COUNTY COUNCIL AND BOARD OF COMMISSIONERS OF SHELBY COUNTY, INDIANA

JOINT ORDINANCE NO. 2016 - 1

ORDINANCE ADOPTING MINIMUM INTERNAL CONTROL STANDARDS AND PROCEDURES AND DETERMINING MATERIALITY THRESHOLD

WHEREAS, Indiana Code section 5-11-1-27 provides that internal control standards shall be defined to promote government accountability and transparency and applies to all political subdivisions under Indiana Code section 5-11-10.5-1;

WHEREAS, pursuant to Indiana Code section 5-11-1-27(e), the Indiana State Board of Accounts ("SBOA") developed and published the Uniform Internal Controls Standards for Indiana Political Subdivision manual in order to provide the basis of common understanding to assist public sector managers in complying with the internal control requirements;

WHEREAS, the Uniform Internal Controls Standards for Indiana Political Subdivisions manual contains the acceptable minimum level of internal control standards;

WHEREAS, pursuant to Indiana Code section 5-11-1-27(g), after June 30, 2016, all Indiana political subdivisions must develop local internal control standard policies and ensure that personnel receive training on the internal control standards and procedures adopted by the political subdivision;

WHEREAS, State Examiner Directive 2015-6 directs each political subdivision to determine its own policy on materiality;

WHEREAS, the Shelby County Council and Board of Commissioners of Shelby County, Indiana do not condone any erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property but recognizes that relatively small items may not justify the cost of the involvement of the SBOA; and

WHEREAS, the Shelby County Council and Board of Commissioners of Shelby County, Indiana have reviewed the Uniform Internal Control Standards for Indiana Political Subdivisions manual and recommend adoption of the proposed internal control standards and materiality threshold.

NOW THEREFORE, it is ordained by the Shelby County Council and Board of Commissioners of Shelby County, Indiana as follows:

1. The Shelby County Council and Board of Commissioners of Shelby County, Indiana hereby adopt the Internal Control Policy attached hereto and incorporated herein as Exhibit A. Exhibit A contains the acceptable minimum level of

internal control standards and procedures developed under Indiana Code section 5-11-1-27(e) by the SBOA.

2. The Shelby County Auditor is hereby directed to ensure that all personnel receive training concerning the internal control procedures adopted and approved herein prior to June 30, 2016.

3. The Shelby County Council and Board of Commissioners of Shelby County, Indiana adopt a materiality threshold of $500.00, except for inadvertent clerical errors that are identified timely and promptly corrected with no loss to the County, under Indiana Code sections 5-11-1-10, 5-11-1-21, and 5-11-1-27 for purposes of the internal control policies and procedures adopted and approved herein.

4. Any internal control procedures of the Shelby County Council or the Board of Commissioners of Shelby County, Indiana adopted prior to the adoption of this Ordinance are superseded by this Ordinance.

5. This Ordinance shall become effective upon adoption by the Shelby County Council and Board of Commissioners of Shelby County, Indiana.

ADOPTED this 27 day of June, 2016 by a vote of 3 AYES and Ø NAYS of members of the Board of Commissioners of Shelby County, Indiana.

BOARD OF COMMISSIONERS OF SHELBY COUNTY, INDIANA

Kevin Nigh

Kevin Nigh, President

Don Parker

Don Parker, Member

Chris Ross, Member

ATTEST:

Mary Jo Phares

Mary Jo Phares, Auditor
Shelby County, Indiana

SO APPROVED, ADOPTED, ADJUDGED, AND DECREED this 21 day of June, 2016.

Tony Titus, President
Shelby County Council

SHELBY COUNTY COUNCIL

"AYES"	"NAYS"
Tony Titus, President	Tony Titus, President
Linda Sanders, Vice President	Linda Sanders, Vice President
Scott Asher, Member	Scott Asher, Member
Ryan Claxton, Member	Ryan Claxton, Member
Bryan Fischer, Member	Bryan Fischer, Member
Leigh Langkabel, Member	Leigh Langkabel, Member
Terry Smith, Member	Terry Smith, Member

ATTEST:

Mary Jo Phares, Shelby County Auditor

I affirm, under penalties for perjury, that I have taken reasonable care to redact each Social Security number in this document, unless required by law. Jody M. Butts

This instrument was prepared by the Shelby County Council Attorney, Jody M. Butts, Attorney No. 29191-73, 2150 Intelliplex Drive, Suite 100, Shelbyville, IN 46176.

EXHIBIT A

SHELBY COUNTY, INDIANA

Internal Controls Policy Pursuant to Indiana Code § 5-11-1-27

I. Policy

The Shelby County Council ("County Council") provides and funds services to Shelby County ("County") citizens, including public safety, highways and streets, health and welfare, economic development, and public utilities. In order to fund those services, the County Council procures resources through taxation, fees, fines, permits/licenses, donations, and grants. The County Council aims to make the most effective and efficient use of these resources in rendering these services and accomplish its mission and objectives with accountability and transparency. The purpose of this policy is to communicate the Board of Commissioners and County Council's internal control objectives to all employees and elected officials of the County and to firmly commit the County to the seventeen (17) key principles of internal controls as established by the Indiana State Board of Accounts ("SBOA").

COMPONENT ONE: CONTROL ENVIRONMENT

Principle 1: The oversight body and management demonstrate a commitment to integrity and ethical values.

The Shelby County Auditor ("Auditor") has the responsibility to establish and maintain an adequate system of internal controls and to furnish to the County Council, Board of Commissioners, various boards and commissions, governmental agencies, creditors, and others reliable financial information on a timely basis. An adequate system of internal controls is necessary for the Board of Commissioners and County Council 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 resulting financial information is reliable. External organizations of the County rely on financial information to make decisions toward appropriations, loans and other debt, grants, and other contractual relationships. County resources are dependent upon the system of internal controls. Auditors are required annually to report upon the adequacy of the County's systems for control over financial reporting and compliance per Indiana Code section 5-11-1-27(e). The safeguarding of the County's assets and the reliability which the County and others can place upon its financial records is dependent upon the effectiveness of the internal controls process.

As the fiscal body, the County Council expects the Auditor 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.

The system of internal controls is meant to keep the County on course toward its mission and to minimize waste. The system promotes efficiency, minimizes risks of asset loss, helps ensure the reliability of financial information, and compliance with applicable laws, rules, and regulations. Internal control can provide reasonable assurance, but no system of control can provide absolute assurance to the County and other users of financial information.

The Auditor shall be charged with:

- Conveying periodic memorandums of the Auditor's internal control philosophy and expectations to all employees;
- Evaluating the Auditor's internal control system for weaknesses on a periodic (but no less frequently than annual) basis, providing solutions to any discovered weaknesses, and informing employees of necessary changes in procedure;
- Establishing a confidential reporting system for individuals to report suspected waste, fraud, and abuse of internal control policies; and
- Instituting procedures to address violations of policies and consequences for violations.

Principle 2: The oversight body oversees the entity's internal control system.

As the fiscal body for the County, the County 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. As the County's Chief Fiscal Officer, the Auditor will be the County Council's chief agent in implementing and managing the internal control policies and procedures.

Principle 3: Management establishes an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives.

Individuals with delegated approval authority, e.g. elected officials, 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 County 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. Staff in leadership roles are responsible for the application of this policy and the design, development, implementation, and maintenance of systems of internal controls focusing on the effectiveness of operations and the safeguarding of assets within their respective areas of responsibility. All levels of management and supervision are responsible for strengthening internal controls when weaknesses are detected. Managers should periodically review procedures to ensure that the general principles of internal control are being followed.

The Auditor has the primary responsibility for internal control over financial reporting and compliance with applicable laws, rules, and regulations, is the County Council's chief source for information and assistance to staff on this topic, and will make resources available to assist in administering this policy.

All levels of internal control are subject to examination by external auditors who are required to report on the adequacy of internal controls over finance and compliance. The Auditor is responsible for prompt corrective action on all internal control findings and recommendations made by internal and external auditors. The audit process is completed only after the Auditor receives the audit results and takes action to correct internal control weaknesses, improve systems, or demonstrate that management action is not warranted. The Auditor has the responsibility to ensure that those who report to him/her have adequate knowledge, skills, and abilities to function within, and contribute to, an effective internal control environment. This includes providing access to appropriate training on topics relevant to their job responsibilities.

Principle 4: Management demonstrates a commitment to recruit, develop, and retain competent individuals.

The County Employee Handbook provides a roadmap for recruiting and maintaining quality employees. Prior to employment, individuals may be subject to pre-employment background screening and/or a credit history check. While employed full time, County employees are entitled to a benefits package including health insurance and certain other benefits. The County will continue to assess the best recruitment pools and tools for the different skill sets of skills necessary to adequately implement and maintain quality internal controls.

Job descriptions will be updated when necessary to reflect internal control responsibilities and duties. Employees will be regularly trained in internal control methods and all training will be documented in employees' personnel files. Employees will be regularly evaluated by their supervisors on internal control duties and receive feedback on possible improvements. Succession and contingency plans will be developed and documents for employees in key roles with the County.

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 structure, which includes relevant job descriptions, operating procedures, periodic reviews, regular feedback, and a progressive disciplinary policy. Additionally, staff seek to address issues in specific departments and positions through regular one-on-

ones with the Auditor. Management will evaluate the departments for excessive pressures on personnel and adjust these pressures accordingly. Finally, Management will address noncompliance with internal control procedures and take appropriate action to correct the noncompliance.

COMPONENT TWO: RISK ASSESSMENT

Principle 6: Management defines objectives clearly to enable the identification of risks and risk tolerances.

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 Auditor will lead a risk analysis of three major areas:

1. The effectiveness and efficiency of operations.
2. The reliability of reporting for internal and external use.
3. Compliance with applicable laws and regulations.

For each category, the Auditor will define objectives in specific measurable terms in order to enable the design of internal controls for related risk, increase understanding at all levels, assess performance, identify safeguards for assets, 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 risks related to achieving the defined objectives.

The Auditor will identify, analyze, and respond to the risks identified in Principle 6 by determining:

1. How likely is the risk to occur?
2. How will it impact the objective?
3. Is the risk based on complex or unusual transactions?
4. Is the risk based on fraud?

Once each risk has been identified and analyzed, the Auditor will work with staff to determine how to respond to each risk with a specific solution and action through acceptance, avoidance, reduction, or sharing.

Principle 8: Management considers the potential for fraud when identifying, analyzing, and responding to risks.

Management is committed to fraud prevention by utilizing a "trust but verify" approach. The potential for fraud, misappropriation, corruption, and outright theft are contemplated as controls and designed for various County divisions and departments. Fraud responses will include statutorily required responses to fraud, including, but not limited to Indiana

Code section 5-11-1-27(l) relating to the Report of Misappropriation of Funds to State Board of Accounts and Prosecuting Attorney and Indiana Code section 5-11-1-27(j) relating to the Report of Material Variances, Losses, Shortages, or Thefts to the SBOA. The County Council shall utilize a materiality threshold of $500.

Principle 9: Management identifies, analyzes, and responds to significant changes that could impact the internal control system.

The Auditor, in coordination with staff, will regularly evaluate and adjust internal control policies in order to accommodate for the impact of future internal and external changes, including but not limited to, personnel changes, newly elected officials, new programs, new technology, new laws and regulations, and financial fluctuations.

COMPONENT THREE: CONTROL ACTIVITIES

Principle 10: Management designs control activities to achieve objectives and respond to risks.

The Auditor will establish and maintain a system of internal controls that satisfies the County Council's objectives in the following categories:

1. Risks are identified and effectively managed.
2. Safeguarding of County assets.
3. Reliability and integrity of financial information.
4. Compliance with County policy, plans, procedures, laws, and regulations.
5. Economical and efficient use of County resources.
6. Meeting established objectives and goals for County operations and programs.

A. General internal control principles are:

1. Separation of Duties

    a. Duties are separated so that one person's work routinely serves as a check on another's work.
    b. No one person has complete control over more than one key function or activity (e.g., authorizing, approving, certifying, disbursing, receiving, or reconciling).

2. Authorization and Approval

    a. Proposed transactions are authorized when proper and consistent with County policy and the department's plans.
    b. Transactions are approved by the person who has delegated approval authority, which is usually delegated on the basis of special competency or knowledge.

3. Custodial and Security Arrangements

    a. Responsibility for physical security/custody of County assets is separated from record keeping/accounting for those assets.
    b. Unauthorized access to County assets and institutional data is prevented.

4. Timely and Accurate Review and Reconciliation

    a. Accounting records and documents are examined by employees who have sufficient understanding of the County's accounting and financial systems to verify that recorded transactions actually took place and were made in accordance with County policies and procedures.
    b. Accounting records and documentation are compared with County accounting system reports and financial statements to verify their reasonableness, accuracy, and completeness.

5. The general internal control principles should be applied to all operations, especially accounting records and reports, payroll, purchasing/receiving/disbursement approval, equipment and supply inventories, cash receipts, petty cash and change funds, billing and accounts receivable.

B. All County systems, processes, operations, functions, and activities are subject to evaluations of internal control systems. The results of these evaluations provide information regarding the County's overall system of control.

C. Information and Communication – Information must be timely and communicated in a manner that enables people to carry out their responsibilities.

1. All covered employees must be trained on internal controls according to Indiana Code section 5-11-1-27(g). All personnel must receive a clear message from the County's administration that control responsibilities are to be taken seriously. Failure to comply with established practices will subject individuals to disciplinary action or dismissal.
2. Employees must understand their own roles in the internal control system, as well as how individual activities relate to the work of others. To this end, whenever a new budgetary unit, financial activity, etc. is set up, the Auditor will provide notification to the appropriate parties of the responsibilities incumbent on them for good business practices and sound financial management, including reference to the principles within this policy.
3. Employees must have a means of communicating significant information to the County.
4. The County must communicate effectively with external parties, such as auditors, creditors, contractors, suppliers, and regulators.

D. Internal control is meant to keep the County focused on achieving its mission while avoiding surprises. There is a balance between effective controls and mission accomplishment. Costs associated with internal controls should not exceed their benefit, nor should controls be allowed to stifle mission effectiveness and timely action. All levels of management must assess the costs, benefits, and risks when designing controls to develop a positive control environment and compensate for the risks of non-compliance, loss of assets, or unreliable reporting while accomplishing the County's mission.

The following specific internal control policies are adopted for use by County:

Disbursement Activities

- The responsibility for approving claims is segregated from those preparing the claims.
- Checks are written by an individual other than the one approving the claim.
- Checks are signed by an individual other than the one preparing them.
- Claims for payment are reviewed and approved by the County Council prior to payment.
- A reconcilement is completed between the claims for payment approved by the County Council and the actual disbursements posted to the ledger.
- The responsibility for acknowledging the receipt of goods or services is segregated from those preparing claims and writing check.
- Vendor checks are accounted for in numerical order and reconciled to the disbursement ledger.
- Invoices or other receipts are attached to each claim to support the disbursement.
- A review is completed by an individual outside the disbursement process in which the claim amount is compared to the supporting documentation attached to the claim and the amount of the check.
- Access to disbursement applications is appropriately controlled by user log-ins and passwords.

Receipting Activities

- The responsibility for collecting money and issuing receipts is segregated from those preparing the bank deposit.
- The responsibility for making bank deposits is segregated from those preparing the monthly bank reconcilement.
- Pre-numbered receipts are issued for all money collected and the receipt is retained with supporting documentation.
- Receipts are reconciled to the cash receipts ledger by an individual other than the one collecting money and issuing receipts.
- Posting of receipts to the ledger is completed by an individual other than the one who collects money and makes the deposit.
- Receipts indicate the type of payment received (cash, check, etc.) and this is reconciled to the make-up of the bank deposit.

- Accounts receivable records are maintained by an individual other than the one(s) involved in the billing process.
- The billing process is completed by an individual other than the one who collects cash payments from customers.
- Adjustments to customer accounts above our managerial threshold are approved by the governing body only after review.

Cash Activities

- A reconcilement between the recorded cash balance and the bank balance is completed monthly by an individual separate from the receipting and disbursing processes.
- A reconcilement between the receipts ledger and the credits to the bank account is completed periodically by an individual separate of the receipting process.
- A reconcilement between the disbursement ledger and the debits to the bank account is completed periodically by an individual separate of the disbursement process.
- The monthly reconcilement between the cash balance and the bank balance is thoroughly reviewed and approved by the governing body.
- Disbursements from and reimbursements to petty cash funds are periodically reviewed by an individual other than the one responsible for maintaining the petty cash fund.
- Petty cash shall be audited by the Auditor as often as he/she deems necessary and whenever a staff member is replaced.

Credit Cards Transactions

Certain departments in the County have access to and authority to use credit cards. Any department in the County with access to and authority to use credit cards shall establish a written policy to prevent abuse, control the number of and access to credit cards, and assign a purchase limit and purchase restrictions (i.e., for travel only). The Auditor shall receive an itemized statement by each department with access to and authority to use credit cards on a monthly basis and shall review all credit card transactions regularly.

Principle 11: Management designs the political subdivision's information system and related control activities to achieve objectives and respond to risks.

The Auditor will work with the Information Technology Department to ensure that information technology is used as an integral part of the internal control system. This may include, but not be limited to:

- Setting permission such that only certain users may perform certain tasks;
- Using technology to accomplish segregation of duties by forcing duties to be completed by different users;
- Automating certain processes and calculations;

- Limiting the authority to access different components of various softwares to employees with duties specifically related to that component;
- Prohibiting user ID and password sharing among employees;
- Restricting the authority to correct or make adjustments to records to key employees;
- Implementing periodic back-up processing on a periodic basis sufficient to allow restoration of the information in a timely manner; and
- Requiring the use of prescribed forms or the approval of alternative forms.

Principle 12: Management implements control activities through policies.

The County has an employee handbook that is regularly updated to communicate policies to employees. Additionally, the Auditor regularly works with employees who handle financial transactions to recommend and ensure best practices. All procedures are in writing and communicated frequently to all relevant employees. Policies are available both electronically and in hard copy form. Any variance from the policies shall be promptly brought to Management's attention. Templates for frequent procedures that document required procedures, i.e., travel, credit card purchases, employee reimbursements, and adherence to the procedures will be maintained by the departments and regularly updated.

COMPONENT FOUR: INFORMATION AND COMMUNICATION

Principle 13: Management uses quality information to achieve the political subdivision's objectives.

The County strives to lead in the areas of financial transparency and accountability. By adopting standards and investing in systems that exceed State mandated minimums, County management provides employees with high quality information and informatics systems that is appropriate, current, complete, accurate, accessible, and timely. The County Council shall implement policies to facilitate the flow of communication between the departments and staff.

Principle 14: Management internally communicates the necessary quality information to achieve the political subdivision's objectives.

Internal communications on internal controls are communicated through adoption of formal policies by relevant boards and commissions and/or the legislative body or documented through memorandums. Internal memorandums and reports should be maintained to document communication.

Principle 15: Management externally communicates the necessary quality information to achieve the entity's objectives.

Communications with the SBOA, other State agencies, and regulatory agencies are documented by email, memorandums, letters, and other forms of written correspondence.

Logs should be kept for information provided verbally. All documents are maintained in accordance with the County and State's record retention policies. Reports and policies are cross checked for accuracy, relevancy, and timeliness of information.

COMPONENT FIVE: MONITORING ACTIVITIES

Principle 16: Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.

The Auditor monitors and evaluates compliance with internal control policies via multiple vectors. Separation of duties, redundancy polices, layered approval systems, monthly reports, and physical controls such as video monitoring allow management to both review and evaluate control systems.

The Auditor shall implement a system of monitoring that includes:

- Periodic checks to determine if controls are in place and working effectively;
- Reviewing control activities to determine if the actual activities are in compliance with established procedures; and
- Documenting deficiencies in the internal control processes and remediating them quickly monitoring activities will be documented by signatures, initials, or other appropriate methods.

Principle 17: Management remediates identified internal control deficiencies on a timely basis.

Breaches of internal controls are subject to significant levels of internal scrutiny. If informed of a material breach of internal controls, the Auditor and County Council shall actively investigate and address said breach and adjust policies and procedures to prevent such breaches in the future. If the breach exceeds the County's materiality threshold, the Auditor shall report the breach to the SBOA pursuant to the policies and procedures provided by Indiana law. Once breaches are identified and investigated, a formal or informal corrective action plan will be developed.

Joint Ordinance No. 2016 -1, dated ______________________.