

Internal Controls for the Town of Grand Isle

October 21st, 2024

Revised annually.

The Town recognizes the need for good internal controls to ensure that public funds are administered and spent in compliance with applicable statutes; that funds are used for the purposes for which they were authorized and intended; and that financial statements accurately present the operating results of the organization.

There are five elements of internal control:

- Control environment
- Risk assessment
- Control activities
- Information and communication
- Monitoring

The relative strength of the Town's internal control depends in large part on the actions of management and how well individuals understand their responsibilities and how they relate to internal controls. Internal controls need to be communicated, and employees need to be trained and educated for them to be most effective.

Control Environment

Management's attitude, actions and values set the tone of the organization. Internal controls are likely to function well if management believes that those controls are important and communicates that view to employees at all levels. Management shows a positive attitude towards internal controls by such action as complying with their own policies and procedures and discussing internal controls at management and staff meetings. Although it is important to establish and implement policies and procedures, it is equally important to follow them.

Management's philosophy and operating style affect the way the Town is managed. They determine, for example, whether the organization functions informally with verbal instructions or formally with written policies and procedures. They also define whether the Town is conservative or aggressive in its response to risks. To be successful, the Town's internal controls must be aligned with management's philosophy.

Management regards the accounting function as a means of monitoring and exercising control over the Town's various activities and sets the tone that high-quality and transparent financial reporting is expected. A disciplined, objective process, including discussions with staff, boards, and external auditors, is used in selecting accounting principles and developing estimates. Management also uses this process to assess internal controls and correct any known weaknesses in internal controls on a timely basis. Staff meetings and fraud risk assessments are used to regularly educate and communicate to management and employees the importance

of internal controls and to raise their level of understanding of existing controls and any changes that have been implemented.

The Town is committed to competence in the requirements of particular jobs and in translating those requirements into knowledge and skills. Employees of the Town have the competence and training necessary for their assigned level of responsibility. Before hiring new employees, the Town evaluates job descriptions and compares potential employees' knowledge, skills, abilities, and credentials before making hiring decisions, especially for key positions.

Human resource policies and procedures send messages to employees regarding expected levels of integrity, ethical behavior, and competence. The Town has formal procedures for the hiring of employees. Recruiting practices include in-depth employment interviews that provide applicants with information on the history, culture, and operating style of the Town. Reference and background checks are performed and drug testing and physicals for DOT positions. An employee manual educates employees on human resource policies and procedures. These handbooks are updated regularly to provide employees with the most up to date information and are used in conjunction with ongoing training for employees. Employees can request an exit interview upon leaving the Town's employment.

Risk Assessment

Risk assessment is the ongoing process of identifying and analyzing relevant business risks that must be managed to meet the objectives set by management. The financial reporting objectives relate to the preparation of reliable financial statements which are fairly presented in conformity with generally accepted accounting principles. Factors considered regarding identifying risks include: past experience to meet objectives, regulations, personnel and the significance and complexity of the activity. Based on these considerations, the Town has implemented controls to ensure the continual assessment of risks within the Town.

The Selectboard and management evaluate risks as part of its planning process at board meetings and on a day-to-day basis recognizes the potentials for fraud in high-risk areas of the Town, including revenue recognition, management override, accounting estimates and nonstandard journal entries. In their assessment of these high-risk areas, management considers incentives and pressures, attitudes, and rationalizations, as well as the opportunity to commit fraud and has implemented appropriate control activities to mitigate these risks. A fraud risk assessment is used to track fraud risk factors that have been identified by the Town. When such risks are identified, existing controls are examined to determine that appropriate actions have been taken to address them.

Cross Training/Succession Planning

Management has discussed succession planning in the event of an unplanned employee resignation or emergency. In order to continue providing services and information necessary for the functioning of the Town, all duties and procedures can be carried out by a backup employee.

The exception is the Town Treasurer's duties as there is no one currently on staff that can create journal entries and other accounting reports.

Information and Communication

Necessary information must be identified, captured and communicated in form and time frame that makes it possible for employees to carry out their responsibilities. Management has implemented controls and expectations to ensure that this happens. All personnel, particularly those in roles affecting financial reporting, receive a clear message from top management that both internal control over financial reporting and individual control responsibilities must be taken seriously and all employees receive adequate information to complete their job responsibilities.

Information relevant to financial reporting is identified, captured, processed, and distributed within the parameters established by the Town's control processes to support the achievement of financial reporting objectives. The chart of accounts is adequate to maintain accountability and provide information on important reporting items such as permanently restricted, temporarily restricted, and unrestricted resources and reporting of expenses and revenue by fund. This data and other underlying data of the financial statements are captured completely, accurately, and timely. **The department heads and board receive detailed information monthly to review and analyze financial results.**

Monitoring

Monitoring is a process of assessing the quality of a system's performance over time. The Town's internal control is monitored informally through supervisory activities and reconciliations. Independent auditors annually provide suggestions for strengthening internal controls and identify management any deficiencies noted during their fieldwork. Management does their best to evaluate the findings of employees and the external auditors to determine and implement the best course of action to correct any potential control issues.

This document must be updated annually, after an external audit has been completed with an audit findings letter and after a Fraud Risk Assessment has been completed - no later than March 15th. The Treasurer and the Selectboard with other department heads will complete a Fraud Risk Assessment. Once complete, the Town Treasurer and Selectboard will address potential internal control issues and update this internal controls document if needed. The Selectboard reviews and The Selectboard Chair signs this document.

Control Activities

Control activities are the policies and procedures that ensure necessary actions are taken to mitigate risks. A policy establishes what should be done whereas procedures are action by people to implement stated policies. Management performs a wide range of control activities including but not limited to top level review, authorizing, verifying, reconciling, segregating duties, restricting access to assets and appropriately documenting transactions and information

processing. The following is documentation of procedures used for several of the Town's important operating areas and/or identification of the key controls for each area.

Journal Entries

Journal entries are completed by the Town Treasurer and forwarded to the qualified designee appointed by the Selectboard. Effective January 8, 2024, the Selectboard designates the qualified designee to be the Selectboard chair. After review and signature by the Selectboard Chair, a copy is retained, and journal entries are given back to the town treasurer for document retention.

The Treasurer has the capability to create journal entries necessary to balance the cash accounts, i.e., interest received, ACH credits and debits and service charges. The Selectboard obtains these entries monthly and reviews for accuracy and the Selectboard Chair must sign off on them. If no entries were made in a month, the Treasurer must write a letter stating no entries are needed to be reviewed and the Selectboard Chair must sign off on this letter as well.

Key Controls:

1. All journal entries are accumulated with supporting documentation in monthly folders.
2. All journal entries are reviewed by Selectboard members (as warrants)
3. Only the Town Treasurer inputs journal entries.

Budget

On an annual basis, Management is involved in the financial planning and budgeting process. This is generally a three-month process involving meetings and input from department heads and board members. When management believes they have an acceptable draft, it is presented in a public meeting for comment by board members and Town residents. Once the Selectboard has approved the budget (this may take several public meetings) it will be voted on at the Town Meeting. After the Budget passes, the Town Treasurer enters the approved budget into the accounting system at the beginning of the new fiscal year. Monthly budget reports are distributed to Department Heads. Budget reports are given to Board members monthly as well as being presented at public meetings. Residents and Board members have an opportunity to ask questions. It is not the Town's practice to revise budgets.

Key Controls:

1. The Selectboard approves the budget that is voted on by the town residents.
2. The property tax rate is approved by the Selectboard.
3. Budget revisions are not made.
4. Monthly budgets to actual reports are distributed to management and board members.

Cash Reconciliations

The Assistant Town Treasurer or Town Treasurer prepares the cash reconciliations monthly. The Town Treasurer reviews the reconciliations to journalize any reconciling items. Since both employees have check signing capabilities, the qualified designee appointed by the Selectboard receives copies of all reconciliations. Effective January 8, 2024, the Selectboard designates the qualified designee to be the Selectboard chair. The Selectboard reviews monthly transactions and ensures that the Bank and General Ledger agree. The Selectboard Chair must sign off on reconciliation and General Ledger as agreeing. These documents will be presented monthly with warrants.

Key Controls:

1. The Selectboard verifies and approves the reconciliation and General Ledger as agreeing.
2. Cash reconciliations are prepared by the Assistant Town Treasurer or Town Treasurer and approved and journalized by the Town Treasurer

Cash Disbursements

Department heads are responsible for purchases in their respective departments. Requisitions are required for purchases over \$2,000.00. The Selectboard reviews and approves requisitions from \$2,000 to \$5,000.00 and the Selectboard approves requisitions over \$5,000.00 as a major purchase - as outlined in Town of Grand Isle Purchasing and Procurement Policy. Once the requisitions are approved, they become purchase orders, and the assigned general ledger account is encumbered. After receiving the merchandise, the department head signs off on the invoice and forwards it to the Town Clerk's office for processing. Only the Treasurer can set up new vendors in the Accounts Payable module. This eliminates other employees setting up potential false vendors or payments.

The Town Treasurer or Assistant Town Treasurer reviews all invoices to ensure that purchasing guidelines have been followed and forwards invoices to the Selectboard. The Selectboard signs off on all invoices and AP checks are prepared semimonthly and presented via warrants to the Selectboard. The Assistant Treasurer and Treasurer sign all checks. The Selectboard Chair reviews and signs off on the AP check warrant semimonthly. The entire Selectboard approves via motion the AP check warrant semimonthly by approving the warrants and approving the chair to sign the warrants. The Town Treasurer reconciles AP aging to the general ledger monthly and reviews bank reconciliations.

Key Controls:

1. Invoices are signed off by department heads and required to have a purchase order if the amount exceeds \$2000.00. The Selectboard approves all purchase orders.

2. All purchases orders over \$5,000.00 require approval by the Selectboard as a major purchase - as outlined in the Town of Grand Isle Purchasing and Procurement Policy.
3. The Town Treasurer reviews general ledger account codes.
4. The Selectboard and Department Head sign off on all invoices.
5. Only the Treasurer can set up new vendors.
6. AP checks have preprinted numbers and signatures are required.
7. After the checks are cut the Selectboard compares the paid invoices to the check register to ensure only approved invoices are paid.
8. The entire Selectboard reviews and approves the AP check warrant and the Selectboard Chair signs the AP check warrant semi-monthly.
9. The Town Treasurer reconciles the AP aging to the general ledger.

Accounts Receivable and Transfer Station

Effective 10/1/2024, cash will no longer be accepted for payment at the transfer station. Payment options are limited to credit card, debit or check only. The Transfer Station attendant will complete all transactions for sales receipts in the Square system cash register. The Square system details the sale product and amount charged to customer. For sales not including a minimum trash charge, transactions will be charged by accurate weight charges for the applicable trash item. At the end of his / her shift, the attendant will prepare a sales report from the Square system detailing total sales, total credit card sales and total check sales. The attendant will add up all checks in the register and sign off on the report that the check amount matches the report. The attendant will deliver the checks and sales report to the Town Treasurer or Assistant Town Treasurer on the next business day.

The Town Treasurer or Assistant Treasurer verifies the check amounts added to the sales report provided by the attendant and signs off on the sales report. The Town Treasurer will pull the Square Report online detailing the sales for the applicable date, the credit card total, check total and the deduction of Square fees and compare it with the Transfer Station report provided. The Town Treasurer will then enter checks and credit card sales, as well as bank square fees from the transfer station into the cash receipts module in NEMRC. The deposit from Square for credit card charges will be verified by bank reconciliation completed by the Town Treasurer. The Town Treasurer will keep a copy of the original signed sales report from transfer station attendant, the sales report from Square and the printout of the NEMRC entry stapled together by date.

On a quarterly basis the Town Treasurer will publish a report from Square detailing the total sales for the last quarter by item and weight. The transfer station employees together with the road foreman will review the invoices billed to the town for the trash disposal. A quarterly report will be provided showing the total sales by item and the applicable cost to dispose of the item as well as any rate recommendations to the selectboard for review.

Key Controls:

1. The transfer station effective 10/1/2024 no longer accepts cash. All payments made via credit card or check.
2. Signs are posted throughout the transfer station stating NO CASH PAYMENTS.
3. Credit card payments are direct deposited to the Town checking account and verified by the Town Treasurer and Selectboard via bank reconciliation.
4. Sales reports from Square are verified for accuracy by both the Transfer Station employee and Town Treasurer and retained for audit purposes.
5. A quarterly review of sales by the employees, road foreman and selectboard ensures rates are keeping pace with expenses as well as verifies the accuracy of the weight charges being collected by the Transfer Station employees.

Recreation

This section needs to be written. At the Fraud Risk Assessment in 2024, current protocols and risk exposures were discussed. This section will be completed and updated after the Fraud Risk Assessment in 2025. Auditor recommended Recreation Track Program – Sending to Roth for assistance on current program and protocols.

Cash Receipts

The town clerk or assistant clerk accepts cash or checks from customers and enters the cash receipts module in NEMRC. The clerk or assistant clerk assigns a code that identifies the type of transaction, the amount is entered, and a receipt is printed for the Town's records and for the customer. Customers paying with cash always receive a receipt. The town clerk prepares a bank deposit for cash received and the cash amount is verified and tied to the cash receipts journal by another clerk. The town clerk or assistant town clerk takes the deposit to the bank.

The clerk or assistant clerk adds up checks and ties out to the cash receipts journal then gives the checks with a tape to the Treasurer. The town clerk or assistant town clerk prepares a bank deposit for checks received and the check amount is verified and tied to the check receipts journal by another clerk. The town clerk or assistant town clerk deposits the checks electronically via the check scanning software and equipment provided by the bank. Once the deposit is complete, the clerk will retain the original checks and deposit slip in the vault for a minimum of one (1) year. The Treasurer also reconciles the check total to the cash receipts journal.

Receipts for taxes and utility bills are bundled and retained in a file. Receipts for licenses, fees, etc. are copied and retained with the daily cash receipts journal. Cash receipts are transferred into the corresponding NEMRC modules by the Assistant Treasurer or Treasurer daily.

Fees received for dog licenses are paid to the State of Vermont three times a year. A license report is printed from the Dog module and reconciled to the cash receipts detail and the general ledger liability account by the Treasurer.

Fees received for marriage licenses are paid to the state four times a year. A license report is printed from the Marriage module and reconciled to the cash receipts detail and the general ledger liability account by the Treasurer.

Key Controls:

1. Dual control for all cash and checks received.
2. Receipts are sent to other modules weekly.
3. Cash deposits are taken to the bank once cash on hand totals more than \$750.00.

Tax Administration

The listers receive copies of building permits from the Zoning Administrator and current use information from the State of Vermont. The listers update values in the Grand list module. The listers receive property transfers and ensure the property in the Grand list module contains accurate information.

Tax bills are created in the Grand list module and transferred into Tax Administration by the Treasurer. The Town Treasurer reconciles the tax bills to the budget. The State makes annual payments to taxpayer accounts that are downloaded by the Assistant Treasurer or the Listers. The file is uploaded, and payments are credited to the taxpayers account. The Treasurer performs a reconciliation to ensure accurate posting of the payments.

A file is received by Core Logic before taxes are due which is posted to taxpayers' accounts. Core Logic is the company used by banks and mortgage companies for escrow payments. The Treasurer or Assistant Treasurer receives paper checks from Core Logic and deposits to the Town's operating account. The Treasurer or Assistant Treasurer performs a reconciliation to ensure accurate posting of the payments and checks received.

After the final installment of the tax bills are due, an 8% penalty is added to all delinquent accounts. Interest is added monthly to unpaid balances. The Town Treasurer performs a monthly reconciliation of delinquent taxes and overpayment of taxes (prepaid taxes) between the Tax Administration module and the General Ledger.

Key Controls:

1. Reconciliations are performed by the Treasurer between the Grand list module and Tax Administration.

2. The Town Treasurer performs reconciliations between Tax Administration and the General Ledger.
3. The Town Treasurer performs a reconciliation between tax bills generated and the budget to ensure the bills are accurate.
4. The Listers compare property transfers to the information in the Grand list for accuracy and to ensure a bill exists.
5. The Listers update values, and the Treasurer creates property tax bills.

Payroll

Payroll is paid on a weekly basis by the Assistant Town Treasurer or Town Treasurer for all town employees. Timesheets must be submitted by the designated approver - see below. Timesheets must be approved by designated approvers signature or electronic approval submission via email. Payroll will NOT be processed by the Assistant Town Treasurer to Town Treasurer if timesheets are not submitted and approved in this manor:

Designated Approval by who / for who:

Road Foreman will sign off for highway department and transfer station employees.

Road Commissioner will sign off for Road Foreman

Designated Cemetery Commissioner will sign off on Cemetery Commissioners

Selectboard chair (with warrants) will sign off on Road Commissioner

Selectboard chair (with warrants) will sign off on Buildings and Facilities Manager

Designated Library Trustee member will sign off for librarians

Designated DRB member will sign off for DRB clerk.

Historical Society Executive Member will sign off for Tour Guides

Assistant Town Clerk or Town Clerk will sign off for Zoning Administrator

Town Clerk / Treasurer will sign off for Assistant Town Clerk / Treasurer

Payroll is processed for hours worked Thursday through Wednesday weekly. Completed and approved timesheets must be given to the Assistant Town Treasurer or Town Treasurer no later than Thursday at noon. Payroll will be processed, and checks will be completed no later than Friday at noon.

Stipend employees are paid monthly - the first pay period of the month for services rendered the prior month. This includes the DRB, Selectboard, Selectboard assistant, Planning Commission scribe, Town Constable, Road Commissioner, Fire Warden, Health Officer, and Animal Control. If a position is not a flat rate stipend for the year, timecards must be submitted to the town treasurer for payroll processing no later than the last day of the month for all services completed

that month. If the position is a yearly stipend amount, the Assistant Town Treasurer to Town Treasurer will divide the yearly stipend by 12 and automatically process payment for services rendered the previous month on the first payroll of the following month.

Key Controls:

1. All hourly employees' timesheets are signed by the department head.
3. Payroll registers and reports are reviewed weekly by the Town Treasurer for accuracy.
4. Checks are signed by the Assistant Treasurer and the Treasurer.
5. The Selectboard signs off on the check warrants at least twice monthly.

Financial Reporting

At least weekly the Treasurer transfers transactions into the General Ledger. The Town Treasurer reviews the Balance Sheet, Revenues and Expenditures and makes any necessary journal entries throughout the month. At month end, the Town Treasurer prints reports from all the modules (accounts payable, accounts receivable and tax administration) and reconciles them to the balance sheet. The Treasurer closes all the modules including the General Ledger on the last business day of the month.

The Assistant Treasurer forwards completed bank reconciliations to the Town Treasurer for review. The Town Treasurer ensures the reconciled statements agree with the general ledger. The Town Treasurer makes any necessary adjusting journal entries and prepares budget to actual reports. The reports include prorated revenues and transfers and are tied back to the NEMRC print outs.

The financial reports are emailed to the Selectboard on the second Friday of the month every month. Department Heads also receive financial reports monthly.

An independent audit is performed annually by external auditors. The Town Treasurer manages this process and provides the auditors with the necessary financial information along with the Selectboard.

Key Controls:

1. Balance sheet reconciliations are performed monthly.
2. Monthly budgets to actual reports are reviewed and distributed to management on a timely basis.
3. Independent external auditors audit financial data.

Capital Assets

Capital assets are monitored throughout the year and a schedule prepared at year end for the auditors. The Town has a capitalization policy with the capitalization threshold at \$5,000 or useful life of 5 years or more per item. The Town Treasurer reviews the new equipment and

repairs and maintenance or line items in the various funds to determine if any capital assets were purchased. If there have been purchases in the governmental funds, copies of the invoices are given to the auditors to journalize.

The Treasurer maintains a fixed asset/depreciation spreadsheet and reconciles this to the general ledger. Any new items are added to the spreadsheet.

Construction projects that are in progress are noted as such and once the project is complete the project will be classified into the proper category and depreciated. The fixed asset spreadsheet is given to the external auditors for testing.

Key Controls:

1. A capitalization policy is in place.
2. The Town Treasurer reconciles the fixed asset/depreciation spreadsheet to the general ledger.
3. Copies of invoices supporting the purchases are retained by the Treasurer and given to the external auditors as well.
4. The external auditors review the useful lives for reasonableness and confirm the reconciliation to the general ledger.

The foregoing Policy is hereby adopted by the selectboard of the Town of Grand Isle, this 21st day of October 2024 and is effective as of this date until amended or repealed.



Selectboard Chairperson

Selectboard Members:







