

Internal Controls help to establish and maintain fiscal management, accountability and safety of municipal assets and resources.

Internal Control Policies & Procedures

General Rules
Cash Receipts
Deposits – Reconciliations
Investments – Reserves
Fixed Assets
Accounts Payable – Accounts Receivable
Payroll – General Ledger
Chart of Accounts – Leases

Best Practices for Financial Management of Municipal Finances



Rockport, Maine – January 28, 2019

Draft

It is not good enough for things to be planned – they still have to be done; for the intention to become a reality, energy has to be launched into operation.

-Walt Kelly (1913-1973), Animator

Table of Contents

1. INTRODUCTION	7
2. DEFINITIONS	7
2.1 Adverse Employment Action	7
2.2 Best Practice	7
2.3 Capital Asset	7
2.4 Capital Infrastructure	8
2.5 Cash	8
2.6 Change Funds	8
2.7 Control Environment	8
2.8 Fixed Asset	8
2.9 Fraud	8
2.10 Information Technology	9
2.11 Internal Controls	9
2.12 Petty Cash	9
2.13 Policy	9
2.14 Procedure	9
2.15 Purchasing Agent	9
2.16 Reserve Account	9
2.17 Risk Management	9
2.18 Sinking Fund	9
3. PURPOSE	10
4. REPONSIBILITIES FOR SYSTEM OF INTERNAL CONTROLS	10
5. THE CONTROL ENVIRONMENT	10
5.1 Communication with Staff	11
5.2 Communication with Select Board	11
5.3 Compliance and Violations	11
6. MONITORING OF CONTROL PROCEDURES	11
6.1 Annual Review by Town Manager and Finance Director	11
6.2 Select Board Review	11
7. RISK ASSESSMENT AND MANAGEMENT	12
7.1 Focus on Risk Monitoring	12
7.2 Sharing of Best Practices	12
7.3 Safeguarding Employees and Citizens	12

7.4	Management Assessment.....	12
8.	RISK MANAGEMENT THROUGH RISK TRANSFER.....	13
8.1	Employee Bonding Requirements.	13
8.2	Risk Transfer Through Insurance and Risk-Pooling Mechanisms.	13
9.	ACCOUNTING AND ANNUAL AUDIT.....	13
9.1	Monitor the Overall Budget.....	13
9.2	Appointment of Annual Auditor.....	14
10.	ACCOUNT CONTROLS.....	14
10.1	Staff Assignments and Internal Audits.	14
11.	GENERAL LEDGER.....	14
11.1	Limit General Ledger Maintenance to Finance Director.....	14
11.2	Submit Change Request to Finance Director.....	15
12.	CHART OF ACCOUNTS.....	15
12.1	Finance Director Responsibility.	15
12.2	Requested Changes.	15
12.3	Records Grants and Programs.....	15
12.4	Journal Entries.	15
13.	PERIODIC RECONCILIATION AND VERIFICATION.....	15
13.1	Internal Reconciliation and Verification.....	16
13.2	Bank Reconciliation and Verification.....	16
13.3	Reconciliation Discrepancies and Investigations.....	17
14.	RESERVE FUND & RESERVE ACCOUNTS.....	17
14.1	Select Board Established Reserves.	17
14.2	Reserves Established for a Specific Purpose.	17
14.3	Select Board Approval Required.	17
14.4	Finance Director Required to Manage Reserves.	18
14.5	Expenditure of Reserve Funds.....	18
14.6	Five-Year Capital Expenditure Plan.	18
15.	INVESTMENTS.....	18
15.1	Duties of Town Treasurer.	18
15.2	Select Board Appoints Investment Committee.....	18
15.3	Accounts Reconciled Monthly.....	19
15.4	Investment Strategies Reviewed Periodically.....	19
16.	FINANCIAL REPORTING.....	19

16.1	Reports to the Town Manager.....	19
16.2	Reports to Department Heads.	19
16.3	Reports to Select Board.	20
17.	FRAUD – ZERO TOLERANCE POLICY.....	20
17.1	Prohibition and Deterrence.	20
17.2	Report of Fraud, Theft or Irregularities.	20
17.3	False Allegations.....	21
17.4	Investigation of Fraud.	21
17.5	Confidentiality.	22
17.6	Corrective Action.....	22
18.	ACCOUNTING – SOFTWARE AND TECHNOLOGY.....	22
18.1	Access to Software System.....	23
18.2	IT and Internet Security.	23
18.3	Response to Security Breach.	24
18.4	Electronic Backups and Safekeeping of Non-Electronic Records.....	24
19.	DISTRIBUTION OF MAIL AND CASH COLLECTIONS.....	25
19.1	Distributing Mail.....	25
19.2	Processing Mail.....	25
19.3	Processing Funds Received.....	25
19.4	Town Clerk/Tax Collector Responsibilities.....	25
19.5	Payments at Other Town Locations.	25
19.6	Opera House and Parks & Recreations Rental Deposits.	26
19.7	Use of Separate Cash Drawers.....	26
19.8	Change Funds.....	27
19.9	“For Deposit Only” Stamp and Acceptable Checks.	28
20.	ONLINE TRANSACTIONS	29
20.1	Credit Card Transactions	29
21.	DOCUMENTATION FOR RECEIPT OF FUNDS	29
21.1	Numbered Receipts.....	29
21.2	Receipts Provided by Town Clerk/Tax Collector.....	29
21.3	Receipts from other Departments/Locations.	29
21.4	Documentation of Transaction.....	30
22.	DAILY CASH-UPS	30
22.1	Daily Cash-Ups.....	30

22.2	Delivery of Cash-ups and Teller Reports.....	30
22.3	Deadline for Cash-ups/Teller Reports to the Town Office.	30
22.4	Final Close-out Process.....	30
22.5	Delivery of Cash for Deposit.	31
22.6	Checks Electronically Deposited.	31
22.7	Summary Provided to Finance Director.	31
22.8	Library Cash-Ups.....	31
23.	ONLINE BANKING	32
23.1	Limited Access.....	32
23.2	Monitoring of Online Accounts	32
23.3	Other Online Deposits.....	32
24.	DONATIONS	32
25.	GRANTS AND PROJECTS	33
25.1	Effect on Cash Flow.....	33
25.2	Terms and Conditions.	33
25.3	Matching Fund Requirements.....	33
25.4	Budgeting for Grant Matching Funds.	34
25.5	Reserves Used for Grant Match.....	34
26.	ACCOUNTS RECEIVABLE PROCESS	34
26.1	Recording Accounts Receivable.	34
26.2	When Cash Received is Recorded as Accounts Receivable.....	34
26.3	Keep and Aging List.	34
26.4	Revenue Written Off.....	34
26.5	Commitment of Taxes are entered as Taxes Receivable.	35
26.6	Reconciled Monthly.....	35
27.	ACCOUNTS PAYABLE PROCESS	35
27.1	Required Proof of Insurance or Verify Independent Contractor.	35
27.2	Require W-9 for All Vendors.	35
27.3	Payment Based on Original Invoice.	35
27.4	Department Head Coding.	36
27.5	Finance Director to Review Invoices Submitted for Payment.....	36
27.6	Pre-Numbered Checks.	36
27.7	Unused Checks.....	36
27.8	Voided Checks.....	36

27.9	Review and Approval of Warrants.	36
27.10	Filing Invoices.	37
27.11	1099's.....	37
28.	PAYROLL	37
28.1	Weekly Payroll.....	37
28.2	Time Sheets.....	37
28.3	Payroll Spreadsheet Preparation.	37
28.4	Time Sheets and Spreadsheets Reviewed by Finance Director.	38
28.5	Process Payroll.....	38
28.6	Direct Deposit.	38
28.7	Payroll Warrant.....	38
28.8	Reconcile Payroll Deductions.....	38
28.9	Quarterly Tax Reports.....	39
28.10	Annually Prepare W-2's.	39
29.	BEST PRACTICE RESOLUTION	39
29.1	Select Board as Mediator.	39
29.2	Who May Raise the Issue to the Select Board.....	39
30.	IMPLEMENTATION	39
31.	EFFECTIVE DATE	40
32.	ADOPTION	40

1. INTRODUCTION

Internal controls are comprised of plans, methods, policies and procedures used to fulfill the mission, strategic plan, goals and objectives of the Town of Rockport. The internal control process provides reasonable assurance that the objectives of the Town will be achieved. These objectives include the following:

- Protection of assets;
- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

This document, comprising the Town of Rockport's Internal Control Policies and Procedures, is referred to herein as the "Policies & Procedures" or as "the system of internal controls."

To the extent these Policies & Procedures refer to the responsibilities of municipal officers defined by State statute, it is the Town's policy to adhere to those responsibilities and practices. The Town has created positions not referenced in statute, including the Finance Director. The Finance Director is responsible for review, implementation, and monitoring of the Town's finances and these Policies & Procedures as set forth throughout this document.

2. DEFINITIONS

The following definitions shall apply:

2.1 Adverse Employment Action.

A materially adverse change in the terms and conditions of employment, including but not limited to: discipline, suspension, threatening to discipline or suspend, coercion, acts of intimidation and firing.

2.2 Best Practice.

A method or technique that has consistently shown results superior to those achieved with other means. It is a standard or benchmark against which practices may be compared and assessed. What constitutes a "Best Practice" can evolve to become better as improvements are discovered.

2.3 Capital Asset.

An item that has a value of more than \$5,000, individually or collectively, with an estimated useful life of more than one (1) year. Capital assets may include but are not limited to: computer equipment, office furniture, fiber optics, fleet vehicles, public works vehicles and machinery, and emergency response vehicles.

2.4 Capital Infrastructure.

Refers to facilities and systems that serve the Town and its residents, businesses and visitors with a value of at least \$50,000 and a useful life of at least five (5) years. Examples include but are not limited to: buildings and other fixed structures, land, highways, roads, bridges, sidewalks, pathways and parking lots; utility structures such as elements of public water and sewer systems, public lighting systems, electric and communication cables or other transmission elements.

2.5 Cash.

Includes all items that are acceptable for deposit in a bank, e.g., paper currency, coins, checks, money orders, cashier's checks, and traveler's checks.

2.6 Change Funds.

A designated amount of cash on hand in which to make change from a cash drawer.

2.7 Control Environment.

As used in the public or government this term is what would be called, in the private sector, the entity's "corporate culture."

2.8 Fixed Asset.

An asset that is purchased for long-term use and is not likely to be converted quickly into cash such as land, buildings or equipment.

2.9 Fraud.

An intentional and deliberate deception to secure an unfair or unlawful gain, including but not limited to, a misappropriation of resources or the manipulation of data to the advantage or disadvantage of a person or entity. The definition of "fraud" as intended in these Policies & Procedure is determined by applicable laws and regulations.

Examples of fraud may include, but are not limited to;

- Falsification of expenses and invoices;
- Authorizing or receiving compensation for goods not received or services not performed;
- Theft of cash, fixed assets or other property;
- Alteration or falsification of records;
- Failure to account for monies collected;
- Knowingly providing false information on job applications;
- Authorizing or receiving compensation for hours not worked;
- Intentionally falsifying a time sheet; or
- Embezzlement, bribery or conspiracy.

2.10 Information Technology.

The application of computers and telecommunications equipment to store, retrieve, transmit and manipulate data, often in the context of a business or other enterprise. The term is commonly used as a synonym for computers and computer networks, but it also encompasses other information distribution technologies.

2.11 Internal Controls.

Systematic measures (such as reviews, checks and balances, methods and procedures), instituted by the Town to (a) conduct its business in an orderly and efficient manner, (b) safeguard its assets and resources, (c) deter and detect errors, fraud, and theft, (d) ensure accuracy and completeness of its accounting data, (e) produce reliable and timely financial and management information, and (f) ensure adherence to laws and regulations, and the Town's policies and objectives.

2.12 Petty Cash.

Petty cash is an amount of cash on hand used to pay for small items rather than going through the process of issuing a check.

2.13 Policy.

Principles and associated guidelines formulated and enforced by the Town to direct and limit its actions in pursuit of long-term goals.

2.14 Procedure.

A series of steps, taken together, to achieve a desired result. It is a particular way of accomplishing something as in a repetitive approach, process or cycle to accomplish an end result.

2.15 Purchasing Agent.

The purchasing agent as used in these Policies & Procedures means the Town Manager or the Town Manager's designee.

2.16 Reserve Account.

Used for financing the acquisition or reconstruction of a specific or type of, capital improvement; financing the acquisition of a specific item or type of capital equipment; or a sinking fund account for paying a funded debt.

2.17 Risk Management.

The identification, analysis, assessment, control, avoidance, minimization, or elimination of unacceptable risks. An organization may use risk assumption, risk avoidance, risk retention, risk transfer, or any other strategy, or combination of strategies, in proper management of future events.

2.18 Sinking Fund.

A sinking fund is a fund established by setting aside revenue over a period of time to

fund a future capital expense or repayment of long-term debt.

3. PURPOSE

Policy: The Town has a responsibility to establish controls to ensure that all municipal assets are protected and secured appropriately. The purpose of the Town’s system of internal controls is to provide reasonable assurance that:

- Obligations and costs are in compliance with applicable law and regulation;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation, and
- Revenues and expenditures are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.

4. RESPONSIBILITIES FOR SYSTEM OF INTERNAL CONTROLS

Policy: It is the Select Board’s responsibility to establish a system of internal controls and policies that adequately address the following components:

- The control environment;
- Risk assessment;
- Control activities;
- Information and communication; and
- Monitoring.

The Town Manager is tasked with overall monitoring and delegating to management the tasks required to operate and monitor the system of internal controls. Each individual within the Town government is responsible for being cognizant of, complying with, and maintaining the proper internal control procedures associated with their specific job responsibilities.

5. THE CONTROL ENVIRONMENT

Policy: The Select Board, Town Manager, Finance Director and Department Heads shall create a culture of compliance through their individual and collective actions exhibiting high ethical and professional standards of conduct. Leading by example sets the standard for the entire Town government. Internal controls must be communicated and followed. Failure to take appropriate disciplinary action for a violation of these established standards of conduct sends a “message” that management is not committed to internal controls.

Procedure:

A favorable control environment requires that management communicate the importance of internal controls to Town staff at all levels and that Town staff perform their job responsibilities in a competent and honest manner.

5.1 Communication with Staff.

Upon adoption of these Policies & Procedures, and at least annually every January, Department Heads shall ensure that their departments have received and understand these internal controls, as they relate to everyone’s job responsibilities.

5.2 Communication with Select Board.

- (a) Following the election of a new Select Board member, a copy of these Policies & Procedures shall be provided to the Select Board member.

- (b) The Select Board shall review these Policies & Procedures periodically, gauge the level of Town compliance with these internal controls, and take appropriate action to ensure that these established standards are met.

5.3 Compliance and Violations.

Compliance with these Policies & Procedures is essential to the proper, prudent, efficient and effective functioning of Town government. There shall be swift and appropriate disciplinary action for employees who violate the standards of conduct established by these Policies & Procedures, consistent with the Town’s Personnel Policies.

6. MONITORING OF CONTROL PROCEDURES

Policy: Effective monitoring of the Town’s system of internal controls requires that the Town’s officials and management assess the quality of performance over time and determine whether controls are effective. Any financial policy that is adopted should be reviewed annually to ensure that it remains current.

Procedure:

6.1 Annual Review by Town Manager and Finance Director.

At least annually every November, the Town Manager and Finance Director shall review established internal controls to determine effectiveness. Based on the annual review a recommendation may be made to the Select Board to update or modify the internal control policies.

6.2 Select Board Review.

Periodically, the Select Board shall review the effectiveness of the system of internal controls with the Town Manager and Finance Director to mitigate any potential weaknesses.

7. RISK ASSESSMENT AND MANAGEMENT

Policy: The Select Board, the Town Manager, Finance Director and Department Heads shall monitor and assess potential risks that could prevent or hinder them from achieving their objectives. Effective risk monitoring and assessment must involve not only management at all levels of Town government but employees performing day-to-day activities. Effective risk monitoring and assessment should include both the “macro” and “micro” components of the Town’s activities.

Procedure:

7.1 Focus on Risk Monitoring.

Department Heads shall monitor, on an ongoing basis, the opportunities to reduce risk within their departments. Each Department Head should convey a risk-aware culture—encouraging all department employees to be aware of potential risk, to be vigilant about risk detection, and to make recommendations for improvement and risk mitigation in their daily job functions.

7.2 Sharing of Best Practices.

Department Heads who identify potential risk exposure and/or who have recommendations or receive recommendations from department employees about improvement to daily activities that will mitigate that risk exposure, should share them with management, including other Department Heads, in order to improve the risk practices across all levels and departments of Town government.

7.3 Safeguarding Employees and Citizens.

In order to ensure, to the extent possible, an exposure-free work and service environment which the Town’s personnel and the public can enjoy in safety and security in the course of their daily pursuits, the Town shall establish and maintain sound operating practices and proper employee training. Department Heads shall convey, by example and through encouragement of a risk-aware culture, the fundamental importance of their responsibilities to safety and security for one another, their own well-being and that of the Town’s people and protection of its assets.

7.4 Management Assessment.

In addition to the inherent risks addressed by these Policies & Procedures, the Select Board, Town Manager, Finance Director and Department Heads shall continuously monitor the manner and extent to which changes in the Town government and operations may affect the Town’s risk environment. These changes may include, for example:

- Changes in the operating environment of the Town, e.g., reduced budgets, new regulations/ordinances, intense political debate or scrutiny;
- Changes in personnel;
- Changes in information systems and technology;
- New programs or services; or

- Changes in the Select Board leadership or management.

8. RISK MANAGEMENT THROUGH RISK TRANSFER

Policy: The Town recognizes that risk should be identified and managed—not viewed as something to be eliminated or avoided. The Select Board believes that well-managed risk is fundamentally important to effective service delivery, maximizing opportunities for innovation in delivery of services and adapting to change in and outside the Town. One means of managing risk is to transfer unreasonable amounts of risk through bonding or insurance mechanisms.

8.1 Employee Bonding Requirements.

Policy: Elected officials and employees who handle municipal funds shall be appropriately bonded or covered by liability insurance to ensure that the taxpayers do not absorb the cost of financial loss because of an improper or illegal act of an elected or appointed official or public employee.

Procedure: At the Town’s expense, all employees involved with the collection, custody or disbursements of the Town’s finances shall be bonded for the amounts appropriate to complete their job functions. Bonding shall be reviewed and renewed annually by the Finance Director and the cost shall be included in the annual budget.

8.2 Risk Transfer Through Insurance and Risk-Pooling Mechanisms.

Policy: The Select Board, Town Manager and Finance Director shall review the Town’s risk transfer strategies in the context of the overall risk framework of the Town to ensure that best efforts are made to identify risk, monitor and manage risk, and transfer that risk which is beyond the Town’s capability of retaining.

Procedure: At least annually every April, the Town Manager and Finance Director shall review with the Select Board the extent of the Town’s insurance, risk-pooling and other risk transfer mechanisms.

9. ACCOUNTING AND ANNUAL AUDIT

Policy: The Town shall utilize accounting practices that conform to generally accepted accounting principles (GAAP) as set forth by the Government Accounting Standards Board (GASB).

Procedure:

9.1 Monitor the Overall Budget.

All Town accounts shall be monitored by the Finance Director monthly. Financial records shall be securely maintained in the Finance Director’s office.

9.2 Appointment of Annual Auditor.

Each year the Select Board shall appoint a Certified Public Accountant(s) for the purpose of conducting the annual audit of the prior fiscal year municipal finances, as authorized by law. The audit shall be conducted in accordance with Government Auditing Standards promulgated by the U.S. Government Accountability Office.

10. ACCOUNT CONTROLS

Policy: The Town Manager and Finance Director shall be responsible for establishing accounting practices, including but not limited to: journal entries, general ledger accounts, chart of accounts and other control practices, subject to Select Board oversight.

10.1 Staff Assignments and Internal Audits.

Policy: No one employee shall perform all related elements of an individual transaction. Internal audits shall be conducted.

Procedure:

- (a) *Staff Assignments.* Staff responsibilities shall, to the extent possible, be made in a way that encourages checks and balances. No single individual shall be able to prepare, approve, process and record a transaction. Whenever possible, employee job functions shall be changed periodically to ensure rotation and cross-training.
- (b) *Internal Audits During Leave.* Employees responsible for collecting and recording cash transactions shall be required to take vacation leave. During this time, the employee's records and cash accounts shall be reviewed and an internal audit conducted by management.
- (c) *Unannounced Audits.* The Town Manager/Finance Director may perform unannounced cash audits of any/all cash drawers at any time.

11. GENERAL LEDGER

Policy: The general ledger represents the formal record of the Town's transactions. It holds the account information that is needed to prepare financial statements and includes accounts for assets, liabilities, and equity.

Procedure:

11.1 Limit General Ledger Maintenance to Finance Director.

No journal entries or corrections should be made to any general ledger accounts by anyone other than the Finance Director.

11.2 Submit Change Request to Finance Director.

If an employee notices a change that should be made to a general ledger account, the employee should submit a request with appropriate supporting documentation to the Finance Director. If, however, the requested change is in Cash Receipting the Town Clerk's office shall make the needed adjustments prior to posting.

12. CHART OF ACCOUNTS

Policy: The Town shall use a chart of accounts to maintain, track and record department expenses and revenues in a consistent and comparable manner. The chart of accounts shall be compatible with the needs of both budgeting and financial planning.

Procedure:

12.1 Finance Director Responsibility.

The Town chart of accounts is maintained by the Finance Director. It shall provide for a consistent way of tracking revenues and expenses across departments through a common numbering system. Any changes to an account shall be made by the Finance Director.

12.2 Requested Changes.

Departments shall submit any request for changes to accounts to the Finance Director for consideration and modification.

12.3 Records Grants and Programs.

- (a) Grants or programs outside of the annual budget are not included in the chart of accounts.
- (b) Revenues and expenses associated with grants or programs shall be maintained in the appropriate department budget.
- (c) The Finance Director shall monitor grants or other program accounts on a monthly basis.

12.4 Journal Entries.

Any journal entries that are needed outside of normal transactions shall be completed solely by the Finance Director or designee. All journal entries shall be maintained in paper form for at least seven (7) years.

13. PERIODIC RECONCILIATION AND VERIFICATION

Policy: It is important that related accounting records be compared periodically. At a minimum, all Town accounts shall be reconciled and verified on a monthly basis, or more often as may be appropriate. This review shall also include the financial reports of the Library Committee which holds funds in a trust and should, therefore, be subject to appropriate checks and balances as are other Town assets. Monthly bank reconciliations are a crucial part of preventing fraud and maintaining accurate records of the financial stability of the Town.

Procedure:

13.1 Internal Reconciliation and Verification.

- (a) *Monthly Revenue/Expense Reports to Departments.* The Finance Director shall provide each Department Head with monthly expense and revenue reports relating to their department. Periodically, but at least monthly, all revenue and expense reports, shall be reviewed by the responsible Department Head, Finance Director, and Town Manager (if necessary). On a quarterly basis the Town Manager and Finance Director shall meet with each Department Head to discuss their current budget standing.
- (b) *Bank and Investment Accounts.* The Finance Director shall reconcile all bank and investment accounts on a monthly basis. The reconciliation shall include an examination of canceled checks as well as a review of bank statements in comparison to the general ledger accounts. This shall be completed within 30 days of the month end, unless prior approval from the Town Manager has been received.
- (c) *Other General Ledger Accounts.* The Finance Director shall be responsible for the reconciliation of all other general ledger accounts, excluding reconciliation of taxes. Taxes shall be reconciled by the Tax Collector on a weekly basis and reports shall be provided to the Finance Director. Reconciliation reports shall be maintained by the Finance Director for the entire fiscal year until an annual audit is complete.
- (d) *Library Funds—Monthly Reports.* Within 20 days of the end of each month, the Treasurer of the Library Committee shall provide the Finance Director with a report of all accounts held by the Library Committee.

13.2 Bank Reconciliation and Verification.

- (a) *Monthly Reconciliation.* The Finance Director shall, within 30 days from the end of each month, reconcile every bank account maintained by the Town against the trial balance.
- (b) *Discrepancies.* Discrepancies may be reconciled through assistance with the Town's auditor and discussions with the bank.
- (c) *Questionable Transactions.* If, during the reconciliation process, the Finance Director discovers a transaction that is not valid, the Finance Director shall immediately report these findings to the Town Manager for immediate action.
- (d) *Sign-off.* Once the reconciliation(s) has been completed by the Finance Director, the Finance Director and the Town Manager shall sign off on the reconciliation.
- (e) *Record Retention.* Reconciliation records shall be maintained by the Finance Director for seven (7) calendar years.

13.3 Reconciliation Discrepancies and Investigations

- (a) *Discrepancies.* The Finance Director shall report any reconciliation discrepancies to the Town Manager. The Town Manager shall, in turn, report to the Select Board any discrepancies of a significant nature, whether amount, frequency or nature of the discrepancy. In any event, when the Town Manager believes that the Finance Director may be at the cause of the discrepancy, the Town Manager shall report same to the Select Board. If the Finance Director believes that the Town Manager is the source or cause of the discrepancy, the Finance Director shall report same to the Select Board.
- (b) *Investigations.* The Town Manager or the Select Board may initiate an investigation, consistent with the Town Charter. If the discrepancy involves the Town Manager, the Select Board shall initiate the investigation.
- (c) In the event that personnel action is appropriate, it shall be taken as soon as possible and consistent with the Town's Personnel Policy.

14. RESERVE FUND & RESERVE ACCOUNTS

Policy: The purpose of reserves is to set aside funds for specific projects, acquisitions, renovations, or reconstruction of capital improvements, capital equipment or paying a funded debt, in accordance with 30-A M.R.S.A. §5801. Each reserve account shall be established or eliminated by the Select Board.

Procedure:

14.1 Select Board Established Reserves.

Reserves shall be established in accordance with the Reserve Account Policy as adopted or amended by the Select Board.

14.2 Reserves Established for a Specific Purpose.

After conferring with and through coordination with the Town Manager, a Department Head may recommend to the Select Board the establishment of a reserve account. The Department Head shall state the purpose of the account and specify how the account will be funded.

14.3 Select Board Approval Required.

- (a) The Select Board shall review any requests for the establishment of a reserve account and either approve or deny the request based on the criteria outlined in the Reserve Account Policy.
- (b) If approved, the Select Board shall decide whether to place a limit on the amount of funds that can remain in the reserve.

14.4 Finance Director Required to Manage Reserves.

- (a) *Monitor Reserves.* The Finance Director shall monitor the reserve accounts and ensure ongoing compliance with the Reserve Account Policy.
- (b) *Report Reserves.* As part of the budget process the Finance Director shall report on the status of all reserve accounts, including the current balance.

14.5 Expenditure of Reserve Funds.

- (a) *Expenditures of \$2,000 or More.* Any expenditure from the reserve funds in the amount of two thousand dollars (\$2,000) or more shall require approval by the Select Board.
- (b) *Expenditures of Less than \$2,000.* Use of reserve funds in an amount less than two thousand dollars (\$2,000) shall be subject to approval by the Town Manager.

14.6 Five-Year Capital Expenditure Plan.

Annually the Town Manager shall submit to the Select Board a five-year capital plan for the use of the Town's reserves. This plan may be issued as part of the annual capital improvement plan submitted by the Finance Director and Town Manager in preparation of the annual municipal budget process.

15. INVESTMENTS

Policy: The Town has an established Investment Policy and shall endeavor to maintain that policy with the help and guidance of an appointed Investment Committee. The Investment Policy addresses the methods, procedures and practices, which must be exercised to ensure effective and judicious fiscal and investment management of the Town's funds. All Town investments and policies shall conform to applicable statutes and regulations.

Procedure:

15.1 Duties of Town Treasurer.

The Town Manager is also the Town Treasurer, charged with the responsibility of managing the Town's investments. According to state statute the Treasurer is authorized to delegate those duties to another with the consent and approval of the Select Board.

15.2 Select Board Appoints Investment Committee.

- (a) The Select Board shall annually appoint a Board liaison to work with the Investment Committee.
- (b) The Finance Director shall be designated by the Treasurer as the Town liaison to the Investment Committee.
- (c) The Investment Committee shall be appointed by the Select Board, operate under

approved bylaws, and in accordance with state statutes and regulations.

15.3 Accounts Reconciled Monthly.

- (a) The Finance Director shall receive monthly investment statements and portfolio reports.
- (b) The Finance Director shall provide the Investment Committee with a copy of the investment report, an in-house investment accrual report of all investments as well as a copy of the portfolio provided by the investment banking institution.
- (c) The Finance Director shall reconcile the account on a monthly basis to the general ledger and all investment accounts shall be updated. This process shall be completed within 30 days from the end of the prior month.

15.4 Investment Strategies Reviewed Periodically.

- (a) The Investment Committee shall periodically review the investment portfolio to make sure the investments are being managed as directed by the Town.
- (b) The Investment committee shall periodically meet with the investment banking institution representative to make sure the Town's investments are managed in the Town's best interest.

16. FINANCIAL REPORTING

Policy: The Town Manager shall have in place systems that ensure the collection and compilation of the data needed for the timely and accurate preparation of financial statements.

Procedure:

16.1 Reports to the Town Manager.

- (a) The Finance Director shall provide the Town Manager with a current trial balance and municipal budget expense and revenue report, on a monthly basis, or more often if directed.
- (b) The Finance Director shall review all reports prior to submission and specify any concerns, in writing, to the Town Manager.

16.2 Reports to Department Heads.

- (a) The Finance Director shall provide all Department Heads and, if necessary, committee chairs, their respective municipal budget expense and revenue reports monthly.
- (b) The Town Manager and Finance Director shall meet with Department Heads, as necessary, to discuss any concerns that may have been brought to the Town Manager's attention. Action shall be taken, as appropriate, to correct or alleviate those concerns.

16.3 Reports to Select Board.

- (a) The Finance Director shall provide current budget reports to the Select Board at least quarterly. The financial reports shall include a detailed explanation of the reports and specify any concerns.
- (b) The reports shall also be provided to the Town Manager and posted to the Town website.

17. FRAUD – ZERO TOLERANCE POLICY

Policy: The Town’s goal is to establish and maintain an environment of fairness, ethics and honesty for its employees, citizens, vendors and anyone else with whom the Town has a relationship. The Town has a zero-tolerance policy regarding fraud—and is committed to the deterrence, detection and correction of fraudulent conduct, misconduct and dishonesty.

17.1 Prohibition and Deterrence.

Policy: All elected officials, appointed committee/commission/board members and employees of the Town, as well as any individual entity doing business with the Town, are prohibited from engaging in fraudulent conduct in the course of their employment, duties or business relations with the Town. The Town’s system of internal controls is designed to provide reasonable assurance for the prevention and detection of fraudulent conduct, and other similar irregularities.

Procedure:

All new employees are subject to background investigations and criminal background checks. Prior to making an offer of employment, the Town shall verify a prospective employee’s employment history, education, personal references and previous employers.

17.2 Report of Fraud, Theft or Irregularities.

Any time an indication of fraud, theft or other irregularities of municipal financial accounts is discovered, it shall be immediately reported as follows:

- (a) *Employee Reports Fraud to Department Head.* If an employee suspects fraud or witnesses a fraudulent act, the employee shall report the incident to the employee’s Department Head.
- (b) *Employee to Report Department Head Fraud to Town Manager.* If an employee has reason to believe their Department Head may be involved in the inappropriate activity, the employee shall report the incident directly to the Town Manager.
- (c) *Employee Refrains from Further Action.* The reporting employee shall refrain

from further investigation of the incident, confrontation with the alleged violator or further discussion of the incident with anyone, unless specifically requested by the Town Manager.

- (d) *Department Head Reports Fraud to Town Manager.* If a Department Head suspects an employee under his/her supervision, an employee in another department or another Department Head of wrongdoing, he/she shall report the suspected fraudulent activity directly to the Town Manager.
- (e) *Fraud by Town Manager reported to Select Board.* If anyone suspects the Town Manager of fraud, a member of the Select Board shall be contacted, and an immediate Executive Session of the Select Board shall be held.
- (f) *No Retaliation for Reporting Fraud.* An employee reporting a suspected act of fraud; or assisting, testifying or participating in a fraud investigation, acting in accordance with these Policies & Procedures, shall not be subject to any Adverse Employment Action unless it is determined that the employee made the allegation knowing it to be false.

17.3 False Allegations.

Any attempt by an employee to make false allegations against another with the intent to disrupt or cause harm shall be subject to disciplinary action, up to and including termination of employment.

17.4 Investigation of Fraud.

- (a) *Town Manager Investigation.* The Town Manager shall be responsible for investigating allegations of fraud, unless he/she is subject to investigation for fraudulent activities.
- (b) *Select Board Investigation.* The Select Board may undertake an investigation into any department, based on allegations of fraud or for other reasons as set forth in the Town Charter. However, the Select Board shall undertake such investigation of allegations of fraud are made against the Town Manager.
- (c) *Report to Law Enforcement.* The Select Board shall report, or cause to be reported, the incident to law enforcement, depending on the seriousness of the allegation and/or the findings of the Town Manager's or the Select Board's investigation.
- (d) *Investigation by Law Enforcement or other Outside Authorities.* Nothing in this section shall prevent the Town Manager, with approval of the Select Board, or

prevent the Select Board from contacting law enforcement or other external authorities for the purpose of conducting an investigation.

17.5 Confidentiality.

All investigations shall be conducted in confidence insofar as reasonably possible, consistent with statutes, regulations and the Town Charter.

17.6 Corrective Action.

- (a) *Personnel Action.* In the event the offender is a Town employee, the Town Manager or Select Board, as the case may be, shall take immediate action in accordance with the Town's Personnel Policy, including termination of employment.
- (b) *Third Parties.* All other persons or entities that are found to have engaged in fraudulent activity, shall be removed from the applicable committee, commission or board or be subject to suspension by the Town from future business transactions for a specified period of time.
- (c) *Select Board Misconduct.* In the case of a Select Board member involved in fraudulent activity, pursuit of any action shall be in accordance with Maine statutes and the Town Charter.
- (d) Appropriate cases shall be referred for possible prosecution.
- (e) *Recovery of Loss.* In cases involving monetary loss to the Town of Rockport, the Town Manager and Select Board shall pursue every reasonable effort, including court-ordered restitution, to obtain recovery of Town losses from the offender or other appropriate sources, unless cost of such recovery would exceed the recovered amount.

18. ACCOUNTING – SOFTWARE AND TECHNOLOGY

Policy: A computerized accounting system makes financial operations faster, more accurate, allows for the automatic generation of financial reports and allows officials to see the real-time state of the Town's financial position.

Procedure: The accounting software required of the Town shall be customized for municipal requirements, and shall provide timely recording of financial transactions, easy viewing of transaction data, and timely creation of financial reports. The software shall have the capability of performing necessary Town functions, including but not limited to:

- Record Town revenue, including tax payments;

- Assist the Town in the payment of Town expenses;
- Calculation of the Town's weekly payroll;
- Producing tax billing and assessments;
- Provide necessary financial reports;
- Preparation and management of the annual budget; and
- Capital asset accounting, accounts receivable and other necessary requirements of running a medium sized municipality.

18.1 Access to Software System.

Policy: To prevent accidental or intentional changes to data, access to financial records shall be limited to those who require specific access.

Procedure:

- (a) *Finance Director as Administrator.* The Finance Director shall serve as the system administrator, having the authority and responsibility to provide personnel with access to only those programs pertinent to their job requirements.
- (b) *Passwords.* Passwords shall be used to protect all financial information. Passwords shall be changed regularly and not shared with other officials or employees.

18.2 IT and Internet Security.

Policy: The Town shall use Best Practices to maintain a high level of IT and internet security to protect the Town's assets. Procedures shall be established and maintained to ensure adequate systems and processes are in place to secure financial and other data. Management shall ensure that plans are in place to allow the Town to continue to provide services even in the event of a disaster.

Procedure: IT personnel and management shall make every effort to secure the Town's computer network, which may include but is not limited to:

- Installing and maintaining a network firewall;
- Installing and maintaining anti-malware software;
- Regularly patching and updating internet browsers, Adobe, Java and/or others as needed;
- Protecting the network by blocking connections to irrelevant websites, external e-mail providers and social media websites, as necessary;
- Using security validation for internet banking;
- Using caution surrounding e-mails from unknown sources that include attachments, links and downloadable files; and
- Developing a disaster recovery plan to include contracted IT services.

18.3 Response to Security Breach.

Policy: In an effort to mitigate damage to the Town's IT network or an invasion of Town assets, the Town shall develop an incident response plan to prevent expansion of a security breach once detected.

Procedure: The Town Manager shall ensure that employees receive adequate training, including but not limited to the:

- (a) Requirement to notify supervisors of any suspicious activities on Town equipment; and
- (b) Necessity of appropriate, fast and effective response to minimize any loss of Town assets.

18.4 Electronic Backups and Safekeeping of Non-Electronic Records.

Policy: The Town shall use Best Practices to maintain the security and safety of the computer system(s) on which the Town operates its financial software. The Town shall use best efforts to safeguard all non-electronic Town records and comply with applicable record retention schedules.

Procedure: The Town Manager shall ensure that procedures for the following are in place:

- (a) *Secure System.* Virus protection software shall be installed as it becomes available;
- (b) *Live Backup.* The Town shall provide a live vault backup system that backs up the financial data every 20 minutes and shall schedule full back-ups to run each night;
- (c) *Backup Testing.* Periodically, the back-ups shall be tested to make certain data is being backed-up correctly and data can be used from the back-up if it is necessary to restore the accounting system;
- (d) *Off-Site Backup.* If, and to the extent available, the Town shall backup financial data to an off-site location;
- (e) *Non-electronic Records.* The Town shall endeavor to safeguard all non-electronic records in a safe and secure environment, protected against environmental dangers; and
- (f) *Record Retention Schedules.* The Town shall retain electronic and non-electronic records for the periods of time specified by statute, regulation or guidelines applicable to Town records.

19. DISTRIBUTION OF MAIL AND CASH COLLECTIONS

Policy: The Town receives and deposits substantial amounts of cash daily, weekly and annually in carrying out the various functions of the municipality. These operations shall be carried out efficiently and expeditiously with adequate financial control and accountability. The Town Manager shall be responsible for establishing and maintaining adequate processes for safeguarding cash and ensuring all funds are deposited in a timely manner.

Procedure:

19.1 Distributing Mail.

It shall be the responsibility of the Town Manager's Executive Assistant to receive and distribute the mail on a daily basis. If the Executive Assistant is out of the office, the Town Manager shall be responsible for receiving and distributing the mail or designating another employee to do so.

19.2 Processing Mail.

- (a) All cash received via mail shall be processed the same day. In the event this is not possible the Town Clerk/Tax Collector shall notify the Town Manager in writing and, if approved, shall be processed the next business day.
- (b) During periods of high volume, such as tax season, the Town Clerk/Tax Collector may (and shall, if directed by the Town Manager) request the assistance of other properly bonded employees, such as those in the Finance Department, to help process mail. Additionally, the Town Clerk/Tax Collector may request from the Town Manager a standing exception from the daily processing requirement during the high-volume period until the mail backlog is expeditiously resolved.

19.3 Processing Funds Received.

All cash received by the Town shall be processed through the Town's accounting software system.

19.4 Town Clerk/Tax Collector Responsibilities.

The Town Clerk/Tax Collector shall be responsible for overseeing the receipt of payments made to the Town for real estate and personal property taxes, excise taxes, permits, licenses, and other miscellaneous payments.

19.5 Payments at Other Town Locations.

- (a) *Same Day Delivery to Town Clerk.* Other Department Heads and other Town locations may receive monies for payment of services, donations, or sales of merchandise. Cash received on the Town's behalf shall be forwarded to the Town Clerk/Tax Collector the same day received. In no event shall cash be retained or placed in another location without being processed the day of receipt, unless previously approved by the Town Manager.

- (b) *Receipt for Delivery of Cash.* When a department delivers cash and cash

receipting reports to the Town Clerk's office the receiving employee shall provide the department a written, numbered receipt for the cash received. The receipt shall be signed by both the delivering and receiving employees.

- (c) *Non-Routine Payments.* The Finance Director shall be consulted about any non-routine payments to ensure they are deposited to the appropriate account.

19.6 Opera House and Parks & Recreations Rental Deposits.

The Town generates income from the rental of Town properties that include the Opera House building and various parks throughout the Town.

- (a) *Scheduler Responsibility.* The scheduler is required to manage the rentals and collect all fees associated with the rental.
- (b) *Nature of fees.* The fees shall include a security deposit as well as rental fee that includes a minimum two-hour rental.
- (c) *Fees Collected in Advance of Event.* All fees are to be collected in advance of the event for the expected number of hours the facilities or parks are to be rented.
- (d) *Receipts for Fees.* Upon receipt of these fees, the scheduler shall provide the renter with a written receipt; receipts to be issued in sequential order.
- (e) *Delivery of Fees to Finance Director.* Within a day of receipt, the scheduler shall provide the Finance Director or designee with the receipt; funds collected; name and address of the renter; date, time and place of the event, as well as the anticipated review of the facility, after which the security deposit can be returned if facilities are left in good condition.
- (f) *Refund of Fees.* Should the facilities be rented for less time than anticipated but no less than two hours, the renter shall be refunded the difference.
- (g) *Refund of Security Deposit.* Upon confirmation that the renter left the facility or park in good condition, the security deposit shall be requested by the scheduler within seven (7) days of the event.
- (h) *Refunds Through Accounts Payable Process.* Any refund as provided in subsection (f) and (g) above, shall be released to the renter through the accounts payable process.

19.7 Use of Separate Cash Drawers.

- (a) *Use Only Assigned Cash Drawer.* The Town Clerk/Tax Collector and staff collect and process cash transactions by using individual cash drawers. Clerks shall only

use their assigned cash drawer to process transactions and not mix monies or transactions with another clerk's cash or transactions. If change needs to be made from one drawer to another, a second individual shall verify and sign off on the process.

- (b) *Other Departments.* All other departments that collect money shall have separate cash drawers.

19.8 Change Funds.

Policy: Certain offices shall have access to change funds to provide change when necessary. The Town does not permit petty cash on hand. All Town purchases shall be done using a Town credit card, store credit card, store charges, or through the accounts payable process.

Procedure:

- (a) *Reconciling Cash Drawers/Change Funds.* When reconciling cash drawers, the change funds must be subtracted from the receipts to properly account for the monies received.

- (b) *Discrepancies.* Any discrepancies in the cash drawers/change funds shall be immediately reported to the employee's Department Head and the Finance Director. The Finance Director shall inform the Town Manager, if necessary, depending on the circumstances and/or amount of discrepancy.

- (c) *Amount of Change Funds.* The change funds assigned to each office may vary in total but the amount for any one location shall remain constant. The amount of change funds shall be as follows;

- (i) **Town Clerk Change Funds**

- Town Clerk - \$70.00
 - Deputy Town Clerk - \$70.00
 - Assistant Town Clerk - \$70.00
 - Other change funds stored in the vault - \$150.00

- (ii) **Harbormaster Change Funds**

- Harbormaster - \$50.00
 - Deputy Harbormaster - \$50.00
 - Park Attendant - \$50.00

(iii) **Library Change Funds**

A single cash draw - \$50.00

(iv) **Police Department Change Funds**

A Single cash draw - \$50.00

19.9 "For Deposit Only" Stamp and Acceptable Checks.

- (a) *For Deposit Only Stamp.* A "For Deposit Only" stamp, including the Town's bank account number, shall be created for each cash account entrusted to the Town. After reviewing each check's printed information to include bank routing and account number, name, address, telephone number, that the check has a current date (no post-date or staled date), and the payee is the "Town of Rockport," each check received shall be stamped with the "For Deposit Only" stamp immediately during the transaction process.
- (b) *No Third-Party Checks.* Third party checks shall not be accepted as payment.
- (c) *Prohibition Against Cashing Checks.* Checks shall not be cashed by the Town. The prohibition on check cashing includes but is not limited to: payroll checks, accounts payable, travelers' checks, and personal checks.
- (d) *Overpayments Through Accounts Payable.* Overpayment of goods, taxes or services provided for payment shall be refunded by the accounts payable process.
- (e) *Returned Checks.*
 - (i) Returned checks for insufficient funds will be assessed a fee as soon as the check is returned. The Finance Director shall be notified as soon as the check is returned and advised of the nature of the services for which the check was initially accepted. If the check was for a tax payment or other Town service, the payment must be reversed out of the system the day the check is returned. If the check was for a State service, the appropriate Town personnel shall follow the process provided by the State, however the return check fee shall be assessed.
 - (ii) The Town Clerk/Tax Collector shall attempt to locate the check writer to advise him/her of the uncollectable funds and to seek alternative means of collecting the fees due.
 - (iii) If the funds are uncollectable after three (3) attempts to obtain payment, then appropriate authorities shall be notified as warranted.

20. ONLINE TRANSACTIONS

Policy: The Town accepts debit and credit card both on-site at designated customer counters and online using the Town's website. Debit and credit card payments are allowed for various Town payments including tax bills.

Procedure:

20.1 Credit Card Transactions

- (a) *Credit Card Processor.* The Town contracts with Maine PayPort as the credit card processor.
- (b) *Same Process as for Cash.* Credit card transactions shall be handled in the same manner as cash or check transactions.
- (c) *Numbered Receipts.* The payee shall receive a numbered receipt as well as a slip to sign for the actual credit card transaction (this may be the same receipt slip).
- (d) *Processing Fees.* The individual making the payment shall be responsible for any credit card processing fees and shall be notified of this responsibility at the time of the transaction.
- (e) *Include Phone Number and Address.* The current system requires the processor to input a phone number and address for the card owner, which shall be done on every transaction.

21. DOCUMENTATION FOR RECEIPT OF FUNDS

Policy: The Town Manager shall be responsible for developing policies and procedures that provide for the accurate and proper accounting of all funds received by the Town in a manner that minimizes risk and enhances accountability.

Procedure:

21.1 Numbered Receipts.

Each monetary transaction shall require a numbered receipt.

21.2 Receipts Provided by Town Clerk/Tax Collector.

The receipt provided by the Town Clerk/Tax Collector and staff shall be generated by the accounting software system when logging payments. The accounting system numbers each receipt sequentially.

21.3 Receipts from other Departments/Locations.

Other departments, excluding the Opera House, that accept cash shall follow the same process as the Town Clerk/Tax Collectors office. For the Opera House, upon receiving funds, the Opera House Manager shall record the receipt of the funds, and turn said funds

over to the Finance Department for tracking, then the Finance Department will provide said funds to the Clerk's office for deposit.

21.4 Documentation of Transaction.

Each transaction shall be documented and recorded at time of transaction and funds placed immediately in a locked cash drawer.

22. DAILY CASH-UPS

Policy: Cash-ups for all Town employees accepting money shall be done on a daily, before the employee completes the work day. Deposits shall also be made daily. Incoming checks shall be stamped "For Deposit Only" with the Town's bank account number printed on the check.

Procedure:

22.1 Daily Cash-Ups.

In preparing the daily cash-up, each clerk or person collecting cash shall reconcile their own cash collected with their teller cash receipting report and shall initial the report. Should any errors come up will reconciling the individual reports, the individual shall correct the issue prior to submitting the report for final reconciliation. Ex: if a customer comes in and pays with a check, we reverse the transaction as if it was cash, the reversal needs to be corrected to indicate that it was paid by check.

22.2 Delivery of Cash-ups and Teller Reports.

Once the individual has completed their own cash-up, they shall provide all monies collected and the teller cash report to the Town Clerk's designee (alternating between Deputy Town Clerk and Assistant Town Clerk on a monthly basis).

22.3 Deadline for Cash-ups/Teller Reports to the Town Office.

If a department outside of the Town Office is collecting funds, they need to have their completed teller cash-ups to the Town Clerk's Office by 4:30 pm every day. The cash shall be handed over to the Town Clerk's designee, who shall provide the department with a signed, dated, and numbered receipt for the cash received. These receipts shall be maintained for a minimum of one year, or until that year's fiscal audit has been completed.

22.4 Final Close-out Process.

Once all reports have been received by the Town Clerk's designee, the final close out process shall begin. The Town Clerk's designee shall review all of the teller reports to ensure that they match the cash received. The Town Clerk's designee shall provide their individual cash-up to another person to be verified before completing the final closeout process. Once all receipts and teller reports have been verified the reports shall be closed out.

22.5 Delivery of Cash for Deposit.

All cash and deposit slip shall be put in a locked bag and provided to a Police Officer to deliver to the financial institution's nightly drop box.

22.6 Checks Electronically Deposited.

- (a) Any checks received shall be processed through the electronic check system on a nightly basis after the daily cash-up has been completed. This process shall be completed by the Town Clerk's designee who performs the final close-out process.
- (b) Once the checks have been submitted online, the Finance Director shall review, and if appropriate, approve the transaction.
- (c) The Town Clerk shall maintain the scanned checks for a period of seven (7) days to ensure that the deposit was properly made and recorded

22.7 Summary Provided to Finance Director.

The Town Clerk's designee shall provide a copy of the cash-out summary to the Finance Director. This summary shall include the signatures of both the Town Clerk and the Town Clerk's designee responsible for processing the close-out. Once this verification has been received, the Finance Director shall post the journal to document the appropriate accounts.

22.8 Library Cash-Ups.

- (a) *Desk Funds Counted Daily.* Donations are often made to the library in the form of coins, cash or checks – sometimes called “desk funds.” On a daily basis, the desk funds shall be counted and verified.
- (b) *Receipts When Possible.* Because donors are often anonymous it may not be possible to provide receipts for the funds donated. However, whenever the donor is known a cash receipt shall be issued.
- (c) *Weekly Deposits.* The desk funds shall be verified daily and deposited on a weekly basis. The deposit report shall be given to the Library Committee Treasurer for deposit into the library's cash donation account.
- (d) *Copies to the Finance Director.* Copies of the desk funds report and of the deposit shall be forwarded to the Finance Director.
- (e) *Bank Statement Copied to Finance Director.* A copy of the bank statement in which these funds were deposited shall be forwarded monthly to the Finance Director – no later than the 15th of the month.

- (f) *Discrepancies.* Any discrepancies in the account shall immediately be relayed to the Finance Director. Discrepancies and investigations shall be handled in the same manner as other discrepancies and investigations as set forth in 13.3 of these Policies & Procedures.

23. ONLINE BANKING

Policy: Personnel in the Finance department regularly use online banking for payroll direct deposit and management of the Town's cash accounts. This method of banking provides efficiencies and other benefits and the Town encourages its use. Online access shall be restricted to the Finance Department, the Town Clerk's office and the Town Manager.

23.1 Limited Access.

The Finance Director shall provide limited online access to the Town Clerk and the Town Clerk's designees for the purposes of making online deposits.

23.2 Monitoring of Online Accounts

The Finance Director shall monitor the Town's cash accounts daily to detect any unusual activity. If unusual activity is detected, the bank shall be contacted immediately, and the Town Manager notified in writing of any breach.

23.3 Other Online Deposits.

- (a) *Deposits from Other Entities.* Periodically, funds from other entities such as the State of Maine are deposited directly into the Town's cash accounts.
- (b) *Documentation of Deposits.* Once notification of these deposits has been received by the Finance Director and funds have been recorded in the Town's bank account, the Finance Director shall make the appropriate journal entries within seven (7) days of receipt.
- (c) *Receipt of Deposit.* A copy of the receipt from *Paymode Payment Processing* shall be affixed to the journal postings.

24. DONATIONS

Policy: Funds donated to the Town, other than those designated for Legacy Rockport, shall be subject to approval by the Select Board.

Procedure:

- (a) *Record Donation.* When a donation is received the check shall be given to the Finance Director to record in an excel spreadsheet that the donation has been received, the date received, the purpose of the check, and the account that it shall be deposited to once Select Board approval has been received.

- (b) *Select Board Approval Process.* The Finance Director shall notify the Town Manager's Executive Assistant of the donation and request that the item be placed on the next Select Board Agenda.
- (c) *Placement of Check in Secure Location.* The check shall be given to the Town Clerk to secure in a locked money bag in the vault.
- (d) *Check Deposit.* Once the donation(s) have been approved by the Select board, the Town Clerk shall deposit the donations the next business day, into the account designated by the Finance Director.
- (e) *Receipt of Deposit.* The Town Clerk shall provide the Finance Director with a copy of the receipt for the deposit.

25. GRANTS AND PROJECTS

Policy: Periodically, the Town receives grant funding for various Town projects. Grants help the Town in updating infrastructure improvements with cost sharing that greatly benefits the community. Grants may require Town matching funds, in-kind matching contributions or no contributions whatsoever.

Procedure:

25.1 Effect on Cash Flow.

The Finance Director shall be apprised of any grant the Town seeks in order to assess the potential effect on the Town's ability to fund up-front costs. Informing the Finance Director of potential grants will permit the Finance Director to appropriately plan and manage the grants finances once a grant has been awarded. Upon award of a grant, copies of grant documents shall be immediately forwarded to the Finance Director.

25.2 Terms and Conditions.

The Town Manager, Finance Director and other interested parties shall meet prior to implementation of any grant to ensure that the Town's financial obligations or in-kind contributions can be met.

25.3 Matching Fund Requirements.

Each grant awarded to the Town carries its own standards, methods of accounting and matching fund requirements. The Town Manager, Finance Director, Planner (whenever applicable) and Department Head involved in a particular grant shall work together to ensure any matching fund requirements of the grant are met.

25.4 Budgeting for Grant Matching Funds.

Whenever possible the Town shall budget matching funds required of grants used to improve the Town's infrastructure or to purchase equipment.

25.5 Reserves Used for Grant Match.

There may be times when established reserve funds can be used toward a match for a grant. To use grant funds as matching funds for a grant the reserve fund's purpose must be that for which the grant has been obtained. Use of any reserve should follow the standards outlined in the Reserve Policy.

26. ACCOUNTS RECEIVABLE PROCESS

Description: Accounts receivable is a claim for payment held by the Town against a resident or customer for goods supplied or services rendered. Generally, the Town issues an invoice for the request of payment for items which the Town provided but did not immediately receive compensation. An invoice is created billing the person or company for the service and an accounts receivable is created, meaning the Town is due the fees created by the invoice.

Procedure:

26.1 Recording Accounts Receivable.

The Town infrequently records invoices as accounts receivable, there are not many receivables generated during the year. Rather, when the Town receives money from invoices generated by the Town, the funds received are directly entered as revenue in the appropriate department. However, at the close of the year, any outstanding invoices do get created as accounts receivable, which recognizes the revenue in the correct year but acknowledges the cash receipt at the time the money is collected.

26.2 When Cash Received is Recorded as Accounts Receivable.

In the first few months of a new fiscal year, rather than recording funds received directly into revenue accounts, money received for a prior year's revenue shall be recorded as an accounts receivable.

26.3 Keep and Aging List.

Because accounts receivable is most frequently utilized during the end and beginning of a fiscal year, the Finance Director shall monitor the accounts receivable general ledger account and reconcile the account as required to make sure that the Town receives all funds that are due and payable to the municipality. This may require the maintenance of an aging accounts receivable list.

26.4 Revenue Written Off.

If it is determined that an item previously recorded as an accounts receivable cannot be collected, the revenue may be written off with the permission of the Town Manager (excluding all tax accounts).

26.5 Commitment of Taxes are entered as Taxes Receivable.

- (a) At the time of commitment, taxes due from residents are entered as taxes receivable.
- (b) Payments made by residents are credited to their tax accounts upon receipt of payment.

26.6 Reconciled Monthly.

The Finance Director shall monitor the accounts receivable and reconcile the account monthly.

27. ACCOUNTS PAYABLE PROCESS

Description: The accounts payable process requires the collection of invoices and vendor documentation to pay vendors that are owed money from the Town. The accounts payable process starts with Department Heads who are responsible for providing the finance department with invoices from vendors that provided goods and/or services to the Town.

27.1 Required Proof of Insurance or Verify Independent Contractor.

Maine statutes, at Title 39-A M.R.S.A. § 13-A, distinguish between employment and independent contractor status. Any vendor providing a service(s) to the Town is required to provide proof of workers' compensation insurance or verification from the Maine Workers' Compensation Commission that they have received their independent contractor status. A vendor that provides services to the Town regularly shall be required to update this information annually.

27.2 Require W-9 for All Vendors.

All vendors doing business with the Town are required to provide a completed W-9 with the Town. The Internal Revenue Service (IRS) annually updates the W-9 which can be obtained on the IRS website, or the Town may provide a copy to vendors. The IRS does not require the use of the W-9 form but does require the information to be gathered about vendors as requested on the form; and requests the information be updated annually. Therefore, the Town requires that all vendors doing business with the Town have a completed, valid and updated W-9 form on file.

27.3 Payment Based on Original Invoice.

The Town requires that payments be issued based on an original invoice. Generally, copies of invoices are not used to process payments because it leaves open the possibility of invoices getting paid more than once or being altered. Shipping labels, packing lists and statements alone are not used for verification purposes in determining that the Town owes a vendor money for services rendered or equipment and/or supplies purchased.

27.4 Department Head Coding.

- (a) *Department Head to Review Invoices.* Each Department Head shall review and approve all invoices for their department prior to submitting the invoice to the finance department for payment.
- (b) *Coding to Chart of Accounts.* Each Department Head shall properly code each invoice (using the chart of accounts and numbers assigned to specific departments as indicated in the annual municipal budget) noting where the funds are to be taken from.
- (c) *Department Head Approval.* Department heads shall initial the invoice as proof that the Department Head has reviewed and approved the expenditure for payment.
- (d) *Exceptions for Routine Bills.* Exceptions to this subsection include bills that are regularly paid on a monthly basis, e.g., electricity, water, monthly web hosting, and security alarm fees.

27.5 Finance Director to Review Invoices Submitted for Payment.

Once the Department Head submits an invoice for payment, the Finance Director shall review the invoice to ensure the coding is correct and that the Department Head has signed off on the invoice.

27.6 Pre-Numbered Checks.

To ensure that all checks are properly accounted for, the Town shall purchase and use pre-numbered checks for all checking accounts. When using a check, it shall be recorded in the check record book maintained in the finance office.

27.7 Unused Checks.

All stock checks or unused checks shall either be stored in a locked cabinet under the control of the finance office or in the Town vault.

27.8 Voided Checks.

If for any reason a check needs to be voided, the voided check shall be recorded in the check record book and then shredded, unless it was returned or stopped, at which point it shall be maintained with the journal posting for that check.

27.9 Review and Approval of Warrants.

The Finance Director, Town Manager and a Select Board designee shall be responsible for reviewing and approving the warrant and any supporting items. Each shall affix their signature to the warrant once it has been approved.

27.10 Filing Invoices.

Once the warrant has been approved by both the Town Manager and the Select Board designee, the invoices, along with the check stub attached, shall be filed in the finance office and maintained for seven (7) fiscal years.

27.11 1099's

It is the responsibility of the Town to issue 1099s to any business as required by IRS regulations. This shall be completed by the Finance Director no later than January 31st of the year following the year when the payment was made.

28. PAYROLL

Description: Payroll is the process by which employees are compensated for the week previously worked. The standard work week is Friday through Thursday, with the weekly pay date being on Friday. Employees shall be paid on a timely basis in accordance with time worked and benefits provided.

28.1 Weekly Payroll.

Payroll shall be processed on a weekly basis (typically on a Friday) by the finance department.

28.2 Time Sheets.

- (a) *Timecards Required.* All hourly employees shall submit a completed timecard showing the hours worked including start time, end time, break times and any time that was taken off. Exempt employees shall complete the "Exempt Timecard" showing any time that was taken off. All timecards shall be completed to the standards issued by the Department of Labor.
- (b) *Falsification of Timecards.* Falsification of timecards may result in disciplinary action, including termination.
- (c) *Timecard Approval.* Timecards shall be signed by both the employee and the employee's direct supervisor.
- (d) *Deadline to Submit Timecards.* All timecards are expected to be in the finance office by 9 a.m. Friday morning.

28.3 Payroll Spreadsheet Preparation.

- (a) *Payroll Spreadsheet.* The Finance Payroll Clerk shall review all timecards and complete the payroll spreadsheet for all employees.
- (b) *Verify Available Time Off.* The Finance Payroll Clerk shall ensure that the employee has accumulated enough time to fulfill their time off. If not, he/she shall immediately notify the Finance Director, who shall notify the Department

Head.

28.4 Time Sheets and Spreadsheets Reviewed by Finance Director.

- (a) *Timecards and Spreadsheet to Finance Director.* Once the Finance Payroll Clerk has entered all the applicable information into the payroll spreadsheet, he/she shall submit all timecards and the spreadsheet to the Finance Director for review.
- (b) *Timecard and Spreadsheet Sign Off.* The Finance Director shall review the spreadsheet and timecards and sign off on the spreadsheet as approving it. When the Finance Director is out of the office, the Finance Payroll Clerk may carry out the process, however, the Finance Director shall immediately review upon returning to work.

28.5 Process Payroll.

- (a) *Processing Payroll.* After the Finance Director has signed off on the payroll spreadsheet, the Finance Payroll Clerk shall process the payroll through the accounting software.
- (b) *Deductions Assessed.* All applicable deductions shall be assessed automatically at this time.

28.6 Direct Deposit.

- (a) *Direct Deposit Option.* Employees may opt to be paid by direct deposit of their payroll into their personal bank accounts.
- (b) *Payment Date.* Any employee who wishes to receive their compensation by direct deposit shall be paid every Thursday instead of Friday.
- (c) The Finance Administrative Assistant shall ensure that the bank receives the direct deposit record by Tuesday at 1 p.m. in order for the deposit to be made on Thursday of that week. The direct deposit record shall be approved and signed off by the Finance Director prior to submission.
- (d) Any employee that has signed a direct deposit authorization form shall receive a voided check that states their pay was deposited directly to their desired account. These checks will also be pre-numbered and shall follow the same methods for issuance of other checks as set forth in these Policies & Procedures.

28.7 Payroll Warrant.

The Finance Director, Town Manager, and a Select Board designee, shall be responsible for reviewing the payroll warrant and supporting items attached to the warrant, including timecards. Once approved, each shall affix their signature to the warrant.

28.8 Reconcile Payroll Deductions.

- (a) *Monthly Reconciliation.* All payroll-related deductions shall be reconciled on a

monthly basis (within 15 days of the end of the month).

- (b) *Payroll Adjustments.* If there is an employee who either owes money for their benefits, or the Town needs to return money to that employee, it shall be done at this time.
- (c) *Employee Notification.* The employee shall receive an explanation with the check detailing the changes made.
- (d) *Employee Option.* If the change results in an employee owing money to the Town in an amount more than \$10.00, the employee shall be given the option to spread what they owe over a period of more than one pay period.

28.9 Quarterly Tax Reports.

The Finance Director shall submit all federal and state quarterly tax reports by the respective due dates and ensure that all reports are accurately submitted.

28.10 Annually Prepare W-2's.

At the end of each calendar year the Finance Director shall prepare and deliver all necessary W-2s for current or past employees. The Finance Director shall ensure that all reports are submitted to the IRS and Maine Revenue Service by the respective deadlines.

29. BEST PRACTICE RESOLUTION

Policy: The Town recognizes that the concept of Best Practice is an evolving one and that there may be different variations for a Best Practice. It is the intent of the Town that the Town Manager, Finance Director, and applicable Department Head to which the Best Practice is applied resolve all known conflicts amongst them in a productive, professional and collaborative manner.

Procedure:

29.1 Select Board as Mediator.

If a reasonable solution to a disputed Best Practice cannot be agreed upon by all pertinent parties, the Select Board shall serve as the mediator to determine and establish the Best Practice.

29.2 Who May Raise the Issue to the Select Board.

The Town Manager, Finance Director, or Department Head may raise the issue to the Select Board for consideration and determination.

30. IMPLEMENTATION

A copy of these Policies & Procedures shall be made available to Town officials and Department Heads prior to the effective date and other times as may be necessary.

31. EFFECTIVE DATE

The effective date shall be 45 days after the date of Select Board adoption.

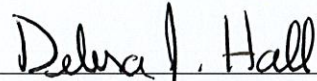
32. ADOPTION

Adopted this 28th day of January 2019.

Select Board Members:



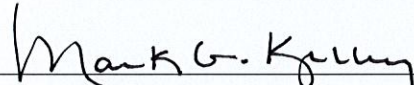
Kenneth McKinley, Chair



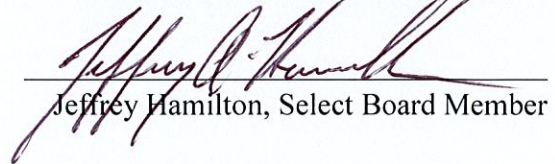
Debra Hall, Vice-Chair



Douglas Cole, Select Board Member



Mark Kelley, Select Board Member



Jeffrey Hamilton, Select Board Member