthly by the Town.

Budget:

Each year, the Town Manager, with the assistance of the Finance Director and Department Heads, prepares an annual budget for the review and approval by the Town Council. The budget is entered into a budgeting program that interfaces with the Town's accounting software. This budget is presented to the Town Council in May/June of each year and approved by July 1st of the upcoming fiscal year. The budget is imported into the general ledger budget application after adoption and opened for transaction on July 1. Any necessary budget amendments are prepared by the Finance Director and given to the Town Council for approval. After they are approved, Finance Director will update the budget.

Financial Reporting:

On a monthly basis, each Department Head and the Finance Director reviews the department/Town budget versus actual reports. Any unusual items or fluctuations are noted and investigated for follow up. The Finance Director prepares an Available Fund Balance report for the Town Council

to review that shows the running total of cash receipts and disbursements and their impact on the fund balance. The Town Manager also prepares a weekly update for the Town Council members and Town employees outlining the issues or important items affecting the Town for communication and informational purposes. The Department Heads can include information in this weekly update that impacts their department.

COMMUNICATION/TRAINING

Town Council communicates its goals and objects for the coming fiscal year at the annual budget retreat in January. The Town Manager and department heads all attend the meeting. Periodic department head meetings are held to keep all departments informed of the progress of projects as well as the discussion of any new issues or concerns. Department heads are responsible for communicating with their staff. Town Council holds two public meeting each month: a regular Council meeting on the second Tuesday of the month and a workshop on the fourth Tuesday of the month. The Town Manager provides monthly updates to Council to keep them informed on the progress in achieving the Town’s goals and the Finance Director provides Budget versus Actual reports. Meeting minutes are prepared and maintained by the Town Clerk. The community is kept informed of the Town’s budget, project’s, issues or events through the Town’s website, Facebook, code red and press releases. Surveys are also used requesting citizens input on the budget various topics they would like to see addressed by Town Council and staff.

MONITORING ACTIVITIES

The Town has separation of duties in place to help catch errors in a timely manner and correct them. No single employee has complete control of any financial process. Each customer service representative operates out of their own till and must count out their drawer every evening and record the balance on the cash balance log and initials it. It is then placed in the Town safe. Every morning the Assistance Finance Director recounts the drawer to verify the previous count was correct and initials the cash balance log. Any overage or shortage is recorded, and a verbal warning is given. If overages or shortage continue to be an issue, the employee will be written up.

Adopted this the _____ day of _____, _____.

Albert L Barbee, Mayor