

EXHIBIT A

CITY OF MISHAWAKA, INDIANA

Internal Controls Policy Pursuant to Ind. Code § 5-11-1-27

I. Policy

The purpose of this policy is to communicate the Mishawaka Common Council's internal controls objectives to all employees ("Employees") and elected and appointed officials ("Management") of the City of Mishawaka ("City") and to firmly commit the City to the seventeen (17) key principals of internal controls as established by the Indiana State Board of Accounts.

COMPONENT ONE: CONTROL ENVIRONMENT

Principle 1. The Oversight Body and Management demonstrate a commitment to integrity and ethical values.

- A. The City has the responsibility to establish and maintain an adequate system of internal control and to furnish to the Mishawaka Common Council, various boards and commissions, governmental agencies, creditors and others reliable financial information on a timely basis. An adequate system of internal control is necessary for the City to discharge these responsibilities.
- B. External organizations and stakeholders of the City rely on financial information to make decisions toward appropriations, loans and other debt, grants, and other contractual relationships. City resources are dependent upon the system of internal control.
- C. As the fiscal body, Common Council expects the City administration to effect an internal control environment with policies and procedures necessary to provide reasonable assurance that practices cause effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.
- D. Any person who knows or has any information regarding a suspected violation of a policy set forth herein, may report the violation to a member of the Common Council (the "Oversight Body"), which report shall be kept in the strictest of confidence as to the identity of the reporting person.
- E. The Oversight Body shall investigate all reports of violations of any policy or procedure. Should a majority of the Oversight Body find probable cause exists as to the violation, the Oversight Body shall determine if it will internally sanction the person so accused for minor violations or initiate litigation, either criminal, civil or both, for more serious violations.
- F. The Finance Department shall be charged with:
 - a. Conveying periodic messages of the City's internal control philosophy and expectations to all employees;

- b. Evaluating the City's internal control system for weaknesses on a periodic (but no less frequently than annual) basis, providing solutions to any discovered weaknesses, and inform employees of necessary changes in procedures;
- c. Working with the Human Resources Department to establish a confidential reporting system for individuals to report suspected fraud and abuse of internal control policies; and
- d. Working with the Human Resources Department to institute procedures to address violations of policies and consequences for violations.

Principle 2. The Oversight Body oversees the entity's internal control system.

- A. As the fiscal body for the City, the Common Council is responsible for setting the institutional expectations for internal control, ensuring management is aware of those expectations, requiring the upward communications channels are open through all levels of management, and evaluating management's effectiveness toward monitoring the control environment and implementing sound control policies and procedures.
- B. As the City's Chief Fiscal Officer, the Controller will be the Common Council's chief agent in implementing and managing the internal control policies and procedures.
- C. When necessary, an oversight committee comprised of people with the highest ethical values, excellent communications skill and superior problem solving skill will be appointed by the Oversight Body.

Principle 3. Management establishes an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives.

- A. Individuals with delegated approval authority, e.g. Elected Officials and Department Heads are responsible for establishing, maintaining, and supporting a system of internal controls within their areas of responsibility and for creating the control environment that encourages compliance with City policies and procedures.
- B. The Finance Department has the primary responsibility for internal control over financial reporting and compliance with applicable laws, rules, and regulations. The Controller is the City's chief source for information and assistance to staff and Department Heads on this topic and will make resources available to assist in administering this policy.
- C. The Human Resources Department is responsible for internal controls over employee recruitment, hiring, separation, promotion, job classification, employee rights, and salary administration. The Corporation Counsel and Assistant Human Resource Director are the City sources for information and assistance on this topic and will make resources available to assist in administering this policy.
- D. Department Heads are responsible for prompt corrective action on all internal control findings and recommendations made by internal and external auditors. The audit process is completed only after Department Heads receive the audit results and take action to correct internal control

weaknesses, improve systems, or demonstrate that management action is not warranted. Department Heads have the responsibility to ensure that those who report to them have adequate knowledge, skills, and abilities to function within, and contribute to, an effective internal control environment. This includes providing access to appropriate training on topics relevant to their job responsibilities.

Principle 4. Management demonstrates a commitment to recruit, develop, and retain competent individuals.

- A. The City Employee Handbook provides a roadmap for recruiting and maintaining quality employees. Prior to employment individuals may be subject to pre-employment background screening. While employed City Employees are entitled to a benefits package including Health and Disability Insurance and certain other Post-Employment Benefits. The City will continue to assess the best recruitment pools and tools for the different skill sets of skills necessary to adequately implement and maintain quality internal controls.
- B. Job descriptions will be updated where necessary to reflect internal control responsibilities and duties. Employees will be regularly trained in internal control methods and all training will be documented in employees' personnel files. Employees will be regularly evaluated by their supervisors on internal control duties and receive feedback on possible improvements.

Principle 5. Management evaluates performance and holds individuals accountable for their internal control responsibilities.

- A. Management must, in each department, establish communications to help ascertain weaknesses in the internal controls and any non-compliance with internal control procedures.
- B. If Management has knowledge of any non-compliance with internal controls or procedures, Management will immediately address the problem with the person violating the internal control or procedure and determine how the violation can be eliminated, avoided or otherwise complied with by the person.
- C. Management and the Oversight Body shall address all acts of noncompliance with the internal control or procedure and take appropriate action to correct the noncompliance.

COMPONENT TWO: RISK ASSESSMENT

Principle 6. Management defines objectives clearly to enable the identification of risks and risk tolerances.

- A. An objective is for all collections to be deposited timely and intact and receipts to be properly issued. There is zero tolerance for theft. There is minimal tolerance for error. The financial ledgers, including the revenue ledger, must be up to date and accurate to provide Management and the Oversight Body correct information. Laws regarding deposits must be followed and funds must be posted correctly to allow for proper use of the funds in compliance with statute or ordinance.

- B. An objective is that all revenues collected will be immediately and accurately be entered by the person accepting the funds on behalf of the City. The person to deposit the funds shall reconcile that the funds given to that person are equal to the amount of funds to be deposited. The reconciliation shall occur before either the receiving employee or the depositing employee may leave their work area.
- C. Each person in all processes shall be certain that the others involved in the process are complying with all law and regulation and especially these policies.

Principle 7. Management identifies, analyzes, and responds to risks related to achieving the defined objectives.

- A. There is a risk that errors in receipting or posting might occur and not be detected and corrected or prevented from occurring. There is a risk that the funds ledger could be incorrect and fund balances not accurate. If receipts are not posted to the correct fund, revenue or cash balances would be inaccurate and the provision of services may be impaired.
- B. There is a risk that the reconciled amount of revenues at the City do not equal the actual deposits made. There is a risk that two or more people in the process are working in unison and falsifying the revenue actually taken in.
- C. Every person handling City revenue or other funds shall be trained regarding IC 5-11-1-27(j) Report of Material Variances, Losses, Shortages, or Thefts to the State Board of Accounts.

Principle 8. Management considers the potential for fraud when identifying, analyzing, and responding to risks.

- A. There is always a risk, especially with cash collections, that the collections may be misappropriated prior to deposit. The records could be manipulated to cover the theft of collections. Job duties, segregation of duties and review processes will be implemented to ensure that an employee is not able to steal collections and cover up the theft.
- B. Every person handling City revenue or other funds shall be trained regarding IC 5-11-1-27(l) Report of Misappropriation of Funds to State Board of Accounts and Prosecuting Attorney.

Principle 9. Management identifies, analyzes, and responds to significant changes that could impact the internal control system.

- A. City internal control procedures will require evaluation and adjustment on a regular basis to accommodate the impact of future change, including but not limited to, personnel changes, newly elected and appointed officials, new programs, new technology, new laws, and financial fluctuations.

COMPONENT THREE: CONTROL ACTIVITIES

Principle 10. Management designs control activities to achieve objectives and respond to risks.

- A. Payroll Activities

1. Salaries and wage rates are verified by someone outside of the payroll process.
2. The responsibilities for hiring, terminating, and approving promotions are segregated from those preparing payroll transactions or inputting data.
3. The responsibilities for approving time sheets are segregated from those for preparing payroll transactions or inputting data.
4. Employees' time and attendance records are approved by their supervisors.
5. Corrections to recorded time and attendance records are approved by the employee's supervisor and authorized by Management.
6. Procedures are in place to ensure that changes in employment status are promptly reported to the payroll processing unit.
7. Payroll disbursements are reviewed and approved by an authorized individual prior to payment.
8. Access to payroll applications is appropriately controlled by user logins and passwords.
9. Changes to a payroll disbursement are approved by an individual other than the ones authorized to make the changes.
10. Payroll checks are accounted for in numerical order and reconciled to the payroll check register.
11. Employees are cross-trained on the payroll process; those assigned to payroll take mandatory vacations.

B. Disbursement Activities

1. The responsibility for approving claims is segregated from those preparing the claims.
2. Checks are written by an individual other than the one approving the claim.
3. Checks are signed by an individual other than the one preparing them.
4. Claims for payment are reviewed and approved by the Board of Public Works prior to payment.
5. A reconciliation is completed between the claims for payment approved by the Board and the actual disbursements posted to the ledger.
6. The responsibility for acknowledging the receipt of goods or services is segregated from those preparing claims and writing checks.
7. Vendor checks are accounted for in numerical order and reconciled to the disbursement ledger.
8. Invoices or other receipts are attached to each claim to support the disbursement.
9. A review is completed by an individual outside the disbursement process in which the claim amount is compared to the supporting documentation attached to the claim and the amount of the check.
10. Access to disbursement applications is appropriately controlled by user logins and passwords.

C. Receipting Activities

1. The responsibility for collecting money and issuing receipts is done on a rotating basis so no one person prepares the bank deposits or receipts in money.
2. The responsibility for making bank deposits is done on a rotating basis so no one person prepares the deposits.
3. Pre-numbered receipts are issued for all money collected and the duplicate receipt is retained.

4. Posting of receipts to the ledger is completed by an individual other than the one who collects money and makes the deposit.
5. Receipts indicate the type of payment received (cash, check, etc.) and this is reconciled to the make-up of the bank deposit.
6. A periodic review is completed of all adjustments made to customer accounts by an individual independent of the billing and accounts receivable processes to ensure that all adjustments made have proper approval.

D. Cash Activities

1. A reconciliation between the recorded cash balance and the bank balance is completed monthly by an individual, then approved by an individual separate from the receipting and disbursing processes.
2. A reconciliation between the receipts ledger and the credits to the bank account is completed daily.
3. A reconciliation between the disbursement ledger and the debits to the bank account is completed daily.
4. The monthly reconciliation between the cash balance and the bank balance is thoroughly reviewed and submitted the governing body.
5. Disbursements from and reimbursements to petty cash funds are periodically reviewed by an individual other than the one responsible for maintaining the petty cash fund.

E. Credit Cards Transactions and Purchasing Cards

1. A designated official or employee oversees the issuance and use of the credit cards and purchasing cards.
2. An ordinance or resolution specifically states the purposes for which the credit card/purchasing card may be used.
3. The designated official or employee collects the credit card when the purpose for which the credit card has been issued has been accomplished. Disbursement of purchasing cards are set in Ordinance 5518.
4. A designated person separate from disbursement process reviews transactions listed on the credit card statements for sufficient documentation and inclusion in claim to the Board.

Principle 11. Management designs the entity's information system and related control activities to achieve objectives and respond to risks.

- A. Each employee will have a user id and password, these will not be shared.
- B. Only the Controller and Deputy will have access to user ids and passwords.
- C. Only the Controller and Deputy set permissions so that each employee is restricted in access within the software system to those areas needed to complete assigned duties only.
- D. All transactions will carry the unique user id of the employee that completed the transaction.

Principle 12. Management implements control activities through policies.

- A. The City has an employee handbook that is regularly updated to communicate policies to employees.
- B. The Finance Department regularly works with departments and employees who handle financial transactions to recommend and ensure best practices.
- C. The City's cash handling policy is communicated to all necessary employees.

COMPONENT FOUR: INFORMATION AND COMMUNICATIONS

Principle 13. Management uses quality information to achieve the entity's objectives.

- A. Information must be relevant and of high quality. The appropriate statutes, regulations, grant requirements, local ordinances, and internal reports must be the most current information available. Management determines the information needed to evaluate the internal controls established. Those needs for information are communicated to the employees so that only the most relevant and reliable information is used in the internal control procedure evaluations.
- B. Reconciliation of receipts to bank is completed and any corrections noted are posted to the revenue ledger and funds ledger prior to month end reports being prepared.
- C. All variances are researched and resolved and proper documentation is maintained.
- D. Reports are checked for accuracy and that corrections have been made for any errors detected.

Principle 14. Management internally communicates the necessary quality information to achieve the entity's objectives.

- A. In establishing a process of internal communication, Management may consider the following:
 - 1. The form of communication and documentation of internal communications between offices, departments and the Oversight Body is established and communicated to employees.
 - 2. Procedures are established to ensure that the communication requirements are being followed and necessary information is being communicated properly.
 - 3. Procedures are established for feedback on and clarification of the information provided.
- B. Internal memos and reports are maintained to document communication.
- C. Management and the Oversight Body reviewed the controls over receipting and month end reports for reasonableness.
- D. Management and Oversight Body respond to any complaints from Employees or citizens on the receipting process.
- E. Any modifications to the receipting procedures are immediately communicated to the staff.
- F. A change in job duties may be implemented for any part of the receipting process that has been determined to have a problem.

Principle 15. Management externally communicates the necessary quality information to achieve the entity's objectives.

- A. In establishing a process of external communication, Management may consider the following:
 - 1. Communications with State Board of Accounts, other State agencies, grantor agencies, regulatory agencies are documented by email, memos, letters and other correspondence.
 - 2. Procedures are established to retain public documents.
 - 3. Reports are cross checked for accuracy, relevancy and timelines of information
- B. All control deficiencies identified in an external audit are immediately addressed, evaluated and a corrective action plan is written. Management and the Oversight Body will follow up on the correction plan to ensure that it has been implemented and has correctly addressed the weaknesses.

COMPONENT FIVE: MONITORING ACTIVITIES

Principle 16. Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.

- A. When establishing a monitoring system, Management may consider the following procedures:
 - 1. Periodic checks are performed to determine if controls are in place and working effectively.
 - 2. Control activities are reviewed to determine if the actual activities are in compliance with established procedures.
 - 3. Deficiencies in the internal control process are documented and remediation is quickly completed to address any deficiencies.
 - 4. Many of the control activities can also be used as monitoring activities

Principle 17. Management remediates identified internal control deficiencies on a timely basis.

- A. Internal control deficiencies may be identified internally through monitoring or externally through audit reports, communication from grantor agencies, etc. Once identified, Management addresses deficiencies immediately through the development of formal or informal corrective action plans. Management and the Oversight Body work together to ensure the corrective action plan is implemented and the resulting changes are effective in correcting internal control weaknesses.
- B. Any violations of policies and procedures will be noted and evaluated. Internal Controls may be reevaluated to correct the problems discovered.