Office of Selectmen
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STATEMENT OF POLICY
No. 22

INTERNAL CONTROL POLICY

It is the responsibility of the Board of Selectmen to establish and maintain appropriate Internal Control Procedures for the assets under their control. (RSA 41:9, VI)

The purpose of this policy is to provide written guidelines regarding the internal control measures adopted by the Board of Selectmen to protect the Town’s cash and other assets. This policy is applicable to all elected and appointed officials subordinate to the Board of Selectmen who handle cash, manage the Town’s accounts and record the Town’s receivables and payables.

This policy supplements the requirements established by the State of New Hampshire in its Revised Statutes Annotated (RSAs). The Policy supplements the RSAs – it does not intend to conflict or negate the RSAs in any way.

The policy addresses the following areas: Insurance (and Official Bonding), accounting records keeping, cash management and reconciliation, segregation and responsibility in functions, computer controls and monitoring systems.

Insurance

The Board of Selectmen shall provide “faithful performance of duty” bonds for all elected and appointed officials for which a requirement exists according to RSA 41:6.

The following officials require bonding: Finance & Personnel Director (hereafter the “Director”), Town Clerk, Deputy Town Clerk, Tax Collector, Deputy Tax Collector, Treasurer, Deputy Treasurer, Library Trustees, Trustees of Trust Funds, municipal employees authorized to accept payments on behalf of the Town and agents authorized by the Town to collect boat fees. The Board of Selectmen shall provide a blanket bond with the resulting premium(s) paid by the municipality.

Accounting Records and Keeping System

The Board of Selectmen shall provide a computerized accounting system capable of identifying, assembling, classifying, recording and reporting all financial transactions. Those individuals charged to do so shall use that accounting system to maintain complete, accurate and timely records of Town financial transactions. Specifically, the Town Treasurer and Director will be responsible (except where noted) for the following actions.
1. Properly reconcile cash per bank statements to cash per the General Ledger and the Treasurer’s records for all bank accounts on a monthly basis.

To help ensure that the accurate and timely recording of cash transactions and the proper accounting of money, responsible officials shall perform cash reconciliations each month. Proper reconciliations will involve comparing adjusted bank balances to cash balances recorded in the accounting records. In the event that the reconciliation process discloses differences in the reconciliation process promptly investigation and resolution shall occur. The responsible officials shall formally document these reconciliations and present them to the Board of Selectmen within twenty (20) days after the end of each month. The Administrative Office shall retain this documentation for audit purposes.

2. The assignment of responsibilities shall effectively separate access to cash from record keeping functions.

Mixing record keeping duties with access to cash may be a weakness in internal controls and may represent a significant risk for loss of cash. To help achieve the goal of improved internal controls, no one person shall control all key aspects of a transaction. In relation to cash, one person shall not receive cash, record the transaction in the accounting records, make bank deposits, prepare and disburse checks and perform cash reconciliations.

To satisfy this requirement, the following separation shall occur. Those individuals authorized by the Board of Selectmen, and by extension, by department heads shall receive cash. They shall promptly and properly record assets and report on and transfer the same in accord with the schedule(s) set forth herein, who will reconcile reports received and record them in the general ledger, preparing deposit slips. A separate person will make the deposit and return the deposit slip to the Director for forwarding to the Town Treasurer. Where departments make deposits directly to the bank, they shall provide receipts to the Director documenting those deposits. The Treasurer and Deputy Treasurer shall alone have the authority to sign checks drawn on Town accounts and, except as otherwise provided for herein relative to so-called “clearing accounts”, transfer funds between Town accounts. The Treasurer and Director shall reconcile accounts on a monthly basis, reporting their balance and the reconciliation results to the Board of Selectmen.

Attachment 1, Cash Management Policy, documents the procedure to ensure the proper separation of duties and responsibilities as they apply to cash management.

To ensure that proper segregation of duties and ensure that revenue and expenditure controls are in place, the Director will request semi-annual verification from the financial institution(s) for all Town cash accounts as of January 1 and July 1 each year.
3. **Protecting Undeposited Receipts and Timely Bank Deposits**

The appropriate officials shall deposit receipts in the bank on at least a weekly basis. Until that deposit occurs they shall keep receipts behind at least two locks (desk and door, vault and door, etc.) to offer limited accessibility and portability.

4. **Accounts Payable**

Liabilities shall be recorded for the balance of unpaid invoices that are for services and goods received prior to year end. In the subsequent year, when the invoices are paid, the applicable liability and cash balance shall be reduced. Staff will duplicate all preceding year bills received in the New Year, coding them appropriately for payment, so that necessary adjusting entries occur in the General Ledger to record payments in the appropriate year. Staff will retain the copies and make them available for review and adjustment at the time of the Annual Audit.

5. **Capital Reserve Funding**

Monies shall be withdrawn from the various capital reserve funds on a reimbursement basis twice during the fiscal year; on or about July 15th and on or about December 15th. Reimbursement requests will be accompanied by a copy of the paid invoice, the check issued in payment thereof, and the authorization vote of the Town Meeting or Authority to Expend as appropriate to the request.

6. **Investment Records**

Only the Town Treasurer and Trustees of Trust Funds shall invest Town assets in certificates of deposit or other types of investment authorized by the RSAs. The Investment Policy approved and provided by the Board of Selectmen in compliance with RSA 35:9 shall govern the Town Treasurer.

In either instance, these elected officials shall create and maintain an investment record documenting each investment, the respective amount of each fund, the place where kept, the rate of interest, the dates and other details of acquisition and disposition and the amounts received from the disposition of the investment.

7. **Electronic Transfers of Funds**

a. **Transfers Out:** Funds will transfer electronically in four instances: Automatic Withdrawals for Payroll Deposits, Automatic Withdrawals for Federal Withholding and Electronic Transfers between the Cash Manager Account and the General Fund Checking Account, transfers to the state or a designated town account from a so-called “clearing account”. The Director will be responsible for Automatic Withdrawals, whether for
payroll or withholding. The Treasurer will be responsible for performing transfers of funds as required to accommodate cash flow considerations. The Director will notify the Treasurer when automatic withdrawals occur; the Treasurer will validate the withdrawals through account statements. The Treasurer will notify the Director of Electronic Transfers between accounts to facilitate entry into the General Ledger. This exchange of information will serve as checks and balances on these activities.

b. Transfers In: Primarily, Transfers In will occur because of the receipt of funds through the award of federal and state grants. The receiving department will notify the Director of anticipated receipts, to include dates and amounts of receipts. The Treasurer will notify the Director in the event that a deposit occurs without prior announcement. The Director will attempt to keep communications flowing between the department, the general ledger and the Treasurer.

All grant monies from the federal and state government shall be recorded separately in the general ledger. All grant awards shall be submitted to the Administration office. This will enable the Town to implement procedures to monitor possible grant reimbursements to ensure that the Town receives reimbursement due on a timely basis. Staff will work with the Treasurer to see every grant entry. Award documents will be the trigger to insure compliance with RSA 31:95b.

c. Acceptance of Credit Card, Debit Card, Automated Clearing House (ACH) or Such Other Means of Electronic Transaction:

The Town shall periodically enter into a written Agreement with a third party (the “Agency”) for it to accept electronic payments for taxes, liens or other fees of the Town to which may be added any penalties, interest and other costs due and payable thereon. No credit card, debit card or banking information will be collected, maintained or stored by the Town, either electronically or through paper copies, except that information necessary to reconcile the payment to the correct account—such as Name of the Payer, Tax Account Number and amount of the payment. The Agency shall be compliant with the Payment Card Industry Data Security Standard (PCI DSS) and shall maintain a Level 1 standard or the equivalent applicable to ACH payments. If a credit card brand or a bank has its own program for compliance and validation levels, the Agency shall maintain the higher of the two levels of security.

The maximum amount that may be paid upon any account by such means shall be the actual amount then due for the principal, interests, fees and costs on such account.
The Town itself shall not impose a service charge (convenience fee) on any transaction over and above the amount otherwise due to the Town. The Agency shall be permitted to add to each amount due, a convenience fee to cover the costs of its services under the Agreement. Said convenience fee shall be assessed and collected by the Agency only in such amounts and such manner as authorized under the Agreement. Any such convenience fee shall be disclosed to the customer at the time of the customer making payment in such a manner as to afford the customer an opportunity to cancel their intended payment and shall require an affirmative action from the customer to be authorized prior to the total payment being processed.

The Agency shall, on a daily basis, electronically deposit said credit card, debit card and cleared ACH payments into a separate bank account specifically designated by the Town for such payments (the clearing account). The Town shall make, upon requisition of the Tax Collector, an initial payment of $100 into said account (the Maximum) to cover any service charges resulting from disallowed payments and make supplemental deposits up to said maximum whenever the balance shall drop to $15.00 (the Minimum). Additional deposits shall be documented with the date, and amount(s) for any such service charges. All revenues from a party causing the Town to incur such a service charge shall be deposited by the Tax Collector into the general fund. The Town’s appropriate department personnel shall reconcile the payment information received from the Agency daily and upon verification of its accuracy, the Town Treasurer or the Treasurer’s designated town official/employee shall electronically transfer the deposit into the Town’s general fund. Said electronic deposits shall be fully documented and all procedures followed in accordance with the “Internal Control Standards” in the municipality’s Cash Management Policies and Procedures Handbook.

d. Acceptance of Single Payment DMV & Town Clerk Fees

The Town shall accept a single payment for the town and state portion of any amount(s) due for transactions with the New Hampshire Department of Motor Vehicles (the “DMV”). The Town Clerk shall deposit this amount, and all other fees paid to it, into an account designated by the Treasurer to be known by the title “Town of Moultonborough Town Clerk Clearing Account”. This account will be restricted in such a fashion that the Town Clerk, or designee, can only transfer monies to the single account of the state that the DMV has designated to receive the fees due it and the designated account of the Town.

The Town shall make, upon requisition of the Town Clerk, an initial payment of $2,500 into said account (the Maximum) to cover any checks returned to the Town because the maker did not have sufficient funds and
service charges resulting from disallowed payments and make supplemental deposits up to said maximum whenever the balance shall drop to $500.00 (the Minimum). Additional deposits shall be documented with the date, and amount(s) for any such returned checks and service charges. All revenues from a party causing the Town to incur such a service charge shall be deposited into this clearing account and subsequently paid into the general fund. Said deposits shall be fully documented and all procedures followed in accordance with the “Internal Control Standards” in the municipality’s Cash Management Policies and Procedures Handbook. The Town Clerk shall make a weekly turnover accounting to the Director and reconcile the account on a monthly weekly basis.

Electronic transfers are becoming more commonplace. In the event that the need for another electronic transfer develops other than those enumerated above, the need for and the action upon will be made a matter of record through the Selectmen’s Meeting Minutes and incorporated into this policy by amendment.

8. **Custody of Check-signing Devices**

When a mechanical check signing device is used, custody of the signature plate or stamp shall receive property safeguarding by the signatory. The officer whose name is on signature plate or stamp shall have sole control of the signature device.

9. **Adequate Protection, Back-up and Storage of Computer Files**

Password controlled access shall be maintained to all computerized accounting record. The Director shall assign all passwords. The Director will change all passwords annually and when people who possess password access leave or change their positions.

The Administration Office shall perform a daily back-up for all system records. The tape back-up shall be stored in the Tax Collector’s vault. The Administrative Office shall maintain tapes for a one week period unless permanent record is required for accountability and audit purposes. The Director shall be responsible to keep special tape back-ups (year-end, pre-tax billing, audit-related, etc.) longer if required or necessary.

**Turnover of Receipts**

In order to reduce the potential for loss and to allow the timely work flow of the Director, those Departments which do not make a daily deposit directly to town accounts (i.e. Town Clerk and Tax Collector) shall turnover their receipts weekly by the close of business on Monday or the first business day thereafter if Monday shall be a holiday.
Systems Monitoring

The Board of Selectmen shall commission an annual Independent Audit conducted according to generally accepted accounting principles (GAAP), including Government Accounting Standards Board Bulletin 34 (GASB-34). The accounting firm that completes the audit will prepare a report that will appear in the next Annual Town Report. The Audit conducted shall include an Internal Control Letter and Management Letter that the Auditor will present to the Board of Selectmen.

This policy shall be effective immediately upon adoption and shall remain in effect until superseded or replaced.

Revised and affirmed this 19th day of February, 2015 by a vote of 3 in Favor and 0 Opposed.

Jonathan W. Tolman, Chairman
Board of Selectmen

Date of Adoption: November 10, 2005
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Date of Revision: October 16, 2014
Date of Revision: February 19, 2015
ATTACHMENT #1

CASH MANAGEMENT POLICIES AND PROCEDURES
(part of INTERNAL CONTROL MEASURES)

General

This Attachment to Policy No. 22 examines the requirements, responsibilities, standards and objectives for cash management. Implementing internal controls is important in the area of cash management because of the diverse nature of the processes involved, i.e., billings, collections, deposits and disbursement processes, as well as the fragmented oversight responsibilities generally associated with these processes. Some of the other major factors which impose a need for a consistent application of sound internal controls are:

a. The high turnover rate of operating personnel and supervisors in cash management functions;
b. The assignment of cash handling responsibilities to personnel with limited fiscal experience or understanding;
c. The fragmentation of billing and cash handling functions which makes monitoring the whole process difficult; and
d. The inherent risk of loss, or opportunity for personal gain, created by the nature of cash transactions.

Statement of Policy

It is the policy of the Town of Moultonborough to implement internal control in the area of cash management to minimize the cost of the use of money to the Town. Accounting and administrative controls must also provide reasonable assurance that all Town assets, including funds, receive property safeguards against waste, loss, unauthorized use or misappropriation. While the need for internal controls may seem burdensome or restrictive, their value should be obvious. It is the responsibility of financial managers to interpret the value of internal controls for other managers and employees. Financial managers should also assist in tailoring internal controls to specific situations.

However, the costs and benefits of proposed controls for unusual situations require careful evaluation. The costs should not normally exceed the benefits derived. On the other hand, such evaluations shall not be justification for relaxing controls, or accepting an increased risk of loss to the Town, based strictly on cost.

Responsibilities

Internal controls over cash management are necessary at all levels of the organization that handle cash or cash equivalents, i.e., coupons, credit card slips, etc. Elected officials, department heads and financial managers are accountable for cash under their control.
However, elected officials, department heads and financial managers must provide guidance to all employees who have cash management responsibilities. They also bear ultimate responsibility for internal controls over cash collections, disbursements and holdings accounted for by his/her operations.

Therefore, elected officials, department heads and financial managers shall formally delegate responsibilities of cash management officers, cashiers, certifying officers, and other responsible officers to establish and maintain controls.

Internal Control Standards

Cash management internal controls represent an application of common sense and prudent conduct to the use and proper safeguarding of Town assets. Proper internal control mechanisms provide the Board of Selectmen with a reasonable assurance that responsible officials practice intended safeguards consistently. Therefore, the integrity of any cash management activity depends on the application of internal control principles and standards. The attainment of these principles and standards in the cash management area require that all officials pursue the following guidelines:

a. The Town shall recognize the time-value-of-money as a part of each cash management decision.
b. Cash related transactions shall occur only after the approval of an individual with delegated authority to make approvals.
c. All officials shall fully document every cash related transaction so that an undisputable audit trail exists.
d. Responsible individuals shall promptly record cash related transactions during each step of the cash handling function.
e. Town officials shall use serially-numbered forms to document cash related transactions to enhance reconciliation and accountability.
f. Officials shall carefully safeguard documents used in cash related transactions against re-use, tampering, or unauthorized disposal.
g. Responsible officials shall make provisions for the regular review and comparison of transaction documentation to detect errors and duplicate payments.
h. The Director shall administratively control and approve adjustments to cash related transactions.
i. Supervisors shall maintain strict control of all cash management activities.
j. In all instances, every effort shall occur to segregate cash related duties, such as maintenance of accounts receivable, cashiering, accounting, disbursing and collecting funds. In no instance shall one official be responsible for all cash related duties.
k. Department supervisors shall frequently review and reconcile cash related accounts with subsidiary records.
l. The accessibility to funds and fund records shall be restricted and administratively controlled.
m. Only properly designated employees shall handle impressed funds, disbursement certifications and collection duties.
n. Supervisors shall train employees whom they assign cash-related duties and accept responsibility for their performance.

o. To lessen the risk of loss and exposure to errors, officials will take every opportunity to improve and eliminate unnecessary clerical routines and the handling of cash or cash related documentation.

p. Electronic funds transfers and direct deposit will only occur according to the provisions of the Internal Control Policy.

q. Computer edit programs shall be used to the maximum extent possible to disclose or reduce the incidence of error in cash related transactions.

r. Supervisors and employees shall not commingle cash derived from collections and cash used for disbursements.

s. No supervisor or employee shall use cash transactions to substitute for or circumvent prescribed procurement approvals and procedures.

t. Employees shall endorse checks received in collections upon receipt and they shall safeguard until deposit is accomplished.

u. All responsible officials shall process deposits within prescribed intervals and reconcile them against records of funds received.

v. All supervisors and employees shall promptly respond to reviews performed by financial managers or the Auditor on cash management activities to correct cited deficiencies.

w. Responsible officials shall promptly process cash disbursement transactions and reconcile cash weekly.

x. Departments shall severely limit any cash held outside the Treasury. Departments shall maintain only the minimum amount needed to cover current transactions. The minimum amount maintained requires prior written approval by the Board of Selectmen.

y. No one shall extend credit in lieu of fees or cash due.

z. All departments shall publish approved price lists to ensure a control over income for goods and services. This list of guidelines is by no means all-inclusive. Cash handling techniques and methods change as programs change and as new collection and disbursement technologies evolve over time. However, departments shall establish similar economically feasible standards to fit these new collection and payment processes (see Section 6.0 of this Chapter). These standards shall be in writing and have written approval from the Director and Board of Selectmen.

Elected officials, department heads, and financial managers shall submit questions regarding applying internal controls in cash management to the Director.

Substitutions of Credit Cards for Cash Transactions

Departments shall use a Bank Card for small purchases when economically feasible and whenever possible. The use of the Bank Card for small purchases not only reduces the administrative cost of the procurement transaction, but also results in better cash management with resultant interest savings.