

Purpose: To document how County of Yadkin Management has fulfilled its 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.

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. 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 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, orienting, training, evaluating, 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.
3. *Control activities* are those procedures, actions, or activities that help ensure that management's directives are carried out. They may consist of policies, physical actions, software processes, or procedures such as segregation of duties.
4. *Information and communication* 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.
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 County is responsible for prudent stewardship of all items acquired with taxpayer funds including infrastructure, buildings, software, supplies, and cash, and for protecting other intangible items necessary for business functioning such as customer and employee information.
2. *Integrity of financial information.* Financial information is accurate, complete, properly authorized and valued, and produced in a timely manner.
3. *Compliance with laws and regulations.* The County's financial operation complies with all state and federal requirements, current Generally Accepted Accounting Principles and Governmental Auditing Standards (GAAP and GAGAS), all provisions of the bond order and related financial 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.

County Internal Controls In Place

1. Control Environment - These controls include but are not limited to the following:
 - a. Keeping core values of trust, honesty, 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 and ethics training
 - c. Annual audit by well-qualified external CPA firm
 - d. Requiring responsible employee authorization for all accounting transactions
 - e. Identity Theft Prevention Program and identity of 'Red Flags'
 - f. This is not an exhaustive listing, there may be others as identified

2. Risk Assessment and Control Procedures

Area	Risk	Control Procedures
Cash	Employee could pocket cash received from customers	Separate functions of receiving payments & making bank deposit, posting payments and authorizing write-offs to customer accounts
Cash	Employee could pocket cash using false invoice	<ul style="list-style-type: none">• Separate functions of requisitioning, ordering, receiving, and approving invoices• Implementation of a purchase order system for purchases over \$1,000• Invoices reviewed and approved by the Department Director, Finance Officer and County Manager if over \$1 000
Cash	Employee could pocket cash	Petty cash custodian has locked

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Area	Risk	Control Procedures
	from petty cash box	box and original receipts must be signed by employee receiving cash. Reimbursement reconciliation reviewed by Finance staff during impress replenishment
Cash	Criminals could try to steal cash by altering or counterfeiting County check	Positive pay protection with bank where checks are not honored without advance notice to bank from County of check number and corresponding amount.
Cash	Criminals could try to steal cash by forging ACH draft	ACH Control protection with bank where drafts are not honored by bank without advance notice from County staff
Cash	Employee could try to steal cash using blank check	<ul style="list-style-type: none"> • Tyler Forms are used for all checks and check numbers and bank information print when the checks are printed • Two signatures required on checks
Cash	Cash transaction could be recorded improperly, such as typo error or NSF check notification not received from bank	Employee who does not record any cash transactions reconciles bank statement within 10 days of receipt of statement
Investments	Investment could be susceptible to theft	<ul style="list-style-type: none"> • Have contractual arrangement with third-party financially reputable custodial company to take delivery of investment before funds released to seller. • Internal reconciliation of purchase and sale confirmations on monthly statement from custodian by employee other than those who authorize and execute
Investments	Investments and/or related income could be improperly recorded	<ul style="list-style-type: none"> • Compare financial records with statements prepared by custodian • Accounting staff complying with GASB 40 guidance
Investments	Investments not allowed under NC law could be purchased	<ul style="list-style-type: none"> • Semi-annual report of investments to LGC
Revenues	Revenues could be improperly recorded or not received in their entirety	<ul style="list-style-type: none"> • Separated duties of billing and recording payments • Daily bank deposits and

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Area	Risk	Control Procedures
		<ul style="list-style-type: none"> recording revenue • Department Directors review revenues monthly in Munis • Monthly review and analysis of billing and consumption data • Write-off authorization limited to Board of Commissioners approval
Debt	Debt could be issued improperly	<ul style="list-style-type: none"> • All debt authorized by Board under auspices of LGC
Debt	Debt service could be under-paid or inadvertently missed	<ul style="list-style-type: none"> • Annual schedule of debt service corroborated with LGC and Trustee • Trustee notifies Assistant County Manager/Finance Officer if Finance Staff does not remit sufficient funding
Debt	Outstanding Debt could be misreported in financial statements	<ul style="list-style-type: none"> • Annual schedule of debt service corroborated with LGC and Trustee • Accounting staff aware of disclosure checklists and requirements
Debt	Arbitrage liability incorrectly computed or recorded	<ul style="list-style-type: none"> • Annual arbitrage calculations by contracted professional
Debt	Violation of debt covenants	<ul style="list-style-type: none"> • Management aware of provisions of bond order • Allowable ratio computed annually and included in notes to financial statements • Annual review of provisions and notification to Trustee and other EMMA that there were no violations
Expenditures	Unauthorized or unavailable funds could be expended	<ul style="list-style-type: none"> • Board-approved budget entered into accounting software which notifies Finance staff if funds are unavailable in line item • Password system on accounting software used to validate identity • Procurement cards for purchases less than \$1,000. • Procurement card purchases approved by Department Director • Purchase Order System will not

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Area	Risk	Control Procedures
		allow requisition processing if funds are not available <ul style="list-style-type: none"> • Items on Purchase orders must be received in software before payment allowed • Invoices must be approved for payment by authorized Department Director • Contracts are pre-audited by Asst. County Manager/Finance Officer • Contract Management Module encumbers not to exceed amount of contracts.
Expenditures	Incorrect amounts could be recorded or correct amounts omitted	<ul style="list-style-type: none"> • Discrepancies between amount authorized and paid must be resolved before Purchase Order can be closed during periodic reconciliations • Department Directors receive monthly budget-to-actual expenditure reports and detail
Capital Assets	Capital Assets purchased could be incorrectly omitted from financial records	<ul style="list-style-type: none"> • Accountant and external auditors carefully examine expenditures posted to capital equipment account and other large expenditures • Records of infrastructure can support financial amounts • Physical inventories taken every year with unique asset identifier reconciling GL with subsidiary capital asset software.
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"> • Physical inventories every year with departmental staff • Infrastructure records can be compared to capital asset ledger
Capital Assets	Assets could be lost due to theft, employee error or casualty	<ul style="list-style-type: none"> • Adequate property and liability coverage maintained • Moveable assets tagged with County name and unique identifier number • Buildings and storage areas locked after hours

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Area	Risk	Control Procedures
Inventory	Value of items not properly recorded in financial statements	<ul style="list-style-type: none"> Assistant County Manager/Finance Officer and/or Accountant can investigate discrepancies Annual inventory identifies obsolete or damaged items
Purchasing	Possible violation of state procurement laws	<ul style="list-style-type: none"> Policy and procedure manual incorporates legal mandates
Purchasing	Risk of not getting best value for ratepayer dollars	<ul style="list-style-type: none"> Follow formal and informal bid procedures in policy based on state law and best practices Frequent RFPs and bidding for repeat or continuing contracts
Payroll	Payments not to be made to persons not employed by County of Yadkin	<ul style="list-style-type: none"> New hire and termination forms authorized by Department Head, Asst. County Manager/Finance Officer and County Manager prior to receipt by Payroll Timesheet submission required for all employees Finance Director or Accountant conducts "phantom" employee audits Budget to actual monthly expense report to supervisors
Payroll	Amounts paid and/or deducted are incorrect	<ul style="list-style-type: none"> Payroll file is maintained to document current pay rates and all deductions Periodic audit of payroll file to verify rates and deductions Pay advice is made available to employees
Red Flags	Presence of suspicious personal identifying information or suspicious documents	<ul style="list-style-type: none"> Monitor a covered account for evidence of identity theft Change any passwords, security codes or other security devices that permit access to a covered account

3. Monitoring Internal Controls. On a periodic basis, the Assistant County Manager/Finance Officer 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 County Manager and appropriate

remedial action will be taken and documented.

4. *Misuse of County Assets.* Any employee who becomes aware of the misuse or potential misuse of County assets shall immediately notify the Assistant County Manager/Finance Officer or the County Manager. If the Assistant County Manager/Finance Officer is involved in the misuse or potential misuse, the employee shall immediately notify the County Manager. The County Manager, as appropriate, shall investigate and take appropriate action.

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.

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)

Approved by:

Chairman, Board of Commissioners

Date