

## **Town of Berwick**

### **Internal Control System Documentation**

The Town of Berwick has established the following Internal Control System Policy and states: The Treasurer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed annually by the auditor hired by the town. The controls shall be instituted to prevent possible loss of public funds arising from fraud, employee error, misrepresentation by a third party, unanticipated changes in financial markets, or imprudent actions by town employees.

Internal control is a management process for keeping the town on course in achieving its organizational objectives. A management control system, including comprehensive internal controls, should provide reasonable assurance that the town's objectives are being met.

The town's objectives fall into the following three separate but related categories:

- Effectiveness & efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Control objectives focus the management control system toward those control activities designed to minimize the risks of not achieving objectives.

An internal control system should provide reasonable assurance that an organization will accomplish its objectives. The concept of reasonable assurance recognizes that the cost of an internal control activity should not exceed the benefit derived.

Internal controls are distinguished as accounting and administrative controls. Accounting controls are necessary to ensure that activities associated with authorizing, processing, recording, and reporting financial transactions are properly controlled and that the information resulting from these activities is reliable and useful. Administrative controls are necessary to ensure that all resources, including personnel, are properly obtained, maintained, and used; that decisions regarding the expenditure of funds are made based on reliable information; and that budgets are properly developed and monitored to ensure consistency between planned and actual expenditures.

Accounting & Administrative controls and financial procedures are documented as follows:

- I. Classification and Coding Structure
- II. Financial Management and Control
  - Reports
  - Reconciliations
- III. Cash Management
  - Receipts
  - Disbursements
- IV. Payroll
- V. Data Security
- VI. Procurement

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### I. Classification and Coding Structure

The Town of Berwick currently uses TRIO software package to record the accounting transactions of the town. This software consists of inter-dependent and stand-alone modules. The modules are: real estate, personal property, tax billing, real estate collections, personal property collections, clerk, budgetary system, cash receipting, payroll, utility billing, blue book, motor vehicle registration, fixed assets, and system maintenance.

The budgetary system which includes the general ledger is organized at a fund level. The Town currently has seven active funds:

- Fund 10                      General Fund
- Fund 20 – 28              Special Revenue Funds
- Fund 30                      Debt Service Fund
- Fund 42 – 49              Capital Project Funds
- Fund 51 – 55              Trust Funds
- Fund 60                      Water Utility Fund
- Fund 89                      Scholarship Trust Fund

The assets, liabilities and fund balance of the town are assigned a nine-digit account number. When recording entries in the general ledger accounts the entry format is GXX-YYYYY-ZZ. The first two numbers represent the fund number. The next five are assigned as follows: 10000-19999 is reserved for Assets, 20000-29999 is reserved for Liabilities and 30000-39999 is reserved for Fund Balances. The final two numbers are sub accounts that are used by the Town currently to record inter-fund activity as well as account for divisional activity within a fund. This numbering scheme allows account titles to be shared by more than one fund. For example, G10-37300-00 and G60-37300-00 are used to account for Fund Balance in the General Fund and the Water Utility Fund respectively. The system also will construct the entries needed when disbursements are made in the one fund on behalf of another.

Revenues are denoted in the format RXXX-YY-ZZZZZ. In this case, the prefix denotes the fund, while the YY denotes the financial statement category to which specific groups of revenues will ultimately roll up in the General Fund, i.e. 01 = General Taxes, 10 = Licenses & Permits, 20 = Intergovernmental, 30 = Charges for Services, 40 = Other, and 50 = Other Financing Resources. For all other Funds, the YY denotes function/department for a particular fund. The next five numbers are 40000 - 49999 and describe the Town's various sources of revenue.

The expense format is EWWW-XX-YY-ZZ. The first three digits refer to the function/department, while the next two refers to the division. The next two digits refer to the expenditure category, i.e. 10 = Payroll Expense, 20 = Benefits, 30 = Materials/Supplies, 40 = Professional/Technical Services, 45 = General Assistance, 50 = Property Services, 51 = Utilities, 55 = Waste Disposal, 60 = Insurances, 65 = Special Programs, 70 = Equipment, 71 = Land Improvements, 72 = Vehicles, 75 = Buildings, 76 = Infrastructure, 79 = Depreciation, 80 = Debt Principal, 85 = Debt Interest, 86 = Bond Administration Fee, 90 = Intergovernmental, 91 = Appropriations, and 95 = Miscellaneous. The last two numbers are the expense or object number. The last four numbers are uniform across all departments, i.e. telephone expenses are 51-50 across all divisions.

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The complete Chart of Accounts which is in four pieces: General Ledger, Department/Division, Revenue, and Expense/Object are appended to this document.

### **II. Financial Management and Control**

The Finance office is responsible for maintaining the integrity of the town's accounting data. This is accomplished through a system of financial reporting and data reconciliation.

- **Reporting:**

Generally, the Finance Director prepares a monthly financial report for the Board of Selectmen and the Town Manager. The financial report provides a summary of each funds' activity along with a YTD Revenue and YTD Expenditure report generated from the TRIO software. Also, a monthly analysis of the General Fund's revenues and expenditures is provided, highlighting any potential problems in departmental budgets as well as pointing out positive revenue collections. The YTD expenditure report is at expense line level. Revenues are presented summarized at the budget level. Department Heads receive a monthly report at the expense level and more frequently as requested. Detail departmental budget reports are provided upon request. The Finance Director also provides a monthly YTD activity summary report to the BCTV Committee, the Riverfront Committee, and the Farmers Market Committee.

The Finance Director is responsible for preparing the financial statements for the Town to be examined by an independent auditor at the close of the fiscal year. The Town reports on a fiscal year of July 1 ending June 30.

- **Reconciliations:**

Cash: Each general fund and water utility cash account is reconciled to the general ledger and the bank statement monthly as soon as is practicable by the Deputy Finance Director or the Finance Director. The general fund cash accounts include: The town's operating, accounts payable, payroll, GO Bond, and money market investment accounts. The water utility fund has a checking account and a Water Tower Reserve savings account, and the Misc. Trust accounts have a money market investment account. After reconciliations are completed, they are reviewed, initialed, and dated by the Finance Director or Deputy Finance Director depending upon who did the monthly bank reconciliation work. Signatory authority for these accounts rests with the Finance Director and the Town Manager.

Taxes: All outstanding property tax and lien accounts are reconciled by the Finance Director or the Deputy Tax Collector monthly. This entails verifying that all subsidiary ledgers agree in amount with the town's general ledger. Variances are investigated by the Finance Director or Deputy Tax Collector.

Other Asset & Liability Accounts: All general fund general ledger account balances are reviewed monthly by the Finance Director and other Finance department staff and reconciled to supporting documentation on an as needed basis but no less than annually.

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### III. Cash Management

- Receipts

#### Cash Handling

All cash, checks, and credit card receipts received during the day are placed in the locking cash drawers located at each workstation. Each Customer Service Representative (CSR) must lock their cash drawers up during their breaks and lunch time. At the end of the CSR's shift, all cash, checks, and credit card receipts are removed from the locking cash drawers. See bank deposit below for cash up procedure.

If at any time during the CSR's shift, excess cash (generally over \$500) is received, the CSR should contact the Town Clerk or his/her designee and request that the safe be opened so the CSR can put the excess cash in their locking deposit bag and place that in the safe until batch close or end of the day. The CSR may need to do this more than once during the day particularly during tax season.

Ideally, no transactions will take place during power or computer system outage but in the event that there is a power outage or the computer system is down and a CSR needs to process a transaction for a customer, the following steps should be taken. The CSR will issue a hand-written, numbered receipt from their assigned receipt book, which are in triplicate. The top receipt will be given to the customer, the next copy will be attached to the payment and placed in their locking deposit bag until such time as they are able to enter the payment into the computer system, and the bottom copy will remain in the receipt booklet as a permanent record of the transaction. Each CSR will be responsible for their receipt booklet and will be required to account for any missing receipt. The Finance Office will be responsible for issuing receipt books to the CSR's. When a CSR has used all receipts in the book, they will turn the book into the Finance Office for verification that all receipts are accounted for prior to issuing a new receipt book to the CSR. The Finance Office will retain the receipt books for the appropriate retention period.

#### Bank Deposits

All cash and checks received by the town flow through the Town Clerk's Office. The exception is funds received at the Transfer Station. For amounts collected by the Transfer Station, the Transfer Station Supervisor or his/her designee issues receipts to customers for all transactions. At the end of the day, a bank deposit is made up and the cash and checks are placed in a bank deposit bag and deposited in the night drop box at the Town's bank. That day's receipts are submitted to the Finance Dept. the next business day. The Deputy Finance Director verifies the receipts with the bank deposit ticket when received and journals the deposit into the accounting system.

All receipts, other than Water Dept., are deposited in the town's general fund operating account, while water is deposited to the Water Dept. checking account. The Town Clerk's Office uses the cash receipting function of the town's software to directly record all receipts. Recreation Department, Transfer Station, Public Works, Planning, Code, Police and Fire

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receipts as well as receipts from Board sanctioned committees, organizations, and events (Farmers' Market, Riverfront, etc.) are recorded by the CSRs in the Town Clerk's Office. At the end of a batch period; typically at 2:00pm, Monday through Thursday, Friday at the close of business, or the last working day of any month at the close of business, the Town Clerk or his/her designee prints off the daily audit report and closes additional activity to the journal. The journal entry resulting from this activity is posted to the accounting records by the Finance Department the next day.

Each CSR in the Town Clerk's Office must record all transactions taken into the computer system under their user id and must work out of their own drawer. They must also cash up their own receipts at the end of the batch period for the daily close out or at the end of their scheduled shift if they are not scheduled for the next work day. If for some reason this is not possible, the Town Clerk or his/her designee will be responsible for cashing up the CSR at the end of the batch period. At the end of each work day, CSRs will place all Town and Water Dept. cash, checks, and credit card receipts collected during the period following the daily batch close out along with their base drawer amount and place them in their locking zippered bag. The Town Clerk or his/her designee will place all locking zippered bags in the safe at the close of business.

Each CSR can print an audit report (teller report) of their work for the batch period from the accounting system and is responsible for reconciling their cash drawer to the information on their teller report and record information on the CSR's Cash-up Summary sheet (see Excel spreadsheet example), sign the form and attach it to the teller report from TRIO. CSRs will generate two check listing tapes – one for the bank and one to go with their cash-up paperwork. Each CSR then places the separated Town and Water Dept. cash, checks, and credit card receipts into a zippered bank bag, which is given to the Town Clerk or his/her designee. Bank security bags containing deposits are kept in the safe or the Town Clerk's locked desk drawer until they are transported to the bank.

The Town Clerk, or his/her designee, verifies each CSRs' signed teller report with the contents of each CSRs' bag, then summarizes all the deposit bag activity on a worksheet and compares that to the daily cash audit journal summary (see Excel spreadsheet example). Variances are investigated at this time. Individual CSR cash up sheets are attached to this summary, which is signed off on by the employee verifying and compiling the Town and Water Dept. bank deposits and this paperwork along with the credit card receipts is given to the Finance office for processing.

The deposit bags are taken to the bank daily by either the Town Clerk, Deputy Town Clerk, Finance Director, or the Deputy Finance Director. Bank deposit slips are verified to the daily deposit ticket by the Town Clerk or his/her designee.

### EFT & Internal Transfer Transactions

In addition to bank deposits, money is received by the town through electronic funds transfers by some state and federal agencies as well as credit card processing firms into the general fund

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checking account. These transactions are recorded by journal entry by either the Finance Director or Deputy Finance Director.

Transfers between town bank accounts located in the town's primary bank are made on line or in the event of internet problems in person at the local branch by the Finance Director or the Town Manager. These transfers require no corresponding release.

The town's primary bank collateralizes deposits that are in excess of Federal Deposit Insurance Corporation (FDIC) insurance and must maintain a minimum of \$3,000,000 par value specifically pledged securities as collateral for the aggregate balances of the Town of Berwick's accounts. During tax season, additional securities are pledged as collateral to cover the higher balances in the Town's accounts.

- **Disbursements**

The bills of the Town and Water Department are paid by paper check and are authorized by Board of Selectmen through the warrant process. Weekly warrants for Town and Water are prepared but checks are not released until either three Selectmen signatures are received on the warrant or until the Board of Selectmen approve warrants at their meetings held on the first & third Tuesday of each month. Exceptions to this are checks for health insurance, State withholding checks, to take advantage of discounts, to avoid penalties, to make advance payments when required for recreation activities, and for invoices resulting from purchases or contracts previously approved by the Board of Selectmen.

Per the Town's Purchasing Policy, department heads or their designee may make a field purchase when the total purchase price for the goods and services being purchased that are less than \$2,500. All purchases of, or commitment of funds for goods and/or services with prices between \$2,500 and \$5,000 shall be made by the Purchasing Agent, which is the Town Manager or his/her designee. All purchases totaling \$5,001 or more shall be made by the Board of Selectmen through the formal bid process.

When goods & services are received, the invoice is approved by the department head and forwarded to the Finance Department for processing. The Finance Director prepares both the Town and Water warrants after reviewing the underlying documentation for proper authorization and gives the two warrants to the Deputy Finance Director for processing. The Finance Director proofs the warrants prior to the checks being issued. Once the checks have been printed, the Finance Director or the Town Manager signs them and returns the checks and invoices to the Deputy Finance Director to be held until approved by the Board of Selectmen for release. Monthly statements from vendors are reconciled to payments and invoices by the Finance Director.

Between warrants, checks may be issued on a limited basis and are generally for summer recreation trips or delinquent invoices. These checks are prepared by the Deputy Finance Director upon approval by the Finance Director or Town Manager and hand signed by the Finance Director or the Town Manager. They are included on the next warrant.

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A limited number of transactions of the town are settled by Automated Clearing House (ACH) instead of a check. These include: bond payments and purchase of postage. Initial instructions to establish these ACH transactions was executed by the Finance Director. Upon notification of the ACH transaction either from vendor or from bank account activity, the Finance Director will process a journal entry to record the disbursement in the Town's books.

#### **IV. Payroll**

The Town's work week is Monday thru Sunday with payday being the following Thursday. The weekly payroll is prepared by the Deputy Finance Director with the alternate preparer being the Finance Director. Generally speaking, employee's time cards/sheets are submitted to and approved by the department head or their designee. Town Administration, Town Clerk, Planning, Public Works, Water, Solid Waste, Police, Fire, and Recreation payrolls are summarized by the respective department heads or their designee and the sheet is approved (signed) by the appropriate director. Department heads are responsible for submitting the appropriate paperwork for new and temporary hires or the employee may be sent directly to the Deputy Finance Director. This includes Form I-9, W-4s and other voluntary participation benefit plans. These enrollment forms and required proofs and directives are retained in the Finance Department Office.

After any employee payroll adjustment or change is processed and the review of departmental time cards/input sheets by both the Deputy Finance Director and Finance Director is done, the weekly payroll is prepared each Tuesday. The Finance Director reviews and approves the final payroll warrant prior to payroll checks being printed. The Finance Director or the Town Manager signs the checks and returns them to the Deputy Finance Director. The checks are held until Thursday morning when they are distributed. The Deputy Finance Director or the Finance Director in his/her absence, processes the ACH files for direct deposits, ICMA contributions, and at month end the payment to the Berwick PBA (Police Benevolent Association) electronically. Reports for the week's payroll are run by the Deputy Finance Director and given to the Finance Director to be held until payroll warrants are approved by the Board of Selectmen. The Finance Director maintains spreadsheets on the Town's FTE (full-time equivalent) determination as well as weekly payroll detail/summary information for quarterly tax reporting purposes and year end W-2 reconciliation. Payroll checks may be released with one signature from a Selectman on the payroll warrant sheet.

After the payroll has been completed, the Deputy Finance Director pays the Federal and State payroll taxes electronically, as well as record the ICMA retirement contributions online with ICMA. The Finance Director performs these functions in the absence of the Deputy Finance Director.

Quarterly payroll reports are prepared and filed by the Deputy Finance Director once reviewed and approved by the Finance Director.

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### **V. Data Security**

The computerized financial records of the town are kept protected by the following:

- Restricting physical access to workstations and servers to only authorized personnel.
- Securing workstations (screen lock or logout) prior to leaving area to prevent unauthorized access.
- Keeping various computer passwords confidential and protected.
- Never installing unauthorized software on workstations.
- Ensuring that monitors are positioned away from public view.
- Ensuring that all workstations use a surge protector and/or a battery backup.

Additionally, the Town contracts with an outside vendor to provide information technology support services. The services provided include the following which contributes to the security of the financial records.

- System administration functions to control systems.
- Provides full user support to the Town's software applications.
- Conducts training in the operation and capabilities of applications and systems.
- Implements system security measures such as backups, access control, system accounting, firewalls, anti-virus functions and disaster recovery.
- Researches, recommends, installs, and tests hardware, software and network configurations.
- Performs troubleshooting and fault isolation on PCs, servers, and laptops.
- Tests and evaluates software and hardware for the Town.

### **VI. Procurement**

Purchasing procedures and policy can be found in the Town of Berwick, Policy Directive Purchasing. The items covered in these Sections include procedures and policy for:

- Purchases under \$2,500
- Purchases over \$2,500 but under \$5,000
- Purchases and contracts in excess of \$5,001
- The department head's role in procurement, and
- Identifies persons other than department heads who may submit purchase orders for their respective department.