

**Office of Selectmen**  
**Post Office Box 139**  
**Moultonborough, NH 03254**  
**(603) 476-2347**

**STATEMENT OF POLICY**  
**No. 22**

**INTERNAL CONTROL POLICY**

It is the responsibility of the Board of Selectmen to establish and maintain appropriate **Internal Control Procedures** for the assets under their control. (RSA 41:9, VI)

The purpose of this policy is to provide written guidelines regarding the internal control measures adopted by the Board of Selectmen to protect the Town's cash and other assets. This policy is applicable to all elected and appointed officials subordinate to the Board of Selectmen who handle cash, manage the Town's accounts and record the Town's receivables and payables.

This policy supplements the requirements established by the State of New Hampshire in its Revised Statutes Annotated (RSAs). The Policy supplements the RSAs – it does not intend to conflict or negate the RSAs in any way.

The policy addresses the following areas: Insurance (and Official Bonding), accounting records keeping, cash management and reconciliation, segregation and responsibility in functions, computer controls and monitoring systems.

**Insurance**

The Board of Selectmen shall provide “faithful performance of duty” bonds for all elected and appointed officials for which a requirement exists according to RSA 41:6.

The following officials require bonding: Town Clerk, Deputy Town Clerk, Tax Collector, Deputy Tax Collector, Treasurer, Library Trustees, Trustees of Trust Funds and those agents authorized by the Town to collect boat fees. The Board of Selectmen shall provide a blanket bond with the resulting premium(s) paid by the municipality.

**Accounting Records and Keeping System**

The Board of Selectmen shall provide a computerized accounting system capable of identifying, assembling, classifying, recording and reporting all financial transactions. Those individuals charged to do so shall use that accounting system to maintain complete, accurate and timely records of Town financial transactions. Specifically, the Town Treasurer and Administrative Assistant will be responsible (except where noted) for the following actions.

1. Properly reconcile cash per bank statements to cash per the General Ledger and the Treasurer's records for all bank accounts on a monthly basis.

To help ensure that the accurate and timely recording of cash transactions and the proper accounting of money, responsible officials shall perform cash reconciliations each month. Proper reconciliations will involve comparing adjusted bank balances to cash balances recorded in the accounting records. In the event that the reconciliation process discloses differences in the reconciliation process promptly investigation and resolution shall occur. The responsible officials shall formally document these reconciliations and present them to the Board of Selectmen within twenty (20) days after the end of each month. The Administrative Office shall retain this documentation for audit purposes.

2. The assignment of responsibilities shall effectively separate access to cash from records keeping functions.

Mixing record keeping duties with access to cash may be a weakness in internal controls and may represent a significant risk for loss of cash. To help achieve the goal of improved internal controls, no one person shall control all key aspects of a transaction. In relation to cash, one person shall not receive cash, record the transaction in the accounting records, make bank deposits, prepare and disburse checks and perform cash reconciliations.

To satisfy this requirement, the following separation shall occur. Those individuals authorized by the Board of Selectmen, and by extension, by department heads shall receive cash. They shall properly record and transfer cash assets to the Administrative Assistant who will reconcile reports received and record them in the general ledger, preparing deposit slips. Someone else will review deposit slips and make the deposit. Where departments (Town Clerk, Tax Collector and Code Enforcement Office) make deposits directly to the bank, they shall provide receipts to the Administrative Assistant documenting those deposits. The Treasurer and Deputy Treasurer shall alone have the authority to sign checks drawn on Town accounts and transfer funds between Town accounts. The Treasurer and Administrative Assistant shall reconcile accounts on a monthly basis, reporting their balance and the reconciliation results to the Board of Selectmen.

Attachment 1, Cash Management Policy, documents the procedure to ensure the proper separation of duties and responsibilities as they apply to cash management.

To ensure that proper segregation of duties and ensure that revenue and expenditure controls are in place, the Administrative Assistant will request semi-annual verification from the financial institution(s) for all Town cash accounts as of January and July 1 each year.

3. Protecting Undeposited Receipts and Timely Bank Deposits

The appropriate officials shall deposit receipts in the bank on at least a weekly basis. Until that deposit occurs they shall keep receipts behind at least two locks (desk and door, vault and door, etc.) to offer limited accessibility and portability.

4. Accounts Payable

Liabilities shall be recorded for the balance of unpaid invoices that are for services and goods received prior to year end. In the subsequent year, when the invoices are paid, the applicable liability and cash balance shall be reduced. Staff will duplicate all preceding year bills received in the New Year, coding them appropriately for payment, so that necessary adjusting entries occur in the General Ledger to record payments in the appropriate year. Staff will retain the copies and make them available for review and adjustment at the time of the Annual Audit.

5. Capital Reserve Funding

Monies shall be withdrawn from the various capital reserve funds on a reimbursement basis and in a timely manner. With the concurrence of the Trustees of the Trust Funds, we will seek reimbursement immediately after we pay any bill presented for which funds will come from a CR or MT by providing the Trustees an invoice and copy of the check issue to support our request.

6. Investment Records

Only the Town Treasurer and Trustees of Trust Funds shall invest Town assets in certificates of deposit or other types of investment authorized by the RSAs. The Investment Policy approved and provided by the Board of Selectmen in compliance with RSA 35:9 shall govern the Town Treasurer.

In either instance, these elected officials shall create and maintain an investment record documenting each investment, the respective amount of each fund, the place where kept, the rate of interest, the dates and other details of acquisition and disposition and the amounts received from the disposition of the investment.

7. Electronic Transfers of Funds

- a. Transfers Out: Funds will transfer electronically in three instances: Automatic Withdrawals for Payroll Deposits, Automatic Withdrawals for Federal Withholding and Electronic Transfers between the Cash Manager Account and the General Fund Checking Account. The Administrative Assistant will be responsible for Automatic Withdrawals, whether for payroll or withholding. The Treasurer will be responsible for performing transfers of funds as required to accommodate cash flow considerations.

The Administrative Assistant will notify the Treasurer when automatic withdrawals occur; the Treasurer will validate the withdrawals through account statements. The Treasurer will notify the Administrative Assistant of Electronic Transfers between accounts to facilitate entry into the General Ledger. This exchange of information will serve as checks and balances on these activities.

- b. Transfers In: Primarily, Transfers In will occur because of the receipt of funds through the award of federal and state grants. The receiving department will notify the Administrative Assistant of anticipated receipts, to include dates and amounts of receipts. The Treasurer will notify the Administrative Assistant in the event that a deposit occurs without prior announcement. The Administrative Assistant will attempt to keep communications flowing between the department, the general ledger and the Treasurer.

All grant monies from the federal and state government shall be recorded separately in the general ledger. All grant awards shall be submitted to the Administration office. This will enable the Town to implement procedures to monitor possible grant reimbursements to ensure that the Town receives reimbursement due on a timely basis. Staff will work with the Treasurer to see every grant entry. Award documents will be the trigger to insure compliance with RSA 31:95b.

- c. Acceptance of Credit Card, Debit Card, Automated Clearing House (ACH) or Such Other Means of Electronic Transaction:

The Town shall periodically enter into a written Agreement with a third party (the “Agency”) for it to accept electronic payments for taxes, liens or other fees of the Town to which may be added any penalties, interest and other costs due and payable thereon. No credit card, debit card or banking information will be collected, maintained or stored by the Town, either electronically or through paper copies, except that information necessary to reconcile the payment to the correct account—such as Name of the Payer, Tax Account Number and amount of the payment. The Agency shall be compliant with the Payment Card Industry Data Security Standard (PCI DSS) and shall maintain a Level 1 standard or the equivalent applicable to ACH payments. If a credit card brand or a bank has its own program for compliance and validation levels, the Agency shall maintain the higher of the two levels of security.

The maximum amount that may be paid upon any account by such means shall be the actual amount then due for the principal, interests, fees and costs on such account. No payment may be made in advance for any amounts anticipated to be incurred.

The Town itself shall not impose a service charge (convenience fee) on any transaction over and above the amount otherwise due to the Town. The Agency shall be permitted to add to each amount due, a convenience fee to cover the costs of its services under the Agreement. Said convenience fee shall be assessed and collected by the Agency only in such amounts and such manner as authorized under the Agreement. Any such convenience fee shall be disclosed to the customer at the time of the customer making payment in such a manner as to afford the customer an opportunity to cancel their intended payment and shall require an affirmative action from the customer to be authorized prior to the total payment being processed.

The Agency shall, on a daily basis, electronically deposit said credit card, debit card and cleared ACH payments into a separate bank account specifically designated by the Town. The Town's appropriate department personnel shall reconcile the payment information received from the Agency daily and upon verification of its accuracy, the Town Treasurer or the Treasurer's designated town official/employee shall electronically transfer the deposit into the Town's general fund. Said electronic deposits shall be fully documented and all procedures followed in accordance with the "Internal Control Standards" in the municipality's Cash Management Policies and Procedures Handbook.

Electronic transfers are becoming more commonplace. In the event that the need for another electronic transfer develops other than a. and b. above develops, the need and the response will be made a matter of record through the Selectmen's Meeting Minutes and incorporated into this policy by amendment.

8. Custody of Check-signing Devices

When a mechanical check signing device is used, custody of the signature plate or stamp shall receive property safeguarding by the signatory. The officer whose name is on signature plate or stamp shall have sole control of the signature device.

9. Adequate Protection, Back-up and Storage of Computer Files

Password controlled access shall be maintained to all computerized accounting record. The Administrative Assistant shall assign all passwords. The Administrative Assistant will change all passwords annually and when people who possess password access leave or change their positions.

The Administration Office shall perform a daily back-up for all system records. The tape back-up shall be stored in the Tax Collector's vault. The Administrative Office shall maintain tapes for a one week period unless permanent record is required for accountability and audit purposes. The Administrative Assistant

shall be responsible to keep special tape back-ups (year-end, pre-tax billing, audit-related, etc.) longer if required or necessary.

### **Systems Monitoring**

The Board of Selectmen shall commission an annual Independent Audit conducted according to generally accepted accounting principles (GAAP), including Government Accounting Standards Board Bulletin 34 (GASB-34). The accounting firm that completes the audit will prepare a report that will appear in the next Annual Town Report. The Audit conducted shall include an Internal Control Letter and Management Letter that the Auditor will present to the Board of Selectmen.

This policy shall be effective immediately upon adoption and shall remain in effect until superseded or replaced.

Date of Adoption:  
November 10, 2005

Karel A. Crawford, Chairman  
Edward J. Charest  
Ernest E. Davis, Jr.  
Jerry D. Hopkins  
Brian P. Moriarty

This Ordinance received review, revision and update. The Ordinance, as revised, received acceptance and enactment on September 1, 2011.

Joel R. Mudgett, Chairman  
Edward J. Charest  
James F. Gray  
Betsey L. Patten  
Russell C. Wakefield  
BOARD OF SELECTMEN