A. INTERNAL CONTROL

1. The City shall maintain an environment conducive to good internal control.

2. Definitions
   Internal Control comprises the plan of organization and all of the coordinated methods and measures adopted within the City to safeguard its assets, check the accuracy and reliability of its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. (This is the broad definition, recognizing that a “system” of internal control extends beyond those matters which relate directly to the accounting and finance functions. Source: AICPA SAS).

   This broad definition can be subdivided into two components; accounting and administrative, as follows:

   a. Accounting controls comprise the plan of organization and all the methods and procedures that are concerned mainly with, and relate directly to, the safeguarding of assets and the reliability of the financial records.

   b. Administrative controls comprise the plan of organization and all the methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

   This policy is concerned primarily with the “Accounting Controls” and when the terms “internal controls” or “controls” are used, it is meant as Accounting Controls.

3. Responsibilities
   The Accounting Department is responsible for designing appropriate controls for the departments and the departments are responsible for implementation. Inherent in these responsibilities is the recognition that the cost of internal control should not exceed the benefits expected to be derived. Also, internal controls may become inadequate as conditions change, thus requiring review and modification.

4. Objectives
   To provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management’s authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles.
5. Basic Elements of Internal Control

a. Personnel
   Objectives are dependent on competence and integrity of personnel, independence of assigned functions, and their understanding of prescribed procedures.

b. Computer Data Processing
   Control over development, modification, and maintenance of computer programs; control over use and changes to data maintained on computer files; application controls, for example, edits that verify vendor numbers for check writing.

c. Segregation of Duties
   Procedures designed to detect errors and irregularities should be performed by persons other than those who are in a position to perpetrate them.

d. Execution of Transactions
   There is reasonable assurance that transactions are executed as authorized.

e. Recording of Transactions
   To permit preparation of financial statements, transactions are recorded in the proper period, amounts, and classification.

f. Access to Assets
   Both direct physical access and indirect access through preparation/processing of documents that authorize the use or disposition of assets be limited to authorized personnel.

g. Comparison of Recorded Accountability with Assets
   Comparison of actual assets with the recorded accountability, such as bank reconciliations and physical inventories.

Accounting will utilize these basic elements of internal control in formulating departmental plans suitable to each departments needs. An annual review of the plans will be performed and modifications made as required (or as a result of internal or external audits).