INTERNAL CONTROL POLICY

BLOUNT COUNTY GOVERNMENT

PREFACE

This policy summarizes internal controls based on standards for establishing internal controls published in September 2014 by the U.S. Government Accountability Office (GAO) in Standards for Internal Controls in the Federal Government (Green Book) and the Internal Control Manual for Local Governmental Entities and Other Audited Entities in Tennessee (the "Internal Control Manual"). Establishing and maintaining a system of internal controls is required by federal and state law.

This policy is based on principles as opposed to providing a detailed method of implementing internal controls because the GAO Green Book is principles based.

OVERSIGHT RESPONSIBILITY

Blount County Government has established different levels of oversight responsibility for internal controls:

Governing body – Blount County Commission

Oversight body – various standing committees such as Audit Committee, Budget Committee, Human Resources Committee, Information Technology Committee, Insurance Committee, and Purchasing Commission. In addition, various boards also perform oversight at the direction of the County Commission. See Appendix for a complete list of all boards and committees.

Management – those who have direct responsibility for the day-to-day operations of the County including the implementation of internal controls. These include the County Finance Director who has the ultimate responsibility for establishing, maintaining, and reviewing the system of internal control. Elected Officials and Department Heads of the County ensure that an appropriate and effective control environment is in place in their areas of responsibility, evaluate the effectiveness of control systems, monitor control systems, and contribute to ongoing effectiveness of control systems. Every employee is responsible for ensuring that established internal controls are followed and applied.

DEFINITION OF INTERNAL CONTROL

Internal control is a process developed by the County to provide reasonable assurance that the following categories of objectives are achieved:

Reporting – reliable financial reporting

Operations – effective and efficient operations and safeguarding of assets

Compliance – compliance with applicable laws, regulations, contracts and grant agreements

Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the County. Internal control is an integral part of the County, not a separate system within the County. Internal control is effected by people. It is not merely policy manuals and forms, but people at every level of the County. Internal control increases the likelihood that the County will achieve its objectives.

COMPONENTS OF INTERNAL CONTROL

The five key components of Blount County's Internal Control Policy are listed below. Documentation of selected practical applications of the components is found in separate sections after the internal control policy narrative.

Control Environment

The control environment is the foundation of the County's internal control system. The oversight body and management set the tone at the top by demonstrating a commitment to the integrity and ethical values expected throughout the County. The oversight body oversees the County's internal control system while management establishes the organizational structure, hires competent individuals, evaluates their performance, and holds them accountable in order to ensure that the system functions properly to achieve the County's objectives.

Risk Assessment

Management defines the County's mission, goals and objectives in sufficient detail to identify, analyze and respond to risks. Management assesses the risks facing the County as it seeks to achieve its objectives. In other words, what could go wrong? What is the potential for fraud? Elected Officials and Department Heads develop plans, programs and actions to address specific risks while realizing that risk in not static and can change due to changing circumstances in the work environment. Any internal control policy can provide only reasonable, not absolute, assurance that assets and resources are safeguarded.

Control Activities

Control activities are designed by management and communicated via a policies and procedures manual to ensure that the directives of Elected Officials and Department Heads are carried out. They are established to ensure that employees act in compliance with the policies adopted by the County Commission, and the various laws, rules and regulations of the County.

Information and Communication

Management internally and externally communicates, develops and provides the necessary internal and external quality information. This information supports the internal control system and validates its existence. Management identifies the County's information requirements, gathers relevant data from reliable sources, and processes data into quality information to achieve the County's objectives.

<u>Monitoring</u>

Because things change, internal control policies and procedures are constantly monitored and improved or updated. Management outlines and undertakes a schedule of reviews. On at least an annual basis, all policies are reviewed, tested and assessed in order to determine whether they are working as intended or if they should be modified. Identified internal control deficiencies are modified on a timely basis.

SUMMARY

There is a direct relationship between the County's levels of oversight responsibility for internal controls, the three categories of objectives, and the five key components of the County's Internal Control Policy. The five components apply to all three categories of objectives and all levels of the County's organizational structure. A good internal control framework is essential to providing reasonable assurance that the County is achieving its objectives.

<u>Control Environment</u>

<u>Documentation of Selected Practical Applications</u>

It is the policy of Blount County Government to uphold, promote, and demand the highest standards of ethics from all employees and officials, whether elected or appointed.

Each department and office of Blount County has an organizational chart that provides an overview of the lines of authority and responsibility.

Appropriate hiring practices are followed such as thoroughly checking job qualifications and references, performing background checks before hiring, and well documenting the process to insure that biases are avoided.

The Human Resources Department establishes and maintains up-to-date Job descriptions for all employees.

The Blount County Government maintains an Employee Handbook (Handbook) which is periodically reviewed, updated and approved by the Blount County Commission. The Handbook addresses expectations regarding business practices and ethical behavior; methods of reporting fraud and other misconduct; and the code of professional conduct.

Department Heads and Elected Officials periodically (at lease annually) review and document the performance of their employees, and hold them accountable for the internal control responsibilities. When necessary, any corrective actions are taken promptly and are thoroughly documented.

Each County employee is informed of the County's policies regarding conflict of interest. If the circumstances would cause a reasonable person to believe that a conflict of interest may exist, the employee must file a conflict of interest form with the County Clerk's Office as instructed by the County's Code of Ethics Policy.

County staff is required to disqualify themselves from participating in any business decisions in which they may have a personal financial interest.

Management stresses at all employee meetings ethics, compliance with laws and regulations and following internal controls.

Risk Assessment

Documentation of Selected Practical Applications

In the process of creating and implementing internal control procedures, minimizing risk is a constant factor. Each department and office maintains and revises an Internal Control Manual. These manuals are used to implement compensating controls designed to mitigate risks. Signed copies of these Internal Control Manuals are maintained in a binder which is separate from the County Internal Control Policy.

The County Commission has adopted a resolution defining risk management objectives.

Management and employees attend training to identify types of risk and fraud that can occur.

Management monitors risk factors in the operating environment such as intense media scrutiny, political debate around an issue, a new program that places extra pressure on staff or a change in regulations that result in new activities or a change in how activities are conducted.

Management monitors risk factors relative to personnel such as incentive or pressure, opportunity, and attitude or rationalization. Management also tries to minimize the effects of an upheaval in staff.

Management reviews all new grant applications and grant agreements to identify potential risks due to changing grant requirements or other circumstances.

<u>Control Activities</u>

<u>Documentation of Selected Practical Applications</u>

Control activities are actions taken to minimize risk. When the assessment has identified a significant risk to the achievement of an objective, a corresponding control activity is determined.

Each Department Head and Elected Official prepares an Internal Control Manual which is made available to staff and covered at staff meetings.

Management insures that separation of duties is observed; proper reporting and reconciliations are adopted; proper authorizations are received; proper security of assets and records is maintained; periodic verifications are performed; and analytical reviews are performed.

The County maintains surety bond coverage of all Department Heads, Elected Officials and other employees handling money.

To properly control payroll and procurement activities, separation of duties is established.

Management requires third party service organizations to provide a Service Organization Control (SOC) report as a method of holding them accountable for their internal control systems.

The County's books of account are closed within sixty (60) days following the fiscal year end as required by state statute.

At the beginning of every fiscal year, immediately following the closing of the prior year
books of account, the Accounting and Budgeting Department reviews the prior year closing process and identifies any difficulties, weaknesses or additional risks that were encountered; reviews any new accounting standards and any accounting standards that are being developed that may be issued that will impact the upcoming year end closing; and communicates the information to all Department Heads for dissemination to employees whose work will be impacted by the information.

All grant activity including applications, payments, and closing out are processed through the Budget Manager.

Information and Communication

Documentation of Selected Practical Applications

The information systems software, which is fully documented and includes backup and recovery processes, is approved by the Information Technology Committee.

To ensure that accurate reliable financial statements are prepared, reconciliations of cash, accounts payable, etc. are performed; total monthly revenues and expenditures are accumulated from reliable sources; the actual budget approved by the County Commission is posted to the accounting records; and reports from other offices such as Trustee are reviewed and reconciled. The only assurance that the underlying information is accurate and reliable is if properly designed internal controls are operating effectively for each piece of information.

The financial software is capable of generating operational, financial, and compliance-related information to aid in determining whether internal control procedures are working effectively.

Access to all programs and electronic data is restricted by logins and is password protected.

All County accounting functions are handled through one central office, Accounting and Budgeting.

Detailed financial and budgetary reports are provided to Elected Officials and Department Heads.

A detailed financial report is distributed monthly to the County Commission as well as being available to the public on the Blount County website.

Management clearly defines the lines of internal communication through policy manuals and organization charts.

Annual staff training meetings and new employee orientation, with relevant handouts and manuals, are used to reinforce memo, email, intranet, and restricted communications.

Reports containing personally identifiable information or other protected or confidential information are made available through communication methods that restrict internal and external access.

<u>Monitoring</u>

<u>Documentation of Selected Practical Applications</u>

The County Commission appoints the Audit Committee. The standing Audit Committee of Blount County is an Oversight body, comprised of independent individuals external to management with at least one qualifying as a financial expert, that addresses financial and other reporting practices; oversees internal controls and reviews the effectiveness of the system as a whole; and ensures compliance with laws and regulations and ethics. The Committee provides reports in the form of their meeting minutes to the Blount County Commission.

The Audit Committee reviews and approves the Internal Control Manual.

The Audit Committee reviews the annual audit report for internal control issues, meets with management officials, and ensures appropriate action is taken to correct any deficiencies. All Elected Officials and Department Heads are made aware of the Audit Committee findings.

The required documentation of the Audit Committee's activities conducted in connection with risk assessments, review of internal control activities and follow-up actions is available online for review by the citizens and the Comptroller of the State of Tennessee office.

The Audit Committee has established a process for employees, taxpayers, and citizens to report suspected fraudulent, illegal, wasteful, or improper activity confidentially to the Audit Committee. If the chair believes the activity may have occurred, the chair reports it to the Comptroller. The detailed information received and generated pursuant to a report of suspected activity is not an open record.

Departments and offices use the Internal Control – Segregation of Duties Checklists developed by the Division of Local Government to implement segregation of duty controls.

Management examines computerized audit logs for unusual transactions.

APPENDIX