

# Town of Oriental

## Resolution 2022-09

### General Financial Management and Internal Controls Policy to comply with The Green Book and the expenditure of American Rescue Plan (ARP)/Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) by North Carolina Local Governments

The Town of Oriental complies with The Green Book: <https://www.gao.gov/greenbook> for all expenditures of the American Rescue Plan (ARP)/Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) by North Carolina Local Governments. The Green Book sets internal control standard for federal entities or Local Governments receiving federal funds.

**Policy Purpose:** To document how the management of the Town of Oriental has fulfilled its responsibility for implementing and maintaining a sound and comprehensive framework of internal controls. Internal controls are vital for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement.

**Internal Control Policy Definition:** Internal Control is a process which is designed by an entity's oversight, body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved in the categories of:

- (1) Reporting - reliability of financial reporting for internal and external use; and
- (2) Operations - effectiveness and efficiency of operations; and
- (3) Compliance - compliance with applicable laws and regulations.

**Internal Control System Definition:** An internal control system is a continuous built-in component of operations, effected by people, that provides reasonable assurance, not absolute assurance, that an entity's objectives will be achieved. It is a series of actions that occur throughout an entity that guide its operations and is a part of the organizational structure to help managers achieve the entity's objectives on an ongoing basis. People make internal controls work. Management is responsible for an effective internal control system.

**Components of an Effective Internal Control System:** Understanding the five components of the process is vital to properly structuring, implementing, and maintaining cost-effective internal controls. The five components represent the highest level of the hierarchy of standards for internal controls and must be effectively designed, implemented, and operated together in an integrated manner for an internal control system to be effective.

The five components are as follows:

1. **Control environment** is the foundation for an internal control system which provides the cultural atmosphere for human behavior within an organization. Several key factors expected of management include:
  - a. The oversight body and management should demonstrate a commitment to integrity and ethical values; and
  - b. The oversight body should oversee the entity's internal control system; and
  - c. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives; and

- d. Management should demonstrate a commitment to recruit, develop, and retain competent individuals and
  - e. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.
2. Risk Assessment is necessary after management establishes certain objectives in order to anticipate and compensate for factors which may prevent management from fulfilling their responsibilities and goals. This assessment provides the basis for developing appropriate risk responses. Management assesses the risks the entity faces from both internal and external audit sources. The key factors of Risk Assessment include:
  - a. Management should define objectives clearly to enable the identification of risks and define risk tolerances; and
  - b. Management should identify, analyze, and respond to risks related to achieving the defined objectives; and
  - c. Management should consider the potential for fraud when identifying, analyzing, and responding to risks; and
  - d. Management should identify, analyze, and respond to significant changes that could impact the internal control system.
3. Control activities are the actions management establishes through policies and procedures, actions, or activities that help ensure that management's directives are carried out. They may consist of policies, physical actions, hardware or software processes, or procedures such as segregation of duties. The control activities include:
  - a. Management should design control activities to achieve objectives and respond to risks; and
  - b. Management should design the entity's information system and related control activities to achieve objectives and respond to risks; and
  - c. Management should implement control activities through policies.
4. Information and communication internal control features focus on the entity's human and technological systems to ensure that effective and quality information is vital for an entity to achieve its objectives that support the internal control system as related to internal as well as external events.
  - a. Management should use quality information to achieve the entity's objectives.
  - b. Management should internally communicate the necessary quality information to achieve the entity's objectives.
  - c. Management should externally communicate the necessary quality information to achieve the entity's objectives.
5. Monitoring is the activities management establishes and operates to access the quality of performance over time and promptly resolve the findings of audits and other reviews. Conducting internal controls on an ongoing basis is essential to make sure they are functioning as intended, and if not, for effective corrective action to be taken. Corrective actions are a necessary complement to control activities in order to achieve objectives.
  - a. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
  - b. Management should remediate identified internal control deficiencies on a timely basis.

**Limitations of Internal Controls.** In this imperfect world, there are several factors which can reduce the effectiveness of internal controls.

1. Cost-effectiveness. The cost of a control in dollars or staff time should not outweigh the potential benefit.
2. Management override can easily circumvent control procedures, whether for

expediency or personal benefit.

3. Unintended snafus such as employee errors, mistakes in judgment, carelessness, or misunderstanding of instructions can be impediments.
4. Collusion is the intentional act of two or more employees to circumvent existing controls. This is usually hard to detect, and the difficulty increases with the authority level of the employee.

**Management Objectives.** The purpose of internal controls is to help ensure the following management objectives and management oversight are met:

1. Safeguarding Assets. The Town is responsible for prudent stewardship of all items acquired with taxpayer funds including infrastructure, buildings, software, supplies, and cash, and for protecting other intangible items necessary for business functioning such as customer and employee information.
2. Integrity of financial information. Financial information is accurate, complete, properly authorized and valued, and produced in a timely manner.
3. Compliance with laws and regulations. The Town's financial operation complies with all state and federal requirements, current Generally Accepted Accounting Principles and Governmental Auditing Standards (GAAP and GAGAS), all provisions of the bond order and related financial obligations, and any applicable grant and Green Book Regulations.
4. System promotes operational efficiency. Controls are cost-effective and easy to maintain working as intended according to approved policy.

#### **Town Internal Controls in Place**

1. Control Environment - These controls include but are not limited to the following:
  - a. Keeping core values of trust, honesty, and accountability at the heart of management decisions and personnel evaluations; and
  - b. Using credit checks as part of the hiring process to avoid finance employees with personal financial issues; and
  - c. Hiring qualified financial personnel and providing continuing training and educational opportunities and encouraging appropriate certifications and ethics training; and
  - d. Annual audit by well-qualified external CPA firm; and
  - e. Requiring responsible employee authorization for all accounting transactions; and
  - f. Identity Theft Prevention Program and identity of 'Red Flags;' and
  - g. This is not an exhaustive listing, there may be others as identified

2. Risk Assessment and Control Procedures

Area	Risk	Control Procedures
Cash	Employee could pocket cash received from customers	Separate functions of receiving payments & making bank deposit, posting payments, and authorizing write-offs to customer accounts
Cash	Employee could pocket cash using false invoice	<ul style="list-style-type: none"> <li>• Separate functions of requisitioning, ordering, receiving, and approving invoices.</li> <li>• Invoices reviewed during check-signing process by Town Manager or his/her designee.</li> </ul>
Cash	Employee could pocket cash from petty cash box	Petty cash custodian has locked box and original receipts must be signed by employee receiving cash. Reimbursement reconciliation reviewed by Finance staff during replenishment.
Cash	Criminals could try to steal cash by altering or counterfeiting Town check	Positive pay protection with bank where checks are not honored without advance notice to bank from the Town of check number and corresponding amount.
Cash	Criminals could try to steal cash by forging ACH draft	Positive pay protection with bank where drafts are not honored by bank without advance notice from Town staff
Cash	Employee could try to steal cash using blank check	<ul style="list-style-type: none"> <li>• Check stock locked in Finance area</li> <li>• Accounting staff verifies beginning and ending check numbers used by AP staff</li> <li>• Two signatures required on checks</li> </ul>
Cash	Cash transaction could be recorded improperly, such as typo error or NSF check notification not received from bank	Employee who does not record any cash transactions reconciles bank statement by 15 <sup>th</sup> of following month
Investments	Investments and/or related income could be improperly recorded	<ul style="list-style-type: none"> <li>• Compare financial records with statements prepared by custodian</li> <li>• Accounting staff complying with GASB 40 guidance</li> </ul>
Investments	Investments not allowed under NC law could be purchased	<ul style="list-style-type: none"> <li>• Adopted Fiscal Guidelines Policy clearly identifying allowable investments</li> <li>• Authorization and execution of trades separated duties</li> <li>• Semi-annual report of investments to LGC</li> </ul>
Revenues	Revenues could be improperly recorded or not received in their entirety	<ul style="list-style-type: none"> <li>• Separated duties of billing and recording payments</li> <li>• Daily bank deposits and recording revenue</li> <li>• Monthly review and analysis of billing and consumption data</li> <li>• Write-off authorization limited to Town Council approval</li> </ul>

<i>Area</i>	<i>Risk</i>	<i>Control Procedures</i>
Debt	Debt could be issued improperly	<ul style="list-style-type: none"> <li>All debt authorized by Council under auspices of LGC (Local Government Commission)</li> </ul>
Debt	Debt service could be under-paid or inadvertently missed	<ul style="list-style-type: none"> <li>Annual schedule of debt service corroborated with LGC and Trustee</li> <li>Trustee notifies Director of Finance if Finance Staff does not remit sufficient funding</li> </ul>
Debt	Outstanding Debt could be misreported in financial statements	<ul style="list-style-type: none"> <li>Annual schedule of debt service corroborated with LGC and Trustee</li> <li>Accounting staff aware of disclosure checklists and requirements</li> </ul>
Debt	Arbitrage liability incorrectly computed or recorded	<ul style="list-style-type: none"> <li>Deposit of all bond proceeds into separate NCCMT fund or First Bank account Annual arbitrage calculations by contracted professional</li> </ul>
Debt	Violation of debt covenants	<ul style="list-style-type: none"> <li>Management aware of provisions of bond order</li> <li>Allowable ratio computed annually and included in notes to financial statements</li> <li>Annual review of provisions and notification to Trustee and other NMSRs that there were no violations</li> </ul>
Expenditures	Incorrect amounts could be recorded, or correct amounts omitted	<ul style="list-style-type: none"> <li>Discrepancies between amount authorized and paid must be resolved before Purchase Order can be closed during periodic reconciliations</li> </ul>
Capital Assets	Capital Assets purchased could be incorrectly omitted from financial records	<ul style="list-style-type: none"> <li>Finance Director and external auditors carefully examine expenditures posted to capital equipment account and other large expenditures</li> <li>Records of infrastructure can support financial amounts</li> <li>Physical inventories taken every year with unique asset identifier reconciling GL with subsidiary capital asset software.</li> </ul>
Capital Assets	Capital Assets no longer in service inadvertently left on financial records and/or impairment not properly disclosed	<ul style="list-style-type: none"> <li>Physical inventories every year with departmental staff</li> </ul>

<i>Area</i>	<i>Risk</i>	<i>Control Procedures</i>
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Capital Assets	Assets could be lost due to theft, employee error or casualty	<ul style="list-style-type: none"> <li>• Adequate property and liability coverage maintained</li> <li>• Moveable assets tagged with Town name and unique identifier number</li> <li>• Most Buildings and storage areas locked after hours</li> </ul>
Inventory	Items removed from warehouse not properly recorded	<ul style="list-style-type: none"> <li>• Public Works Director performs test inventory counts during the year and any significant discrepancies in inventory amounts are investigated</li> </ul>
Inventory	Items purchased not properly recorded in perpetual inventory system	<ul style="list-style-type: none"> <li>• Item numbers used on PO carry through in software module when recording receipt of items</li> </ul>
Inventory	Value of items not properly recorded in financial statements	<ul style="list-style-type: none"> <li>• Finance Director and/or Manager can investigate discrepancies</li> <li>• Annual inventory identifies obsolete or damaged items</li> </ul>
Purchasing	Possible violation of state procurement laws	<ul style="list-style-type: none"> <li>• Policy and procedure manual incorporates legal mandates</li> </ul>
Purchasing	Risk of not getting best value for ratepayer dollars	<ul style="list-style-type: none"> <li>• Follow formal and informal bid procedures in policy based on state law and best practices</li> <li>• Frequent RFPs and bidding for repeat or continuing contracts</li> </ul>
Payroll	Payments not to be made to persons not employed by Town of Oriental	<ul style="list-style-type: none"> <li>• New hire and termination forms authorized by Department Head and HR Manager prior to receipt by Payroll</li> <li>• Timesheet submission required for all employees</li> </ul>

<i>Area</i>	<i>Risk</i>	<i>Control Procedures</i>
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Payroll	Amounts paid and/or deducted are incorrect	<ul style="list-style-type: none"> <li>● Payroll file is maintained to document current pay rates and all deductions</li> <li>● Periodic audit of payroll file to verify rates and deductions</li> <li>● Paystub distributed with detail for employee verification</li> </ul>
Red Flags	Presence of suspicious personal identifying information or suspicious documents	<ul style="list-style-type: none"> <li>● Monitor a covered account for evidence of identity theft</li> <li>● Change any passwords, security codes or other security devices that permit access to a covered account</li> </ul>
Red Flags	Alerts, notifications, or other warnings received from consumer reporting agencies or service providers, such as fraud detections services or from Town departments	<ul style="list-style-type: none"> <li>● Conduct periodic audits for assessing the degree of risk posed and report ways to prevent and mitigate identity theft based on the findings</li> <li>● Identify the Risk and come up with ways to prevent and mitigate that risk in the future</li> </ul>

3. *Red Flags.* The Town of Oriental is committed to maintaining an Identity Theft Prevention Policy that is current with the ever-changing crime of identity theft. To that end, the Town of Oriental will reassess the Identity Theft Policy on an annual basis. In reassessing the policy, the Town of Oriental will add/delete Red Flags as necessary, to reflect changes in risks to customers or to the safety and soundness of the Town of Oriental from identity theft. Administration is responsible for developing, implementing, and updating the Identity Theft Program.

The Town Manager will task Administrative Staff and Department Directors who will be responsible for Program administration, for ensuring appropriate training of Town staff on the Program, for reviewing any staff reports regarding the detection of Red Flags and the steps for preventing and mitigating Identity Theft, determining which steps of prevention and mitigation should be taken in particular circumstances and considering periodic changes to the Program.

4. *Monitoring Internal Controls.* On a periodic basis, the Finance Director or designee will monitor the effectiveness of these controls and propose any modifications as indicated. Also, any malfunctioning of internal controls discovered by external auditors will be immediately investigated by the Town Manager and appropriate remedial action will be taken and documented.
5. *Misuse of Town Assets.* Any employee who becomes aware of the misuse or potential misuse of Town assets shall immediately notify the Manager. If the Manager is involved in the misuse or potential misuse, the employee shall immediately notify the Town Board. The Town Manager or Board, as appropriate, shall investigate and take appropriate action.

**Authority:** North Carolina General Statutes 159-25(a)(1) charges the Finance Officer with keeping the books of the government “in accordance with generally accepted principles of governmental accounting and the rules and regulations of the [Local Government] Commission. Statements on Auditing Standards (SAS) Numbers 55, 94, and 112 provide authoritative guidance for establishing and managing internal controls, and the North Carolina State Treasurer’s Manual prescribes internal control functions.

**Reference Materials:**

- *Miller 2002 GAAS Guide Standards for Internal Control in the Federal Government* issued by the United States General Accounting Office
- *Evaluating Internal Controls: A Local Government Manager's Guide* by Stephen J. Gauthier, published by GFOA
- *NC Department of State Treasurer Policies Manual—Internal Controls Chapter*
- *GFOA Recommended Practice-Enhancing Management Involvement with Internal Control* (2004)
- *GAO Standards for Internal Control in the Federal Government by the Comptroller General of the United States September 2014 (Green Book)*
- Town of Oriental Purchasing Policy –
- UG codified at 2 CFR Part 200 - Procurement standards codified at 2 CFR 200 Subpart D (§§ 200.317-326)

This Policy ADOPTED December 6, 2022 by the Oriental Town Council.

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Sally Truitt Belangia, Mayor

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Diane H. Miller, Manager/Clerk



## Resolution 2022-10

### ELIGIBLE PROJECT POLICY FOR THE EXPENDITURE OF AMERICAN RESCUE PLAN ACT OF 2021 CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS BY THE TOWN OF ORIENTAL

**WHEREAS** the Town of Oriental, has received an allocation of funds from the Coronavirus State and Local Fiscal Recovery Funds of H.R. 1319 American Rescue Plan Act of 2021 (ARP/CSLFRF); and

**WHEREAS** US Treasury is responsible for implementing ARP/CSLFRF and has enacted a Final Rule outlining eligible projects; and

**WHEREAS** the funds may be used for projects within these categories, to the extent authorized by state law.

1. Support COVID-19 public health expenditures, by funding COVID-19 mitigation and prevention efforts, medical expenses, behavioral healthcare, preventing and responding to violence, and certain public health and safety staff;
2. Address negative economic impacts caused by the public health emergency, including economic harms to households, small businesses, non-profits, impacted industries, and the public sector;
3. Replace lost public sector revenue, using this funding to provide government services to the extent of the reduction in revenue experienced due to the pandemic;
4. Provide premium pay for essential workers, offering additional support to those who have borne and will bear the greatest health risks because of their service in critical infrastructure sectors; and,
5. Invest in water, sewer, and broadband infrastructure, making necessary investments to improve access to clean drinking water, support vital wastewater and stormwater infrastructure, and to expand access to broadband internet; and

**WHEREAS** the ARP/CSLFRF are subject to the provisions of the federal Uniform Grant Guidance, 2 CFR Part 200 (UG), as provided in the [Assistance Listing](#); and

**WHEREAS** US Treasury has issued a [Compliance and Reporting Guidance v.2.1 \(November 15, 2021\)](#) dictating implementation of the ARP/CSLFRF award terms and compliance requirements; and

**WHEREAS** the Compliance and Reporting Guidance states on page 6 that

Per 2 CFR Part 200.303, your organization must develop and implement effective internal controls to ensure that funding decisions under the SLFRF award constitute eligible uses of funds, and document determinations.

**BE IT RESOLVED** that the Town of Oriental hereby adopts and enacts the following Eligibility Determination Policy for ARP/CSLFRF funds.

# Eligibility Determination Policy for American Rescue Plan Act of 2021 Coronavirus State and Local Fiscal Recovery Funds

This policy defines the permissible and prohibited uses of the Coronavirus State and Local Fiscal Recovery Funds of H.R. 1319 American Rescue Plan Act of 2021 (ARP/CSLFRF) funds. It also outlines the procedures for determining how the Town of Oriental will spend its ARP/CSLFRF funds.

## I. PERMISSIBLE USES OF ARP/CSLFRF FUNDING

US Treasury issued its **Final Rule** regarding use of ARPA funds on January 6, 2022. (The Final Rule is effective as of April 1, 2022. Until that date, a local government may proceed under the regulation promulgated by US Department of the Treasury in its **Interim Final Rule** or the Final Rule.) The Final Rule (and the Interim Final Rule) identify permissible uses of ARP/CSLFRF funds and certain limitations and process requirements. Local governments must allocate ARP/CSLFRF funds no later than December 31, 2024 and disburse all funding no later than December 31, 2026. Failure of an entity to expend all funds by December 31, 2026 will result in forfeiture of ARPA funds.

ARP/CSLFRF funds may be used for projects within the following categories of expenditures:

1. Support COVID-19 public health expenditures, by funding COVID-19 mitigation and prevention efforts, medical expenses, behavioral healthcare, preventing and responding to violence, and certain public health and safety staff;
2. Address negative economic impacts caused by the public health emergency, including economic harms to workers, households, small businesses, non-profits, impacted industries, and the public sector;
3. Replace lost public sector revenue, using this funding to provide government services to the extent of the reduction in revenue experienced due to the pandemic;
4. Provide premium pay for essential workers, offering additional support to those who have borne and will bear the greatest health risks because of their service in critical infrastructure sectors; and
5. Invest in water, sewer, and broadband infrastructure, making necessary investments to improve access to clean drinking water, support vital wastewater and stormwater infrastructure, and to expand access to broadband internet; and

## II. PROHIBITED USES OF ARPA FUNDING

The ARP/CSLFRF and US Treasury's Final Rule prohibit certain uses of ARP/CSLFRF funds. Specifically, ARP/CSLFRF funds may not be used for projects within the following categories of expenditures:

1. To make a deposit into a pension fund that constitutes an extraordinary payment of an accrued, unfunded liability (Note that routine contributions as part of a payroll obligation for an eligible project are allowed.);
2. To borrow money or make debt service payments;
3. To replenish rainy day funds or fund other financial reserves;



4. To satisfy an obligation arising from a settlement agreement, judgment, consent decree, or judicially confirmed debt restricting in a judicial, administrative, or regulatory proceeding (There is an exception to this prohibition if the settlement or judgment requires the [Local Government Name] to provide services to respond to the COVID-19 public health emergency or its negative economic impacts or to provide government services, then the costs of those otherwise ARP/CSLFRF-eligible projects are allowed.);
5. For a project that includes a term or condition that undermines efforts to stop the spread of COVID-19 or discourages compliance with recommendations and guidelines in CDC guidance for stopping the spread of COVID-19;
6. In violation of the conflict-of-interest requirements imposed by the award terms and 2 CFR 200.318(c).
7. For any expenditure that would violate other applicable federal, state, and local laws and regulations.

The Town of Oriental, and any of its contractors or subrecipients, may not expend any ARP/CSLFRF funds for these purposes.

### III. PROCEDURES FOR PROJECT APPROVAL

The following are procedures for ARP/CSLFRF project approvals. All Town of Oriental employees and officials must comply with these requirements.

1. Requests for ARP/CSLFRF funding, must be made in writing and include all the following:
  - a. Brief description of the project
  - b. Identification of ARP/CSLFRF Expenditure Category (EC) (A list of ECs in in the Appendix to the [US Treasury Compliance and Reporting Guidance](#).)
  - c. Required justifications for applicable projects, according to the requirements in the Final Rule. Employees or any applicant seeking ARPA funding should review the [Final Rule](#) and [Final Rule Overview](#) prior to submitting a proposal.
  - d. Proposed budget, broken down by cost item, in accordance with the [Local Government Name]'s Allowable Cost Policy.
  - e. A project implementation plan and estimated implementation timeline (All ARP/CSLFRF funds must be fully obligated by December 31, 2024, and fully expended by December 31, 2026.)
2. Requests for funding must be submitted to the Town Manager for approval. All requests will be reviewed by the Deputy Finance Officer for ARP/CSLFRF compliance and by the Town Manager for allowable costs and other financial review.
3. No ARP/CSLFRF may be obligated or expended before final written approval by Town Manager. Costs overrunning receipted funds must be accompanied by a budget amendment request if over 10% of the project.
4. If a proposal does not meet the required criteria, it will be returned to the requesting party for revision and resubmittal.
5. Following approval, employees responsible for implementing the project must conform actual obligations and expenditures to the pre-approved project budget. Changes in project budgets must be approved by the Town Manager and may require a budget

amendment before proceeding. Any delay in the projected project completion date shall be communicated to the Town Manager immediately.

6. The Town Manager must collect and document required information for each EC, for purposes of completing the required Project and Expenditure reports.
7. The Town Manager must maintain written project requests and approvals, all supporting documentation, and financial information at least until December 31, 2031.

Signed this 6<sup>th</sup> Day of December, 2022

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Sally Truitt Belangia, Mayor, Oriental

ATTEST: \_\_\_\_\_  
Diane H. Miller, Manager/Clerk