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## TITLE 2

## CONTROL ENVIRONMENT

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### CHAPTER 1

### SETTING THE TONE AT THE TOP

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The control environment involves much more than just setting policies, it involves communicating and enforcing those policies. Though not comprehensive, at a minimum, municipal officials should:

- Section 1      develop an employee manual that addresses:
- management’s expectations regarding business practices and ethical behavior (includes pay scales, promotions, dress code, probationary period, evaluations, conflict of interest issues, etc.)
  - job skills requirements (job descriptions, lines of authority and responsibility, certifications, education, training, etc.)
  - employee benefits (leave, flex plans, health insurance, 401k, pension, etc.)
  - disciplinary policies and procedures
- Section 2      develop a policies and procedures manual that incorporates or references all the policies and procedures required in this Internal Control and Compliance manual plus any additional policies and procedures that are specific to the municipality. The manual should include the assignment of authority and responsibility.
- Section 3      establish a simple and flexible organizational plan that clearly places responsibility for specific activities upon specified individuals. Control over the accounting function should be centralized under one official who is responsible for all recordkeeping and reporting and who has the authority to supervise the entire financial operation. Centralizing the accounting function does not eliminate the approval and custodial functions. It allows for consistent application of accounting rules and a general overall review of all activities of the municipality.
- Section 4      separate duties of employees so that no one person has control over a complete transaction from beginning to end. Work flow should be established so that one employee’s work is automatically verified by another employee working independently. When possible, different persons should be responsible for the authorization, recordkeeping (posting), custodial (cash and materials handling), and review procedures, to prevent manipulation of records and minimize the possibility of collusion.

Additional areas which should be considered are:  
    Establishment of an audit committee  
    Establishment of internal audit functions