



INTERNAL CONTROL: GUIDE FOR INDIANA TOWNSHIPS

*For compliance with the Indiana State Board of
Accounts' Uniform Internal Control Standards
for Indiana Political Subdivisions*

THIS GUIDE IS INTENDED FOR TOWNSHIPS
WITH STAFF OF 3 OR MORE, INCLUDING
TRUSTEE. FOR TOWNSHIPS WITH 1-2 STAFF,
INCLUDING TRUSTEE, SEE GUIDE 1B.

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ITA Responsibilities

The Indiana Township Association offers this guide and template to assist Indiana townships in complying with Indiana's requirement to develop policies for variance thresholds and internal accounting control. It is only a guide, and each township must tailor it to local circumstances. ITA cannot guarantee that the township policies will be accepted by the State Board of Accounts or that the policies will protect the township from erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property. The ITA is available to tailor a custom set of policies for your Township and is offering this service exclusively to its members for a flat service fee of \$500.

Board of Accounts Responsibilities

The State Board of Accounts shall define, subject to the approval of the State Audit Committee, the acceptable minimum level of internal control standards and internal control procedures for internal control systems of political subdivisions. The State Board of Accounts shall also issue training materials. The State Board of Accounts shall determine as part of its audit of each township whether, or not, the township has adopted appropriate internal control standards and provided appropriate training to its personnel.

On the State Board of Accounts' website there is a notification link at the bottom of the webpage <http://www.in.gov/sboa/4445.htm>, which allows public officials to report via e-mail material irregular variances, losses, shortages, or thefts. Telephone and in-person reporting is also acceptable. Reports will be followed up with a return e-mail or call to gather additional information as necessary. All reports of irregular variances, losses, shortages, or thefts are maintained by the State Board of Accounts.

When a report is received, the State Board of Accounts will use a qualitative and quantitative analysis to determine materiality for investigative and reporting purposes, as well as written internal control recommendations as required by Ind. Code § 5-11-1-27(j). State Examiner Directive 2015-6

Township Responsibilities

The Township must ensure that the acceptable minimum level of internal control standards and internal control procedures for internal control systems are developed and adopted. Also, the Township must assure that personnel receive training concerning the internal control standards and procedures. The personnel who must receive this training are the officers or employees of the Township whose official duties include receiving, processing, depositing, disbursing, or otherwise having access to funds that belong to the federal government, state government, a political subdivision, or another governmental entity. The Trustee must certify the above in writing.

The Township must determine its own policy on materiality. The Township must promptly report to the State Board of Accounts using the notification link at the bottom of the webpage <http://www.in.gov/sboa/4445.htm>, or by telephone or in-person, any erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property in excess of the thresholds determined in the Township's Policy on Materiality.

The ITA is available to tailor a custom set of policies for your Township and is offering this service exclusively to its members for a flat service fee of \$500.

Disclaimer: ITA cannot guarantee that the township policies will be accepted by the State Board of Accounts or that the policies will protect the township from erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property.

Instructions for Using the Guide

Each township must tailor its own internal control structure to meet its unique circumstances. The guide is intended to assist a township with a staff of three to six, but it can be applied to any size office. If a Trustee has no staff, the Board of Accounts has suggested inviting a Township Board member or neighboring Trustee to perform some of the segregated duties or cross-checks.

STEPS:

The following should be done as early in the year as possible, and updated as needed. An annual update is recommended unless a more frequent update is needed:

1. Determine the variance policy (also called the “variance threshold” or “materiality policy”) of the Township. This policy is simply the dollar amount above which any erroneous or irregular variances, losses, shortages, or thefts of Township funds or property, must be reported to the State Board of Accounts. The Guide suggests \$500 for cash items and \$2000 for non-cash items. The Trustee should sign the “TRUSTEE DIRECTIVE: Policy on Materiality and Process for Reporting Material Items”, keep it as a public record for the auditors to examine, and present it to the Township Board as early as possible in the year.
2. Ask the Township Board to adopt a resolution: “TOWNSHIP BOARD RESOLUTION regarding variance thresholds applicable to _____ Township”, and include it in their minutes. Attached to the resolution should be the “TRUSTEE DIRECTIVE: Policy on Materiality and Process for Reporting Material Items.”
3. Ask the Township Board to adopt a resolution: “TOWNSHIP BOARD RESOLUTION Regarding the System of Internal Accounting Control and Designation of an Oversight Committee. The Board can name an Oversight Committee with as few as a single member. In townships with a Trustee with no staff, a single-member Oversight Committee might be a good way to provide checks and balances on the Trustee.
4. The Trustee should complete “TRUSTEE DIRECTIVE The Control Environment and Internal Control Structure of the Township.” This document will require considerable tailoring for each township. The following sections, in particular, require careful attention:

Section 3 refers to an ATTACHMENT, which is a diagram of the flow of transactions through the Township office. A sample is provided, illustrating a possible structure for a Township with a staff of three, including the Trustee.

Preferably, the Trustee should replace the sample diagram with a completely new one, showing how transactions are actually handled. A written narrative is sufficient if the Township does not wish to prepare a diagram.

If time and resources do not allow for a new diagram, the sample may be adequate, but, at a minimum, notes should be made on the diagram to indicate how it relates to the actual Township arrangement.

Auditors will be critical of any lack of segregation of duties. That means the person who has custody of an asset should not account for the asset. For example, in the sample diagram, checks are not received and mailed by the accounting clerk. If no segregation is possible, then there should be a review procedure, such as the trustee reviewing the bank reconciliation.

Section 11 calls for specific information about the Township's computer hardware, software, and backup procedures.

5. The Trustee should present the completed "TRUSTEE DIRECTIVE: Policy on Materiality and Process for Reporting Material Items" to the Township Board and ask to have it included in the minutes.

The following should be done toward the end of the year and repeated annually:

6. Each officer or employee of the Township whose official duties include receiving, processing, depositing, disbursing, or otherwise having access to funds that belong to the federal government, state government, a political subdivision, or another governmental entity should be asked to sign two documents, which should be kept in the Township records for the auditors to examine:
 - CERTIFICATION OF TOWNSHIP OFFICER OR EMPLOYEE RECEIVING, PROCESSING, DEPOSITING, DISBURSING, OR OTHERWISE HAVING ACCESS TO FUNDS THAT BELONG TO THE FEDERAL GOVERNMENT, STATE GOVERNMENT A POLITICAL SUBDIVISION, OR ANOTHER GOVERNMENT ENTITY
 - INTERNAL CONTROL TRAINING CERTIFICATION FOR ELECTED OFFICIALS, APPOINTEES, AND EMPLOYEES
7. The Trustee should complete and sign "TRUSTEE CERTIFICATION TO THE TOWNSHIP BOARD OR OVERSIGHT COMMITTEE REGARDING THE INTERNAL CONTROL STRUCTURE AND TRAINING OF OFFICERS AND EMPLOYEES." The document should be kept in the Township records for the auditors to examine, and it should be presented to the Township Board for inclusion in their minutes.

TRUSTEE DIRECTIVE

Policy on Materiality and Process for Reporting Material Items

Whereas, IC 5-11-1-27(j) requires erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property shall be reported immediately to the State Board of Accounts; and

Whereas, State Examiner Directive 2015-6 directs each political subdivision to determine its own policy on materiality; and

Whereas, the Township has taken into consideration the requirements of IC 5-11-1-27(I), which are not subject to materiality; and

Whereas, the Township does not condone any erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property but recognizes that relatively small items may not justify the cost of the involvement of the State Board of Accounts;

Now, therefore, I, _____, Trustee of _____ Township direct as follows:

Section 1. All erroneous or irregular variances, losses, shortages, or thefts of Township subdivision funds or property, or funds or property the Township holds in trust, shall be reported to the Trustee or his designee promptly.

Section 2. It will be the policy of the Trustee to report to the Oversight Committee of the Township Board any erroneous or irregular variances, losses, shortages, or thefts of cash in excess of \$500, except for inadvertent clerical errors that are identified timely and promptly corrected with no loss to the Township.

Section 3. It will be the policy of the Trustee to report to the Oversight Committee of the Township Board any erroneous or irregular variances, losses, shortages, or thefts of non-cash items in excess of \$2000, estimated market value, except for those resulting from inadvertent clerical errors or misplacements that are identified timely and promptly corrected with no loss to the Township, and except for losses from genuine accidents.

Section 4. It will be the policy of the Trustee to report to the State Board of Accounts any erroneous or irregular variances, losses, shortages, or thefts of cash in excess of \$500, except for inadvertent clerical errors that are identified timely and promptly corrected with no loss to the Township.

Section 5. It will be the policy of the Trustee to report promptly to the State Board of Accounts any erroneous or irregular variances, losses, shortages, or thefts of non-cash items in excess of \$2000, estimated market value, except for those resulting from inadvertent clerical errors or misplacements that are identified timely and promptly corrected with no loss to the Township, and except for losses from genuine accidents.

Section 6. All Township elected officials are asked, and all Township employees and agents are directed, to comply with this policy, and the Township Board is asked to endorse it.

Executed this _____ day of _____, _____

TRUSTEE

Disclaimer: ITA cannot guarantee that the township policies will be accepted by the State Board of Accounts or that the policies will protect the township from erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property.

TOWNSHIP BOARD RESOLUTION

Regarding variance thresholds applicable to _____ Township

Whereas, IC 5-11-1-27(j) requires erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property shall be reported immediately to the State Board of Accounts; and

Whereas, State Examiner Directive 2015-6 directs each political subdivision to determine its own policy on materiality; and

Whereas, the Township Board does not condone any erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property but recognizes that relatively small items may not justify the cost of the involvement of the State Board of Accounts; and

Whereas, the Trustee has issued a directive, attached hereto as Appendix, stating a policy on materiality and a process for reporting material items;

Now, therefore, be it resolved:

Section 1. The Township Board hereby endorses the Trustee’s declaration, attached as Appendix, regarding a policy on materiality and a process for reporting material items.

Section 2. The Township Board calls upon the Trustee and all Township officials, employees, and agents to enforce and comply with the policy on materiality and process for reporting material items and to report noteworthy items to the Township Board Oversight Committee or the full Township Board.

Section 3. The Township Board directs its Oversight Committee, consisting of the President and Vice President of the Board, to monitor, as it deems necessary, compliance with the policy on materiality and process for reporting material items and report noteworthy items to the full Township Board.

Section 4. The Township Board asks the Trustee to advise the Township Board of any changes in the policy on materiality and process for reporting material items.

Adopted this ____ day of _____, ____.

APPENDIX ATTACHED: TRUSTEE DIRECTIVE Policy on Materiality and a Process for Reporting Material Items.

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TOWNSHIP BOARD RESOLUTION

Regarding the System of Internal Accounting Control and Designation an of Oversight Committee

_____TOWNSHIP _____COUNTY

Whereas, IC 5-11-1-27 provides that the State Board of Accounts shall define the acceptable minimum level of internal control standards for internal control systems of political subdivision, including the following: (1) Control Environment, (2) Risk Assessment, (3) Control Activities, (4) Information and Communication, (5) Monitoring; and

Whereas, the policy of the Township is to implement a system of internal accounting control that provides reasonable assurance that the missions and objectives of the Township are achieved with regard to receiving, processing, depositing, disbursing, or otherwise having access to government funds and complies with the requirements of the State Board of Accounts; and

Whereas, the Township Board recognizes its responsibility as the oversight body of the Township with regard to internal accounting control;

Now, therefore, be it resolved:

Section 1. The Township Board hereby adopts the “Uniform Internal Control Standards for Indiana Political Subdivisions” developed by the State Board of Accounts.

Section 2. The Township Board hereby appoints the following member(s) of the Board to serve as the Internal Control Oversight Committee (the “Oversight Committee”) for the year _____. The Board delegates all of its internal control authority and responsibilities to the Oversight Committee, subject to action by the full Township Board, provided the Oversight Committee shall promptly report to the full Township Board any weaknesses or failures in internal accounting control that come to its attention.

Member(s) of the Oversight Committee:

[Enter names of one or more Township Board Members]

The Oversight Committee is appointed to serve for the current calendar year and until its successor has been appointed.

Section 3. As early as expediently possible each year, the Township Trustee is asked to report to the Township Board on the establishment and implementation of a system of internal accounting control, addressing the following:

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

Section 4. The Township Board calls on the Trustee, all Township employees, and the general public in cooperating to assure an effective system of internal accounting control for the Township.

Section 5. The Trustee is asked to provide each Township employee who handles public funds, directly or indirectly, a copy of this resolution.

Adopted this ____ day of _____, ____.

TRUSTEE DIRECTIVE

The Control Environment and Internal Control Structure of the Township

Whereas, the control environment is the basic commonality for all and comprises the integrity and ethical values of the Township, established by the Township Board and the Trustee, particularly with regard to handling government funds and with compliance with regulations related to public funds, and

Whereas, the proper administration of government funds by the Township requires an internal control structure that adequately encompasses the five components of internal control: the control environment, risk assessment, control activities, information and communication, and monitoring,

Now, therefore, I, _____, Trustee of _____ Township direct as follows:

Section 1. Integrity and ethical standards of conduct are expected to be observed by all throughout Township operations and will be considered when evaluating performance.

Section 2. The Township Board and Oversight Committee are invited to monitor and critique any aspect of operational internal control.

Section 3. The organizations structure for officers or employees of the Township whose official duties include receiving, processing, depositing, disbursing, or otherwise having access to government funds shall assure a segregation of duties, so that no person who has custody of an asset is also the person who accounts for the asset, or, if such segregation is not possible, there is a reliable cross-check to identify errors in a timely fashion. SEE ATTACHMENT.

Section 4. The Township is committed to attracting, developing, and retaining competent individuals to perform duties involving government funds.

Section 5. Internal control duties of employees whose duties involve government funds will be considered in performance evaluations, and, in particular, all such employees are expected to do the following in order to receive a favorable evaluation:

- Read and be familiar with the State Board of Accounts Uniform Internal Control Standards for Indiana Political Subdivisions
- Watch the State Board of Accounts Internal Control Webinar

The standards and webinar are available at <http://in.gov/sboa/5071.htm>

Section 6. Each officer or employee involved in handling government funds is directed to review procedures within his or her responsibility and assess the risk of loss. If adjustments to the internal control structure are called for, they are to be reported to a supervisor promptly.

Section 7. For each item reported under Section 6, the appropriate supervisor is directed to determine the response to the risk, i.e., acceptance, institution of a procedure to avoid the risk, introduction of a procedure to reduce the risk, or identification of a way to share the risk, such as through insurance.

Section 8. Risks assessed under Sections 6, and 7 above include the risk of fraud and include consideration of

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subordinates' opportunity to commit fraud as well as pressure to do so, or any basis for rationalizing the fraud or indication of corruption.

Section 9. A supervisor should be consulted and modification of the internal control structure considered when there are changes in circumstances, especially those involving: reconciliations, authorizations, approval processes, performance review, and verification processes.

Section 10. The existing internal control structure has been analyzed, and risks assessed, at the system in place at this time is illustrated in the ATTACHMENT. Factors considered include:

- Controls over information processing.
- Physical control over vulnerable assets.
- Establishment and review of performance measures and indicators.
- Segregation of duties.
- Proper execution of transactions.
- Accurate and timely recording of transactions.
- Access restrictions to and accountability for resources and records.
- Appropriate documentation of transactions and internal control.

Section 11. Following are the primary elements of the Township's Information system as it relates to handling government funds:

Disaster recovery, restore software, and hardware to working order:

Hardware specifications and vendors

[Describe]

Software names, versions, licenses, and vendors

[Describe]

Procedures for retrieving passwords in case regular personnel become unavailable.

[Describe]

Back-up policy and off-site storage for each major system involving government funds

[Describe]

The Trustee is personally familiar with the hardware and software used in servicing the Township's account and would be able to restore access to the Township's files through the password retrieval options and backup sets built in to each major system involving governmental funds.

In addition to the above, all officers or employees handling government funds are directed to lock desks

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containing blank checks, other sensitive blank forms, documents containing confidential information, and other sensitive documents; also to shred all obsolete documents bearing social security numbers, bank account numbers, or other sensitive information.

Segregation of duties and other direct controls are required in accordance with the ATTACHMENT.

Section 12. It is the policy of the Township to implement the internal control structure described in this document by requiring each officer or employee handling government funds to acknowledge this declaration and obtain the appropriate training.

Section 13. The Township expects reports to be provided to the public, regulatory agencies, Township Board, Trustee, and, as appropriate, supervisors, in accordance with forms prescribed and/or approved by the Indiana State Board of Accounts, or, where applicable, other laws and regulations.

Section 14. The Trustee or a supervisor will be in touch in person, generally on a daily basis, with each officer or employee handling government funds to discuss information regarding government funds.

Section 15. The Trustee or his designee will file all required reports with the State Board of Accounts, the Department of Local Government Finance, the Indiana Department of Revenue, the Indiana Department of Workforce Development, the Internal Revenue Service, and other public and regulatory agencies on a timely basis as required.

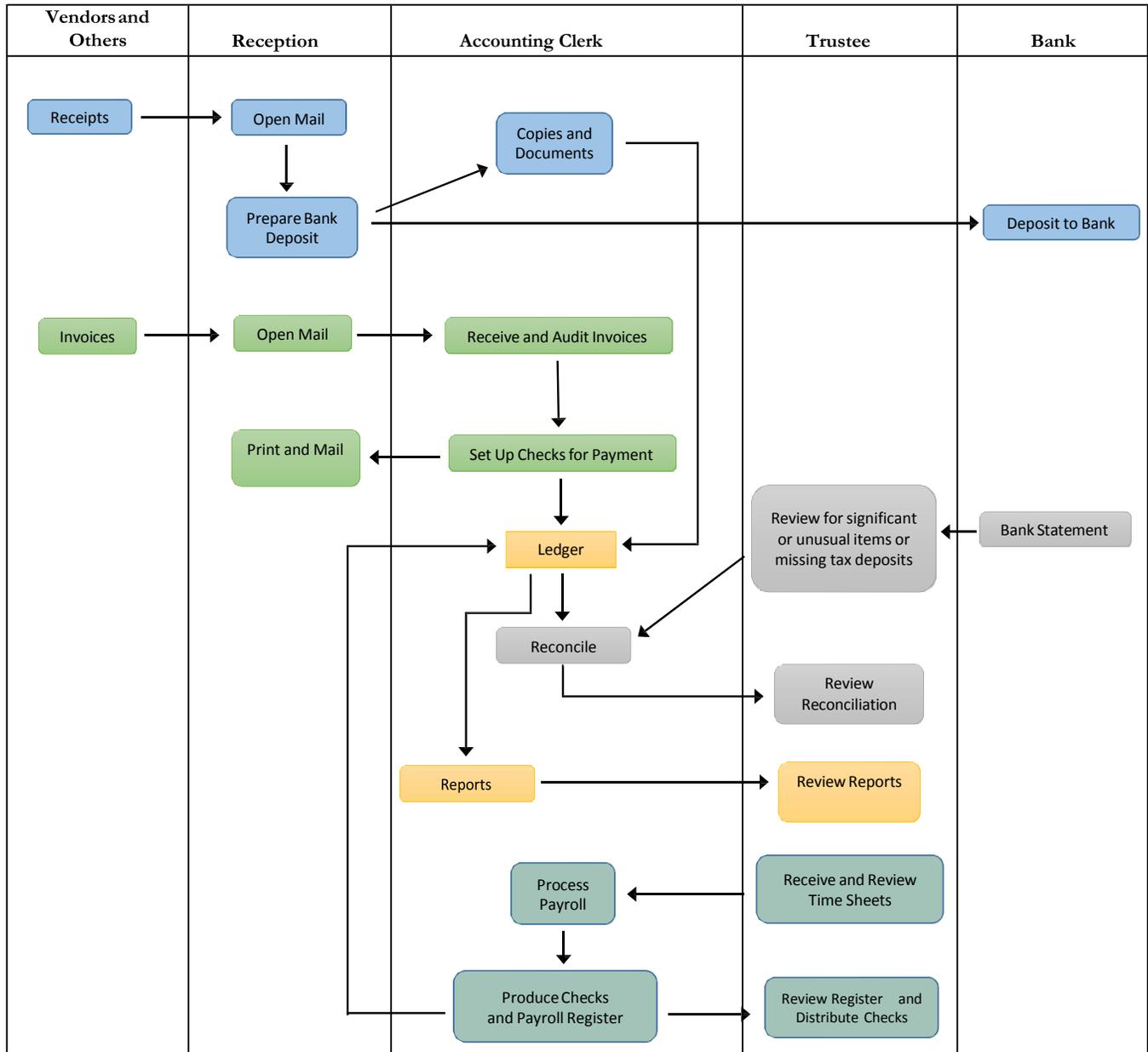
Section 16. The Trustee will continually monitor compliance with this Declaration. Officers and employees handling government funds are directed to notify a supervisor of instances of non-compliance or instances in which the existing procedures are no longer adequate, and new procedures should be considered.

Section 17. The Trustee or his designee will review this Declaration periodically for any need to modify it or update it. Officer and employees handling government funds will be notified of changes, as will the Township Board or its Oversight Committee.

Executed this _____ day of _____, _____

TRUSTEE

ATTACHMENT
 Internal Control Structure



CERTIFICATION OF TOWNSHIP OFFICER OR EMPLOYEE RECEIVING, PROCESSING,
DEPOSITING, DISBURSING, OR OTHERWISE HAVING ACCESS TO FUNDS THAT BELONG TO
THE FEDERAL GOVERNMENT, STATE GOVERNMENT, A POLITICAL SUBDIVISION, OR
ANOTHER GOVERNMENT ENTITY

I CERTIFY THE FOLLOWING:

I am an officer or employee of Township government whose official duties include receiving, processing, depositing, disbursing, or otherwise having access to funds that belong to the federal government, state government, a political subdivision, or another governmental entity;

I am aware that the Township must ensure that the acceptable minimum level of internal control stands and internal control procedures for internal control systems are developed and adopted;

I have received copies and read the following Trustee directives:

1. Policy on Materiality and Process for Reporting Material Items
2. The Control Environment and Internal Control Structure of the Township

I have received a copy of “Township Board Resolution” regarding the system of Internal Accounting Control and Designation of Oversight Committee.

I am in compliance with and will continue to be in compliance with these directives and the resolution to the best of my knowledge and ability.

I am aware of the internal control guidance available at <http://in.gov/sboa/5071.htm>

I have read and am familiar with the State Board of Accounts Uniform Internal Control Standards for Indiana Political Subdivisions, and I have watched the State Board of Accounts Internal Control Webinar.

Signed _____

_____ Date

**INTERNAL CONTROL TRAINING CERTIFICATION
FOR ELECTED OFFICIALS, APPOINTEES, AND EMPLOYEES**

I, _____, the duly elected, appointed, or employed
(print name)

_____ for _____ certify that I
(position or title) (political subdivision)

received the following training concerning internal controls standards and procedures as required
by Ind. Code § 5-11-1-27(g)(2):

Title of Training	Time Spent
_____	_____
_____	_____
_____	_____

Date: _____

Signature

* This certification may be printed, signed, and retained in paper form or electronically. If signed electronically, the elected official, appointee, or employee must designate his or her signature by typing the last four (4) digits of their Social Security number in the signature line.

TRUSTEE CERTIFICATION TO THE TOWNSHIP BOARD OR OVERSIGHT COMMITTEE
REGARDING THE INTERNAL CONTROL STRUCTURE AND TRAINING OF OFFICERS AND
EMPLOYEES

I, _____, Trustee of _____ Township, certify to the Township Board or its Oversight Committee that the Township has developed and implemented the acceptable minimum level of internal control standards and internal control procedures for internal control systems of political subdivisions, as described by the State Board of Accounts in its Uniform Internal Control Standards for Indiana Political Subdivision and that officers or employees of the Township whose official duties include receiving, processing, depositing, disbursing, or otherwise having access to funds that belong to the federal government, state government, a political subdivision, or another governmental entity have certified that they have received the appropriate training.

The Township officers or employees whose official duties include receiving, processing, depositing, disbursing, or otherwise having access to funds that belong to the federal government, state government, a political subdivision, or another governmental entity are listed below:

Signed _____, Trustee, _____
Date