INTERNAL CONTROL PROCEDURES FOR THE PORTER COUNTY PUBLIC LIBRARY SYSTEM

Adopted 03/20/24

PORTER COUNTY PUBLIC LIBRARY SYSTEM INTERNAL CONTROL PROCEDURES

An effective internal control system can greatly enhance an entity's accountability, transparency, and operations. Under Indiana Code 5-11-1-27, all political subdivisions in Indiana must adopt the acceptable minimum level of internal control standards as set forth by the Indiana State Board of Accounts' *Uniform Internal Control Standards for Indiana Political Subdivisions.*

Porter County Public Library System's internal control procedure incorporates by reference the standards outlined in the *Uniform Internal Control Standards for Indiana Political Subdivisions.* The state manual includes suggested procedures to implement the standards. This document restates the components and principles of internal control while also identifying specific control procedures, most of which have been suggested by the SBOA.

Introduction

Porter County Public Library System recognizes that an effective internal control system is an objective-driven process implemented by management and staff. Internal controls are designed to provide reasonable assurance that we will meet our objectives in three areas: Reliability of financial reports, effectiveness and efficiency of operations, and compliance with laws and regulations. An internal control system consists of five, interrelated components – Control Environment, Risk Assessment, Activities, Information and Communication, and Monitoring. Each component consists of specific principles, with 17 principles in all. Each component and principle must be present and functioning at all times for effective internal control.

Control Environment

The control environment addresses management's commitment to accountability, ethics, and integrity. The oversight body and management convey leadership expectations, and overall tone which are reinforced by all staff and management throughout the various departments. Five of the 17 principles apply to the Environment component.

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

Management and staff are expected to participate in ethics training and other activities when provided.

Management is expected to evaluate the internal control system for weaknesses on a regular basis, providing resolutions to any weaknesses and informing employees of changes in procedure.

The Library Board of Trustees has adopted a code of Ethics which will be adhered to in all practices.

All library staff are expected to adhere to the materiality policy as adopted by the Library Board of Trustees.

The library expects individuals – whether management or staff – to report suspected fraud and abuse of library policies and procedures to their immediate supervisor or, when applicable, the Library Director. The library provides confidentiality to those making reports of abuse or fraud.

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

The Porter County Public Library Board of Trustees in conjunction with the library administration adheres to the established internal controls system. In recognition that internal controls are an evolving process, the Board of Trustees and/or the library administration may amend the internal control procedures when deemed necessary.

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

The Porter County Public Library System Board of Trustees is the legislative body of the Porter County Public Library System. As such, the Board of Trustees has general executive authority over all policies affecting the library. The Board of Trustees also has direct oversight authority, which includes personnel and budget decision-making authority. As such, the Board of Trustees has budgetary control over all library expenditures, including the establishment of salaries and staffing levels.

All staff are expected to follow all procedures and policies as established by the Porter County Public Library Board of Trustees.

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

The Porter County Public Library System Board of Trustees and/or library administration is responsible for reviewing, updating, and/or amending the Personnel Policy manual on an as-needed basis.

All staff are expected to adhere to library procedures with respect to advertising for new or vacant positions.

The Porter County Public Library System Board of Trustees and administration are expected to achieve a salary structure that enables the library to retain and recruit the most competent staff possible.

Principle 5: Management evaluates performance and holds individuals accountable for their internal control responsibilities.

Management staff is expected to follow the employee evaluation system and to communicate the results of their evaluations to employees.

Library administration and Treasurer will report annual financial data to the State Board of Accounts as required.

Risk Assessment

An effective internal control system incorporates an assessment of the risks that might impede the achievement of objectives. When performing risk assessment, management should consider the effects of change and inherent risk. Changes- such as the change in management or new technology systems – may expose the library to greater risks. Inherent risk is the risk due to an error or omission in the financial statements due to the complexity of the activity or transaction, susceptibility to fraud, or the size and volume of the activities. Overall, risk assessment is the basis for determining how risk will be managed.

Four of the 17 internal control principles apply to Risk Assessment.

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

All staff are expected to recognize the role they play in the reliability of the library's financial statements.

All staff are to follow established procedures in all financial transactions, such as daily reports of collections (receipts) and accounts payable processes (expenditures). Procedures are established by the State Board of Accounts, Library Board of Trustees, and/or library administration. All staff are expected to understand the importance of the role they play in keeping accurate and complete financial information.

Principle 7: Management identifies, analyzes, and responds to risks related to achieving the defined objectives.

The internal control system will be amended and updated as needed in response to identified risks.

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

Management and staff are expected to follow the library's materiality policy as adopted by the Porter County Public Library Board of Trustees, which states that any "loss, shortage, or theft of cash or other asset belonging to Porter County Public Library in an amount over $500 shall be deemed 'material' for the purpose of IC5-11-1-27 (j) and reported to the Indiana State Board of Accounts and the Library Board of Trustees."

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

New employees receive training on internal controls and employee policies.

The HR department oversees and manages the flow of information regarding personnel policies for all employees. Employees and the Porter County Public Library Board of Trustees will be provided annual continuing education regarding internal controls.

Control Activities

Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives.

Three principles are applied to the activities component.

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

All staff are encouraged to review and follow, as appropriate, the extensive list of control activities found on pages 8-11 in Section 2, "Examples of Internal Control Procedures" of the SBOA's *Uniform Internal Control Standards for Indiana Political Subdivisions* which are attached to this policy*.* The library will follow these state-suggested procedures in the areas of payroll, receipts, disbursements, and credit card usage.

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

All staff will consider safeguards to prevent loss of data including limiting authority to access different components of the library's IT system to employees with duties specifically related to that component; prohibiting user ID and password sharing between employees; restricting the authority to correct or adjust records on the system to key employees or management; adherence to all library rules and procedures.

Procedures are in place for backing up all pertinent library records and financial data on a daily basis.

Principle 12: Management implements control activities through policies.

All new employees are given the library's personnel handbook.
The library's internal control procedures are posted on the library's Wiki and paper copies are provided upon request.

Information and Communication

An effective internal control system relies upon timely, quality information and incorporates both internal and external communications.

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

All staff shall utilize the most updated and comprehensive informational sources to carry out their objectives. Every effort is made to ensure that information is appropriate, current, complete, accurate, accessible, and timely.

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

Information is communicated using established reporting lines such as written reports, staff Wiki, e-mail, and texting.

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

All staff are expected to consult with relevant state and national organizations and others to carry out their objectives. Examples of such organizations could include the State Board of Accounts, Indiana Library Federation, American Library Association, Indiana State Library, Internal Revenue Service, Society Human Resource Management, and Department of Local Government Finance.

All staff are encouraged to document communications with outside agencies through emails, memos, letters, and other written documents.

All staff are expected to follow state and county public record retention rules and procedures.

Delegated staff may also communicate externally via social media to promote the library and achieve library objectives.

Monitoring

Internal control systems are most effective when controls are in place to monitor strengths and weaknesses. Evaluations are used to determine whether each of the five components of internal control is present and functioning. Controls that are not working effectively should be adjusted as necessary.

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

All staff are expected to periodically review their controls to determine if controls are in place and working effectively and that actual activities are in compliance with established procedures.

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

All staff should report internal control issues identified while performing their responsibilities to Administration. Such issues will be evaluated on a timely basis and any needed procedures will be implemented.

APPENDIX

Section 2

Examples of Internal Control Procedures

1. **Payroll Activities**
   1.1. Salaries and wage rates are verified by someone outside of the payroll process.
   1.2. The responsibilities for hiring, terminating, and approving promotions are segregated from those preparing payroll transactions or inputting data.
   1.3. The responsibilities for approving time sheets are segregated from those for preparing payroll transactions or inputting data.
   1.4. Payroll adjustment reports are reviewed by someone outside of the payroll process.
   1.5. Employees' time and attendance records are approved by their supervisors.
   1.6. Corrections to recorded time and attendance records are approved by the employee's supervisor and authorized by management.
   1.7. Procedures are in place to ensure that changes in employment status are promptly reported to the payroll processing unit.
   1.8. Payroll disbursements are reviewed and approved by an authorized individual prior to payment.
   1.9. Access to payroll applications is appropriately controlled by user logins and passwords.
   1.10. Changes to a payroll disbursement are approved by an individual other than the ones authorized to make the changes.
   1.11. Payroll checks are accounted for in numerical order and reconciled to the payroll check register.
   1.12. Access to the signature stamp used to sign payroll checks is adequately controlled.
   1.13. Payroll checks/stubs are periodically distributed by someone outside the normal payroll distribution function.
   1.14. Unclaimed payroll checks/stubs are returned to an individual other than those involved with the payroll process.
   1.15. Employees are cross-trained on the payroll process; those assigned to payroll take mandatory vacations.

2. Disbursement Activities

2.1.   The responsibility for approving claims is segregated from those preparing the claims.

2.2.   Checks are written by an individual other than the one approving the claim.

2.3.   Checks are signed or stamped by an individual other than the one preparing them.

2.4.   Signature stamps must be safely stored and only accessed by authorized signers on the checking accounts.

2.5.   Claims for payment are reviewed and approved by the governing body prior to payment.

2.6.   A reconciliation is completed between the claims for payment approved by the board and the actual disbursements posted to the ledger.

2.7.   The responsibility for acknowledging the receipt of goods or services is segregated from those preparing claims and writing checks.

2.8.   Vendor checks are accounted for in numerical order and reconciled to the disbursement ledger.

2.9.   Invoices or other receipts are attached to each claim to support the disbursement.

2.10. 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.

2.11. Access to disbursement applications is appropriately controlled by user logins and passwords.

3. Receipting Activities

3.1.   The responsibility for collecting money and issuing receipts is segregated from those preparing the bank deposit.

3.2.   The responsibility for making bank deposits is segregated from those preparing the monthly bank reconciliation.

3.3.   Pre-numbered receipts are issued for all money collected and the duplicate receipt is retained.

3.4.   Receipts are reconciled to the cash receipts ledger by an individual other than the one collecting money and issuing receipts.

3.5.   Posting of receipts to the ledger is completed by an individual other than the one who collects money and makes the deposit.

3.6.   Receipts indicate the type of payment received (cash, check, etc.) and this is reconciled to the make-up of the bank deposit.

3.7.   Accounts receivable records are maintained by an individual other than the one(s) involved in the billing process.

3.8.   The billing process is completed by an individual other than the one who collects cash payments from customers.

3.9.   Adjustments to customer accounts are approved by the governing body only after a thorough review.

3.10. A periodic review is completed of all adjustments made to customer accounts by an individual independent of the billing and accounts receivable processes to ensure that all adjustments made have proper approval from the governing body.

4. Cash Activities

4.1. A reconciliation between the recorded cash balance and the bank balance is completed monthly by an individual separate from the receipting and disbursing processes.

4.2. A reconciliation between the receipts ledger and the credits to the bank account is completed periodically by an individual separate from the receipting process.

4.3. A reconciliation between the disbursement ledger and the debits to the bank account is completed periodically by an individual separate from the disbursement process.

4.4. The monthly reconciliation between the cash balance and the bank balance is thoroughly reviewed and approved by the governing body.

4.5. 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.

5. Credit Card Transactions

5.1. A designated official or employee oversees the issuance and use of credit cards.

5.2. An ordinance or resolution specifically states the purposes for which the credit card may be used.

5.3. The designated official or employee collects the credit card when the purpose for which the credit card has been issued has been accomplished.

5.4. The designated responsible official or employee maintains an accounting system or log that includes the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, the date the card is issued and returned, sufficient documentation provided, etc.

5.5. A designated person separate from the disbursement process reviews transactions listed on the credit card statements for sufficient documentation and inclusion in the claim to the Board.