

ORDINANCE NO. 16- 26

PORTER COUNTY BOARD OF COMMISSIONERS
AN ORDINANCE ADOPTING INTERNAL CONTROL STANDARDS DEVELOPED BY
THE INDIANA STATE BOARD OF ACCOUNTS, PORTER COUNTY INTERNAL
CONTROL PROCEDURES, AND MATERIALITY STANDARD

WHEREAS, Indiana Code 5-11-1-27 requires each political subdivision to maintain a system of internal controls in order to promote accountability and transparency;

WHEREAS, in September 2015, pursuant to IC 5-11-1-27 (e), the Indiana State Board of Accounts developed and published the "Uniform Internal Control Standards for Indiana Political Subdivisions" to assist public sector managers in complying with the internal control requirements;

WHEREAS, the "Uniform Internal Control Standards for Indiana Political Subdivisions" contain the acceptable minimum level of internal control standards; and

WHEREAS, pursuant to IC 5-11-1-27(g), after June 30, 2016 all Indiana political subdivisions must develop local policies regarding internal control and ensure that personnel received training on internal control; and

WHEREAS, the Porter County Board of Commissioners find that the County's policy regarding internal controls should include the internal control standards as set forth by the Indiana State Board of Accounts "Uniform Internal Control Standards for Indiana Political Subdivisions" supplemented by adopted county procedures; and

WHEREAS, pursuant to Indiana Code 5-11-1-27 (j) each political subdivision is to develop its own policy on materiality;

NOW, THEREFORE, BE IT ORDAINED that Porter County hereby adopt as policy the internal control standards as set forth in the "Uniform Internal Control Standards for Indiana Political Subdivisions" as expressly written and published by the Indiana State Board of Accounts in September, 2015, as amended from time to time.

IT IS FURTHER ORDAINED that Porter County's policy supplements the state's acceptable minimum level of internal control standards with "Porter County Internal Control Procedures."

IT IS FURTHER ORDAINED that a new section, 2.64 Internal Control Standards, is hereby added to the Porter County Code to read as follows:

SECTION 2.64 INTERNAL CONTROL STANDARDS

Porter County adopts as policy the internal control standards as set forth by the Indiana State Board of Accounts "Uniform Internal Control Standards for Indiana Political Subdivisions" and procedures outlined in the "Porter County Internal Control Procedures" document. All officers, elected officials and employees are required to comply with the policy. Porter County department managers may adopt their own internal control procedures to augment, but not replace or override, the county standards. Employees who fail to comply with this policy are subject to discipline, including but not limited to termination of their employment.

BE IT FURTHER ORDAINED that each officer and employee of Porter County whose official duties include receiving, processing, depositing, disbursing, or otherwise having access to funds that belong to the federal government, state government, a political subdivisions, or another governmental entity must undergo training in the standards and procedures developed by the Indiana State Board of Accounts under IC 5-11-1-27 (e) and adopted by Porter County.

BE IT FURTHER ORDAINED that a loss, shortage, or theft of cash or other asset belonging to Porter County in an amount over \$500 shall be deemed "material" for the purposes of IC 5-11-1-27 (j) and reported to the Indiana State Board of Accounts.

This ordinance passed and adopted this 20 day of September, 2016.

BOARD OF COMMISSIONERS
PORTER COUNTY, INDIANA



John A. Evans



Laura Blaney

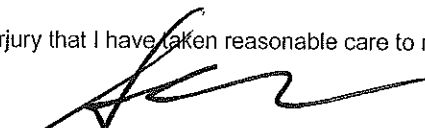


Jeff Good

Attest: Vicki Urbanik

Vicki Urbanik, Auditor

I affirm under the penalties for perjury that I have taken reasonable care to redact each social security number in this document unless required by law.



Scott R. McClure, County Attorney

PORTER COUNTY 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's internal control policy 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 re-states 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 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. This component is often thought of as “the tone at the top.” 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.

Porter County is a member of the Shared Ethics Advisory Council. 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 county expects individuals – whether management or staff -- to report suspected fraud and abuse of local policies to their immediate supervisor or, when applicable, the County Attorney. The county 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 Commissioners have adopted the county’s internal control policy; in recognition that internal controls are an evolving process, the Commissioners may amend the internal control policy when deemed necessary.

County departments may adopt their own internal control standards and procedures tailor-made for their own departmental needs. However, any additional control standards should augment, not replace, the county standards.

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

The Porter County Commissioners are the legislative body of the Porter County government. As such, the Commissioners have general executive authority over all departments in such matters including but not limited to county building policies and personnel and benefits policies. The Commissioners also have

direct oversight authority, which includes personnel and budget decision making authority, over all departments that are not supervised by an elected official or not governed by an appointed board.

The Porter County Council is the fiscal body of Porter County government. As such, the Council has budgetary control over all county departments, including the establishment of salaries and staffing levels.

Department heads, including elected officials who oversee county departments, are expected to follow all county ordinances, the county personnel manual, and other policies as established by the County Commissioners and County Council.

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

The Porter County Commissioners are responsible for reviewing, updating, and/or amending the Porter County Personnel Policy manual on an as-needed basis.

All county departments are expected to adhere to the requirements in the County Personnel Policy manual with respect to advertising for new or vacant positions.

The Porter County Commissioners, County Council, County Auditor, and HR Director are expected to coordinate efforts to achieve a county salary structure that enables the county to retain and recruit the most competent staff possible.

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

Department heads are expected to develop a formal employee evaluation system and to communicate the results of their evaluations to employees.

Department heads who maintain their own financial records and who annually report the data in the form of a Supplemental CAR-1 to the County Auditor are expected to respond in a timely manner and provide additional information as requested by the County Auditor as part of the annual financial report.

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 change in management or new technology systems – may expose the county 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.

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

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

All county departments are expected to recognize the role they play in the reliability of the county's financial statements. For example, county departments submitting supplemental CAR-1 data are held accountable for the data they report for inclusion for the Annual Financial Report.

County departments are to follow established procedures in all financial transactions, such as monthly reports of collections (receipts) and accounts payable processes (expenditures). Procedures are established by state agencies, such as the State Board of Accounts, and the County Auditor's Office. County departments are expected to understand that there is a substantial risk of material misstatement in the AFR due to inaccurate or incomplete financial records they maintain.

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

The County Commissioners have adopted the county's internal control standards and will amend and update the standards in response to identified risks.

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

Management and staff are expected to follow IC 5-11-1-27 (I), Report of Misappropriation of Funds to the State Board of Accounts and Prosecuting Attorney, which requires individuals to report instances of fraud or misappropriation.

Management and staff are expected to follow the county's materiality standard, which states that any "loss, shortage, or theft of cash or other asset belonging to Porter County in an amount over \$500 shall be deemed 'material' for the purposes of IC 5-11-1-27 (j) and reported to the Indiana State Board of Accounts."

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 new employees. The County Auditor oversees and manages any internal control training deemed necessary for new employees in custody of public monies.

Control Activities

An internal control system incorporates activities designed to minimize the risks that may impede the achievement of objectives. The activities generally are categorized as detective (controls that identify potential problems), preventive (controls intended to prevent problems), and corrective (controls designed to correct a problem that has occurred).

Three principles are applied to the Activities component.

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

Department heads design control activities tailor made for the needs of their individual offices. The county recognizes that the nature of control activities may vary greatly from one department to the next.

Department heads are encouraged to review and follow, as appropriate, the extensive list of control activities found on pages 7-14 in Section 2 "Examples of Internal Control Procedures" of the SBOA's *Uniform Internal Control Standards for Indiana Political Subdivisions*. The county adopts the following state-suggested procedures in the areas of payroll, receipting, disbursements, and credit card usage.

The responsibilities for hiring, terminating, and approving promotions are segregated from those preparing payroll transactions or inputting data.

Employees' time and attendance records are approved by their supervisors.

Changes in employment status ("status changes") are reported promptly and within the timeframe established by the payroll department.

Department heads follow the county's personnel manual in promptly reviewing and returning the signed payroll earnings reports ("forecasts"). Signatures by the department heads indicate that the forecasts have been reviewed and are correct.

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

All expenditures paid out of the contractual account (line item 3950) must be supported by a Commissioner-approved contract or other acceptable agreement on file in the auditor's office.

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

Receipts indicate the type of payment received, and this is reconciled to the make-up of the bank deposit.

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

Department heads follow the county policy with respect to use of county issued credit cards. Department heads acknowledge that their wages may be garnished to cover the credit card payment if they do not provide acceptable documentation to validate that the credit card transaction is proper and lawful.

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

Department heads consider safeguards to prevent loss of data including limiting authority to access different components of the county'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 IT department rules and protocols.

Principle 12: Management implements control activities through policies.

All new employees are given the county's personnel handbook.

The county's internal control policy, which includes the adopted ordinance and procedures, are posted on the county's website and paper copies are provided to all departments.

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 political subdivision's objectives.

Department heads and employees utilize the most updated and comprehensive informational sources to carry out their objectives.

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

Departments are encouraged to maintain internal memos and reports to document communication internally.

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

Departments are expected to consult with relevant state and federal authorities and others for carrying out their objectives.

Departments are encouraged to document communications with outside agencies through emails, memos, letters, and other written documentations.

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

Monitoring

Internal control systems are most effective when controls are in place to monitor strengths and weaknesses. Proper monitoring ensures that controls function properly. Controls that are working should be maintained and strengthened when feasible. 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.

Department heads 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.

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