CITY OF
LAKELAND
TENNESSEE

INTERNAL
CONTROL
MANUAL
REVISED JUNE 2022

TABLE OF CONTENTS

INTERNAL CONTROL MANUAL

Introduction

The City of Lakeland (the "City") has the responsibility to its taxpayers, ratepayers, and constituents to be good stewards of public monies and property. Additionally, as a local government in the State of Tennessee the City must establish and maintain an adequate internal control system for purposes of financial reporting, managing operations, and legal compliance.

Various state statutes require officials to adopt and use the system and the character of books, reports, and records designated by the Comptroller of the Treasury. An accounting system is defined as the methods and records established to identify, assemble, analyze, classify, record, and report a government's transactions and to maintain accountability for the related assets and liabilities. Those methods would necessarily include establishing, documenting, and implementing adequate internal controls. Among these requirements are Section 9-2-102, *Tennessee Code Annotated ("TCA")* and Section 9-18-102(a), *TCA* (the latter of which was amended to expressly require each municipal government to establish and maintain internal controls).

The City is also required to maintain a system of internal control as a recipient of federal awards. The U.S. Office of Management and Budget ("OMB") has established internal control guidance for all entities that receive federal awards as Code of Federal Regulations ("CFR") 200.303. This guidance requires all entities to establish and maintain an effective system of internal control over federal awards. The OMB guidance further recommends implementing a system of internal control in accordance with internal control standards published by the U.S. Government Accountability Office ("GAO") in *Standards for Internal Control in the Federal Government* (the "Green Book"), as one method of complying with CFR 200.303.

This *City of Lakeland Tennessee Internal Control Manual* (the "Manual") also complies with the *Internal Control Manual for Local Governmental Entities and Other Audited Entities in Tennessee* issued by the Tennessee Comptroller of the Treasury.

What is Internal Control?

The GAO has established a common definition of internal controls, standards, internal control components, principles, and attributes in the GAO Green Book. Because this GAO Green Book framework is widely accepted, it is used as the basis for all City internal control matters covered in this Manual.

Definition of Internal Control:

Internal control is a process that is developed to provide reasonable assurance that the following categories of objectives will be achieved:

- **Reporting** – financial reporting will be reliable;
- **Operations** – operations will be effective and efficient; and
- **Compliance** – applicable laws, regulations, contracts, and grant agreements will be followed.

The above definition reflects certain fundamental concepts. Those concepts are:

- Internal control is geared to the achievement of objectives in one or more separate but overlapping categories.
- Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the City.
- Internal control is an integral part of the organization not a separate system within the organization.
- Internal control is a process. It is a means to an end, not an end in itself.
- Internal control is affected by people. It is not merely policy manuals and forms, but people at every level of the City.
- Internal control increases the likelihood that the City will achieve its objectives. However, it can only be expected to provide reasonable assurance, not absolute assurance, that all the City's objectives will be met.

The process of achieving the objectives stated above through Internal Control is illustrated below in Figure 2 from the GAO Green Book.

Figure 2: Achieving Objectives through Internal Control

Objective identified → Controls designed → Controls in place → Objective achieved
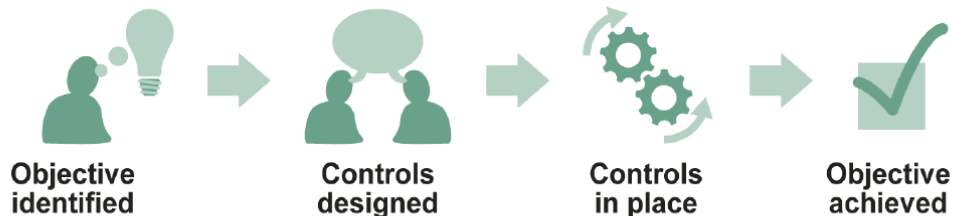
Source: GAO. | GAO-14-704G

How Does Internal Control Work?

The City's system of Internal Control applies to all functions, operating units, and divisions. The GAO Green Book approaches internal control through a hierarchical structure of five (5) components and seventeen (17) principles. The Green Book also contains additional information in the form of attributes. Attributes in this Manual are presented under the sub-heading title "This Involves" throughout this Manual. These attributes provide further explanation of the principles and documentation requirements.

FIVE (5) MAIN COMPONENTS OF INTERNAL CONTROLS:

1. **Control Environment** – the foundation for an internal control system
2. **Risk Assessment** – assesses the risks facing the organization as it seeks to achieve its objectives
3. **Control Activities** – the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system
4. **Information and Communication** – the quality of information management and personnel community and use to support the internal control system

5. Monitoring – activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews

There is a direct relationship between the City's objectives, the five components of internal control, and the organizational structure of the City. The seventeen principles support the components of internal control. The relationship of the objectives and components of internal control to the City's functions, operating units, and divisions is typically illustrated by a cube diagram used in the GAO Green Book as Figure 4.

Figure 4: The Components, Objectives, and Organizational Structure of Internal Control
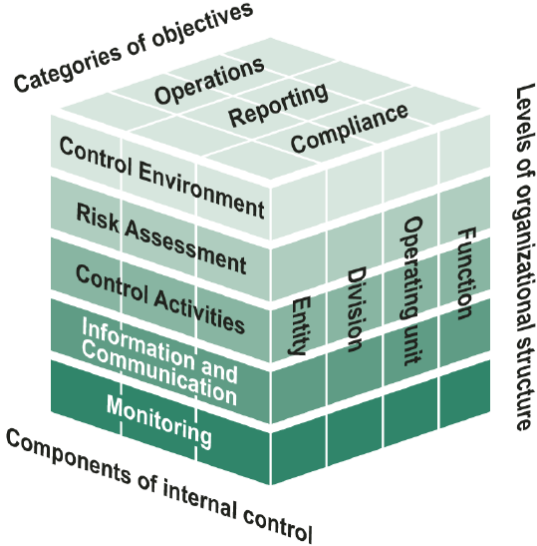
Sources: COSO and GAO. | GAO-14-704G

What is the Purpose of this Internal Control Manual?

The purpose of this Manual is to ensure that the objectives of reporting and compliance are established. The policies to achieve the objectives are derived from various financial best practices and state and federal laws and regulations. Policies may be developed to suit specific needs of City functions and resources. Detailed procedures are then proscribed and followed as a means for the City to comply with its established policies.

Five Components of Internal Control

1. Control Environment

The control environment is the foundation for all other components of internal control. There are five principles related to the control environment. These are listed below, specific to the City of Lakeland.

1. ***The Board of Commissioners and management demonstrate a commitment to integrity and ethical values.***

   This involves:
   - Setting the foundational tone at the top
   - Establishing standards of conduct
   - Enforcing adherence to standards of conduct

   Policies:
   - The governing body through management has adopted a personnel manual (Employee Handbook) that details policies, expectations, and other employment-related topics.
   - Each employee receives a copy of the city's Employee Handbook, which includes a policy on business ethics and conduct, and signs an acknowledgement of receipt.
   - The governing body has adopted a financial policies manual that details expectations surrounding the annual budget process, ethical conduct, long-term financial planning, and other key financial areas.

   Procedures:
   - The Finance and Human Resources Director reviews the Employee Handbook annually to determined needed revisions to comply with federal and state laws, as well as practices of the city.
   - The City Manager reviews suggested revisions, if any, by the Finance and Human Resources Director and presents the revised Employee Handbook or individual policies contained therein, as applicable, to the Board of Commissioners for approval.
   - The City holds annual required training where human resource topics are covered. The code of conduct and the Employee Handbook are always part of the training.

2. ***The Board of Commissioners oversees the City's internal control system.***

   This Involves:
   - Establishing an oversight structure
   - Determining who will be responsible for oversight of the internal control system
   - Establishing a method for remediation of deficiencies

   Policies:
   - On an annual basis, the Board of Commissioners ensures that the *City of Lakeland Internal Control Manual* is updated in accordance with State statute.
   - Changes and revisions to the City's financial policies, Employee Handbook, and/or internal control manual are approved by the Board of Commissioners.

   Procedures:
   - The internal control manual is updated annually by the Finance and Human Resources Director.
   - Changes are reviewed by the City Manager prior to presentation to the Board of Commissioners for approval.
   - The Finance and Human Resources Director, with City Manager oversight and review, proposes changes to the Employee Handbook and the city's financial policies as needed.
   - Any changes from the procedures above are presented to the Board of Commissioners in an official open meeting and approved and effective upon passage of a board resolution or ordinance.

3. ***The Board of Commissioners has established an organizational structure, assigned responsibility, and delegated authority to achieve the City's objectives.***

   This Involves:
   - Establishing an organization structure
   - Assigning responsibility and delegating authority within the organizational structure
   - Documenting the internal control system

   Policies:
   - Organizational charts are reviewed periodically for needed changes regarding authority and responsibility.
   - An up-to-date internal control manual is maintained.

Procedures:

- City organizational charts were developed based on the City structure required in the City charter.
- The charts are reviewed periodically as job descriptions and positions are added or changed to determine if the reporting structure, authority, and responsibility documented in the chart is still accurate *(see current Organizational Chart at the end of this section)*.
- The internal control manual is updated annually by the Finance and Human Resources Director, reviewed by the City Manager, and formally approved by the Board of Commissioners.

4. ***The Board of Commissioners and management demonstrates a commitment to recruit, develop, and retain qualified and competent individuals.***

This Involves:

- Developing expectations of competence
- Recruitment, development, and retention of individuals
- Succession and contingency plans and preparation

Policies:

- The Employee Handbook is maintained with up-to-date policies that address:
  - Job description requirements
  - Employee benefits
  - Business continuity in cases of emergency
- Job descriptions are maintained for each City staff position.

Procedures:

- Department heads review employee job descriptions annually and propose needed changes to the Finance and Human Resources Director.
- The Employee Handbook is updated as needed by the Finance and Human Resources Director, reviewed by the City Manager, and formally approved by the Board of Commissioners.
- Background checks are performed for all employees.

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

This Involves:

- Enforcing accountability
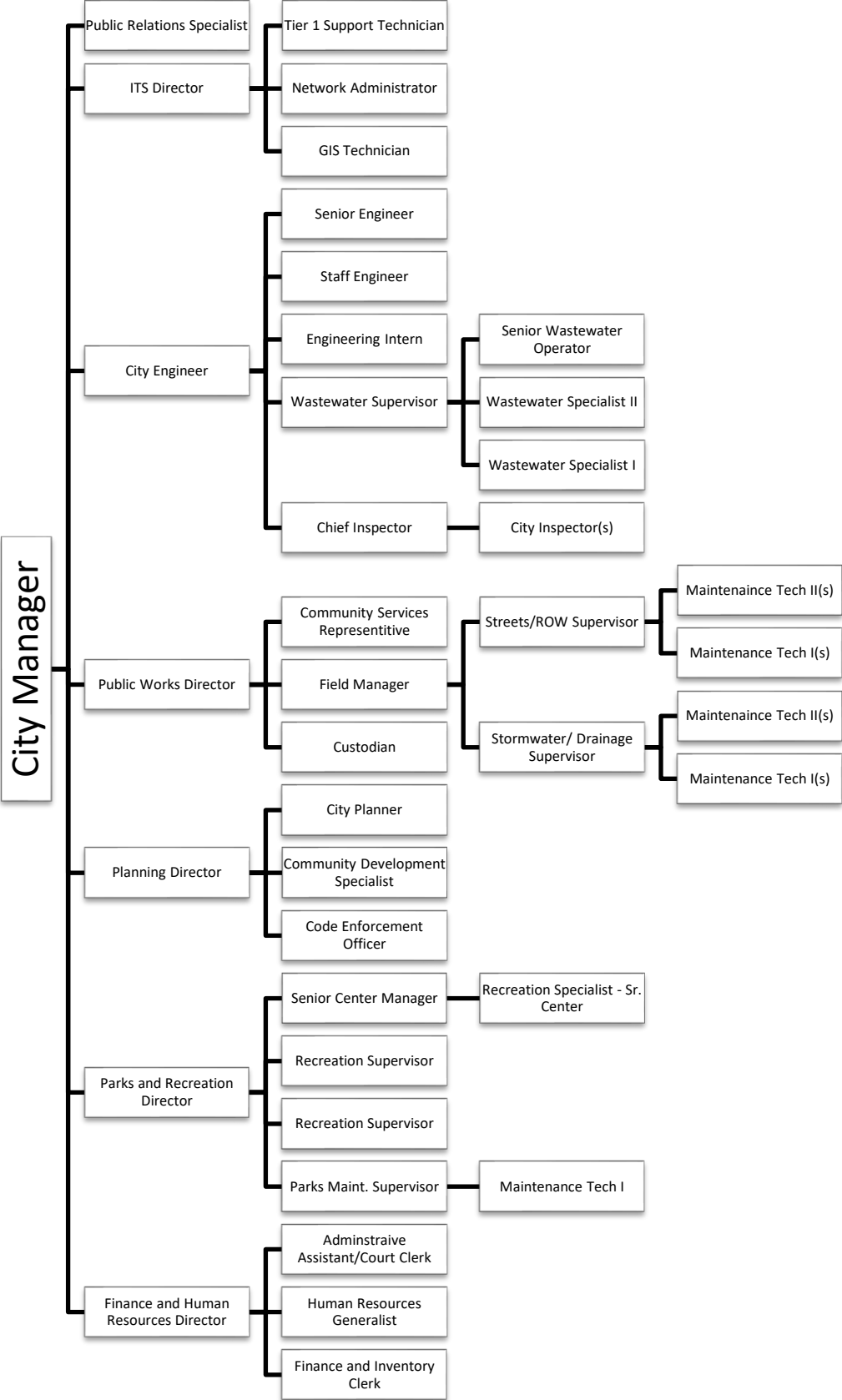- Consideration of excessive pressures

Policies:

- Management conducts annual performance evaluations on all City staff.
- The Board of Commissioners uses the budget process as a means of oversight with department heads.

Procedures:

- The City Manager disseminates and ensures completion of performance evaluations for all positions, by all management personnel, on an annual basis.
- The Finance and Human Resources Director prepares the annual budget beginning in January, with input from the City Manager and department heads, using historical data from the three (3) previous years. The Finance and Human Resources Director also coordinates and prepares an annual capital budget, a five-year CIP projection, and a long-term financial plan as components of the Annual Budget document.
- The proposed budget is presented to the Board of Commissioners during at least one (1) budget workshop. The City Manager, Finance and Human Resources Director, and all department heads are present to explain their budgets or request additional funding.
- The budget ordinance is prepared for first reading in May and second reading and final passage in June. The required public notice is published in a local newspaper no less than ten (10) days prior to the second and final reading.

Organizational Chart

City Manager

- Public Relations Specialist
- ITS Director
  - Tier 1 Support Technician
  - Network Administrator
  - GIS Technician
- City Engineer
  - Senior Engineer
  - Staff Engineer
  - Engineering Intern
  - Wastewater Supervisor
    - Senior Wastewater Operator
    - Wastewater Specialist II
    - Wastewater Specialist I
  - Chief Inspector
    - City Inspector(s)
- Public Works Director
  - Community Services Representitive
  - Field Manager
    - Streets/ROW Supervisor
      - Maintenaince Tech II(s)
      - Maintenaince Tech I(s)
    - Stormwater/ Drainage Supervisor
      - Maintenaince Tech II(s)
      - Maintenance Tech I(s)
  - Custodian
- Planning Director
  - City Planner
  - Community Development Specialist
  - Code Enforcement Officer
- Parks and Recreation Director
  - Senior Center Manager
    - Recreation Specialist - Sr. Center
  - Recreation Supervisor
  - Recreation Supervisor
  - Parks Maint. Supervisor
    - Maintenance Tech I
- Finance and Human Resources Director
  - Adminstraive Assistant/Court Clerk
  - Human Resources Generalist
  - Finance and Inventory Clerk

2. Risk Assessment

Having established an effective control environment, management assesses the risks facing the entity as it seeks to achieve its objectives. Generally speaking, risk assessment means asking questions about what could go wrong. There are four (4) principles related to risk assessment.

1. ***Management defines objectives clearly to enable the identification of risks and risk tolerances.***

   This Involves:
   - Defining the City's objectives
   - Defining the City's tolerance or threshold for risk

   Policies:
   - The Annual Budget shall include the City's mission, vision statements, and goals (Board of Commissioner priorities) as a guiding document for the identification of the City's objectives and related risks.
   - City officials and management assess risk of operations continually. The city has chosen to transfer the most common types of risk through the purchase of the following types of insurance:
     o Property and Casualty
     o Liability
     o Errors and Omissions
     o Worker Compensation
     o Surety Bonds

   Procedures:
   - The Finance and Human Resources Director obtains and/or renews surety bonds of at least $10,000 for all City officials and staff with access to City financial assets.
   - The Board of Commissioners meets annually in a strategic planning session as part of the Annual Budget process, and assesses the risks related to City priorities, goals, and objectives.

2. ***Management identifies, analyzes, and responds to risks related to achieving the defined objectives.***

   This Involves:
   - Identification of risks
   - Analysis of risks
   - Response to risks

Policies:

- The *Internal Control Manual* shall be updated annually to include documentation of the City's –
  - o risks associated with the City's objectives;
  - o methodology for determining if the risk identified is material to the City; and
  - o actions (control activities) taken to mitigate the risks.

Procedures:

- The Finance and Human Resources Director prepares an updated *Internal Control Manual* annually, for review by the City Manager and approval by the Board of Commissioners in their June meeting.
- The risks identified in the *Risk Identification* section below are reviewed annually and updated, as necessary.

3. ***Management considers the potential for fraud when identifying, analyzing, and responding to risks.***

This Involves:

- Considering what types of fraud could occur
- Examining the fraud risk factors
- Responding to any identified fraud risks

Policies:

- The City's *Anti-Fraud Policy* addresses the process for the preventing and responding to fraud risks. The *Internal Control Manual* updated annually shall include the identification of fraud risks and related control activities, in the respective sections, to reduce the opportunity for fraud to occur.

Procedures:
See Procedures in Risk Assessment Principle 2. above.

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

This Involves:

- Identification of changes in accounting principles, accounting systems, personnel, laws, the business environment, etc.
- Analysis of and response to these changes

Policies:

- Annual training by authoritative and competent organizations is required for personnel involved in internal controls over financial reporting.

<u>Procedures:</u>

- The Finance and Human Resources Director obtains annual training through various accounting organizations to remain current on new accounting and auditing standards.
- Directors involved in state or federal grant programs obtain related training on grant requirements as needed.
- The City Manager considers technological developments, employee turnover, new programs, new laws and regulations, and economic growth or decline on an annual basis during consideration of changes in internal controls.

RISK IDENTIFICATION

There are risks the City cannot anticipate or know about, and as it relates to financial and compliance issues, the City has assessed the following areas and identified certain risks that need to be addressed by the development of internal control policies and procedures. Internal controls will not eliminate all risk but will help reduce risk to gain reasonable assurance that reporting and compliance objectives outlined in this Manual are being met.

Objectives

1. **Collections** are complete, timely, and accurate.
2. **Disbursements** are for valid city purposes and properly recorded.
3. **Assets** are properly safeguarded.
4. City is in **compliance** with contractual, local, state, and federal laws and regulations.

Materiality of Risks

For the purposes of this document, materiality is defined quantitatively as the risk of financial loss to the City in excess of $10,000. Qualitative materiality factors, however, have also been considered in the identification of the risks below.

Risks

1. **Collections/ACHs**
   a. Collections could be lost or misappropriated.
   b. Collections could be recorded improperly.
   c. Collections may not be deposited in the bank and recorded timely.
2. **Disbursements/Drafts**
   a. Disbursements could be unauthorized or in excess of appropriations.
   b. Disbursements could be for personal items.
   c. Disbursements could be made for items never received.
3. **Safeguarding of Assets**
   a. Bank balances may be inaccurate due to failure to reconcile bank accounts.
   b. Capital assets or inventory items could be missing.
   c. Inventory is not available when needed.
4. **Compliance**
   a. Grant funds could be spent for unallowable items.
   b. Grant rules may not be followed which could result in having to return federal funds.
   c. Federal reporting requirements were not met.

The significant areas of risk are identified above, and policies and procedures are documented in the *Control Activities* section regarding the City's internal controls to help reduce the key risks associated with these areas of operations.

3. Control Activities

Control Activities are the actions management establishes through internal control policies and procedures to achieve objectives and manage risks. Fundamental examples of control activities include issuing receipts and purchase orders, reconciling the bank statement, and division (i.e., segregation) of duties. There are three (3) principles related to control activities.

Detailed procedures are documented in this section. The objectives, policies, and implemented procedures are described for each of the significant areas identified in the Risk Assessment section.

1. *Management designs control activities to achieve objectives and respond to risks.*

This Involves:
- Responding to identified objectives and risks
- Designing appropriate types of control activities
- Designing control activities at various functional and structural levels
- Adequately dividing (i.e., segregating) duties among employees

Overall Policy:
- This section of the Manual is reviewed annually by the Finance and Human Resources Director and reviewed and approved by the City Manager and Board of Commissioners. Detailed procedures are to be documented below and designed to address the City's objectives and risks identified in the prior sections of the Manual.

Specific Policies and Procedures in Response to Objectives and Risks:
Collections/ACHs

Objectives

- Collections are complete, timely, and accurate.
- Collections are safeguarded.
- Collections should be recorded accurately and timely in the accounting system.

Policies

- All collections will be receipted to the appropriate fund and revenue code and recorded in the general ledger daily by the Administrative Assistant and/or Senior Center Manager, as appropriate.
- A pre-numbered receipt will be issued for each collection made.
- The cash drawer and payment lockbox will be reconciled monthly by two people and the receipt log will be signed.

- No checks will be cashed from the cash drawer.
- All funds will be deposited within three (3) business days.
- The cash drawer will be locked when unattended and placed in a designated area after hours.
- At no time will cash be left out in the open unattended.
- Collections and associated receipts will be immediately placed in the payment lockbox.
- Employees are prohibited from comingling city assets with personal assets.
- Chart of accounts codes will be reviewed with the Administrative Assistant and Senior Center Manager on a regular basis.
- All daily collection reports are posted to the general ledger by the accounting system at the end of each business day as part of the Administrative Assistant's and/or Senior Center Manager's daily closing process.
- Segregation of duties shall be maintained between access to cash receipts and recording, through the review of daily collection reports by the Finance & Inventory Clerk and monitoring by the Finance and Human Resources Director.
- Reconciliations of the City's bank accounts, including cash receipts, are performed monthly by the Finance and Human Resources Director.
  - *In the event the Finance and Human Resources Director is serving as interim City Manager, bank reconciliations shall be performed monthly by an independent contracted accounting professional.*

Procedures

- The Administrative Assistant will enter all collections immediately in the accounting system using the correct fund and revenue code.
- The Administrative Assistant and/or Senior Center Manager will immediately stamp all checks "for deposit only" in the appropriate fund bearing the city's name.
- A pre-numbered receipt is issued for all collections by the accounting system. Receipt lists date, amount, payer, proper accounting code, cash or check and is signed by cashier. One copy is given to every customer and one copy is retained with the daily receipt log with proper backup documentation.
- The cashier will reconcile his/her cash drawer monthly. All collections will be put into the payment lockbox and retrieved daily by the Finance & Inventory Clerk for review, verification, and preparation of the deposit.
- The Human Resources Generalist will deliver the deposit to the bank within three (3) business days of collection.

- The deposit will be secured in the office of the Human Resources Generalist until it is delivered to the bank.
- The deposit receipt will be returned to the Finance & Inventory Clerk for reconciliation with the receipt log and general ledger report.
- The Finance and Human Resources Director will reconcile the bank statements monthly and the City Manager will review reconciliations. Dates will be compared to deposit records for timeliness. Receipts will be reviewed for accurate amounts, coding, proper signature, and other required information.
    - *In the event the Finance and Human Resources Director is serving as interim City Manager, bank reconciliations shall be performed monthly by an independent contracted accounting professional.*
- The cashier retains the key to the cash drawer. The drawer is always to remain locked when unattended.
- The cash drawer will be locked in a designated area after hours and on weekends.
- The cash drawer will be reconciled monthly by two people and a cash report will be signed by both employees.
- The payment lockbox will be reconciled monthly by the Finance & Inventory Clerk. The lockbox will remain locked at all times and the Finance Clerk will have the only key.
- The Finance and Human Resources Director will periodically perform surprise cash counts to ensure there are no personal checks being held in the cash drawers and to ensure the drawers are in balance.
- The cashier posts the daily transactions to the general ledger after reconciling each day.
- The Finance & Inventory Clerk will review the transactions for accuracy and make any adjustments or changes with the approval of the Finance and Human Resources Director.

Disbursements/Drafts

Objectives

- Disbursements are for a valid city purpose and necessary.
- Disbursements are timely.
- Disbursements are accurately coded and recorded in the accounting system.
- Disbursements are legally appropriated.

Policies

- The city has adopted purchasing policies that comply with state law.
- Various levels of authority have been assigned.
- Purchase orders and packing slips are matched (typically electronically through the City's ERP system) and given to the Finance & Inventory Clerk for payment as soon as possible.
- Checks are processed weekly to ensure timely payment of invoices.
- All invoices require electronic approval by a departmental Director and City Manager within the accounting system before checks are processed.
- All invoices have documentation attached electronically before being submitted for electronic approval.

Procedures

- All purchases will be made in accordance with the City's purchasing policy.
- Employees will complete a requisition in the ERP system for all purchases in order to encumber the funds. The employee's supervisor will review and authorize the requisition electronically.
- The accounting system will notify an employee if adequate funds are not available for any requisition, and the requisition will not be processed until available funds have been allocated by way of a budget transfer or amendment.
- Budget transfers are only recorded by the Finance & Inventory Clerk or the Finance and Human Resources Director.
- After a requisition has been approved, the employee will be notified that a purchase order has been generated.
- Employees will provide printed purchase orders to vendors when a purchase is made.
- The Finance & Inventory Clerk will verify that packing slips and purchase orders match before payment of invoices.
- The Finance & Inventory Clerk will prepare weekly invoice batches using backup documentation and present the batches to the Finance and Human Resources Director for review and approval of expenditure codes.
- The Finance and Human Resources Director verifies all expenditure codes for accuracy and availability of funds prior to the Finance & Inventory Clerk processing invoice payments.
- The approving departmental Director and City Manager review backup documentation and electronically approve all invoices in the accounting system before a check is generated.

Safeguarding of Assets

Objectives

- Ensure city assets are properly valued and protected.
- Ensure cash and other asset accounts are reconciled.
- Ensure investments are safe and in accordance with adopted investment policy.
- Ensure city assets are protected against loss, misappropriation, or theft.
- Ensure inventory items are available when needed for use.

Policies

- All bank account statements (checking, savings, investments, etc.) are reconciled to the general ledger accounts within 30 days of the date of the statement.
- All bank accounts are appropriately collateralized. Bank accounts maintained in the State Collateral Pool are classified as "Public" on the bank's records.
- All bank accounts are held in financial institutions under the city's name and only authorized employees (two signatures required) are allowed to open new accounts at institutions authorized via Ordinance of the Board of Commissioners.
- All withdrawals, checks, liquidations, etc., from any bank account require two signatures.
- All investments require two signatures.
- All depository activity is maintained in compliance with the City's Financial Policies Manual.
- Inventory records contain enough information to readily identify corresponding capital assets. Capital assets are tagged or otherwise identified during a physical inventory that is performed annually.
- Proper safeguards are in place to prevent theft or loss of assets.

Procedures

- The Finance and Human Resources Director reconciles the bank account statements to the general ledger on a monthly basis using an account analysis of each cash account.
  - *In the event the Finance and Human Resources Director is serving as interim City Manager, bank reconciliations shall be performed monthly by an independent contracted accounting professional.*

- The City Manager reviews and approves the reconciliations and any adjustments to the general ledger.

- Outstanding reconciling items aged more than ninety (90) days are reviewed by the Finance and Human Resources Director, and appropriate action is taken to resolve the items (such as voiding and re-issuing checks, remittance to the State of Tennessee of unclaimed property).
  - *Review may also be performed by an independent contracted accounting professional.*
- For new accounts, the Finance and Human Resources Director and City Manager will complete the necessary paperwork to open the new account in the city's name and ensure that the bank holds the funds in a fully collateralized account.
- The Finance and Human Resources Director will annually review the accounts for accuracy of signers and proper collateralization.
- Assets valued in excess of $500 will be appropriately marked or tagged.
- The Finance and Human Resources Director coordinates an inventory count of significant assets on an annual basis through the review process for insurance renewal. Disposal of inventory is done in a way that sensitive information cannot be retrieved.
- Insurance policies are reviewed and renewed annually for accuracy of covered assets.
- Surety bonds are renewed on an annual basis for all employees that handle cash.

Compliance

Objectives

- Ensure that state laws regarding the issuance of debt are followed.
- Ensure that state and federal grant regulations are understood and followed.
- Ensure that note disclosures in the financial statements contain all required elements.

Policies

- The city has adopted and maintains a debt management policy in accordance with state requirements.
- The Finance and Human Resources Director and City Manager consult with the city's financial advisor on all debt-related issues.
- Every department must notify the Finance and Human Resources Director when an application for 100% grant funding is submitted and subsequently awarded.
- All grants with matching requirements must be approved by the City Manager and Finance and Human Resources Director, and

subsequently approved by the Board of Commissioners, prior to submission of application.

- Once awarded, the Finance and Human Resources Director is to be notified of the project budget and detailed expenditure requirements of the grantor agency.
- The Finance and Human Resources Director must be provided with the grant contract information, grant or contract numbers, and whether the grant is state or federal funds.
- The Finance and Human Resources Director will amend the budget as necessary to accommodate awarded grant revenues and expenditures.

Procedures

- The City Manager and Finance and Human Resources Director annually review the debt management policy.
- Before the issuance of debt, the Finance and Human Resources Director consults with the city's financial advisor to determine the impact or implications to the city's financial well-being.
- Department heads are responsible for working with the Finance and Human Resources Director to submit all grant applications.
- All grant applications for grants requiring matching funds will be presented to the Board of Commissioners for approval before submission to ensure that funding will be made available.
- The Finance and Human Resources Director will determine any needed budget amendments upon receiving notice of award for any grant funds. The budget amendments will be presented to the Board of Commissioners for approval.
- Grant management responsibilities will be assigned to an appropriate employee for every grant.
- The Finance and Human Resources Director will be notified when any reimbursements have been submitted so that the revenue can be allocated to the appropriate revenue code.
- A copy of every grant application and contract will be filed with the City Recorder and secured electronically.

2. ***Management designs the City's computerized information system and related control activities to achieve objectives and respond to risks.***

   <u>**This Involves:**</u>
   - Design of the City's information system
   - Design of appropriate types of control activities
   - Design of information technology structure
   - Design of security management
   - Design of information technology acquisition, development, and maintenance

Policies:

- The Information Technology Services ("ITS") Director, with oversight by the City Manager, develops and periodically reviews and updates guidelines for information technology, including:
  - the types of computerized information required to be compiled to meet City objectives,
  - computer application controls necessary to ensure that information is valid, complete, and accurate,
  - general computer controls addressing security management procedures, contingency plans, configuration, logical and physical access,
  - information technology infrastructure needs and the controls needed to ensure that adequate resources are available to meet the reporting needs,
  - external and internal security risks and the controls necessary to limit exposure to unauthorized access, corruption of data, or other misappropriation of information, and
  - controls necessary to ensure that technology acquisition, development, and maintenance activities are authorized, necessary, and properly integrated throughout the organization.

Procedures:

- Requests for additions or revisions to the City's information systems are approved by the City Manager with consultation from the ITS Director.
- The ITS Director is responsible for new information systems hardware acquisitions and integration.
- The Finance and Human Resources Director and ITS Director ensure that accounting systems contain adequate system controls to protect against unauthorized access and use.
- The ITS Director is responsible for ensuring that information technology systems are adequate, secure, restricted to authorized use, and ultimately meet the City's information system needs.

3. ***Management implements control activities through policies.***

This Involves:

- Documentation of responsibilities through policies
- Periodic review of control activities

Policies:
- The *City of Lakeland Internal Control Manual* is reviewed and updated on an annual basis.
- The City's financial policies and procedures manual, Employee Handbook, and anti-fraud policies are reviewed annually and updated as changes are needed.

Procedures:
- On an annual basis the Finance and Human Resources Director reviews this Manual, the financial policies and procedures manual, the Employee Handbook, and the anti-fraud policy to determine if changes are needed.
- Potential changes are first presented to the City Manager for review and approval.
- Approved changes are presented to the Board of Commissioners for review and approval via resolution or ordinance, as applicable.
- Changes to information systems policies and procedures are determined by the GIS and Information Systems Director, reviewed by the City Manager, and approved by the City Manager or Board of Commissioners, depending upon the level of significance of changes or policies.

1. Information and Communication

Management is responsible for developing and providing internal and external information. This information supports the internal control system and validates its existence. There are three (3) principles related to information and communication.

1. *Management uses quality information to achieve the City's objectives.*

This Involves:
- Identifying the City's information requirements
- Gathering relevant data from reliable sources
- Processing data into quality information

Policies:
- On a regular and recurring basis, management (department heads and the City Manager) –
  - o reviews and documents the information requirements to achieve key objectives and address the risks of the City,
  - o reviews and documents changes that occur in the City's objectives and the related changes in information requirements,
  - o identifies and evaluates the reliability and timeliness of relevant data from both internal and external sources, and

  o reviews and evaluates whether data has been processed into quality information that allows management to make informed decisions and evaluates whether the City is achieving its objectives.

Procedures:
- Changes to information requirements and methods of delivery are reviewed and approved by the City Manager prior to implementation.

2. ***Management internally communicates the necessary quality information to achieve the City's objectives.***

This Involves:
- Intentional communication throughout the City
- Deciding appropriate methods of communication

Policies:
- Management has clearly defined lines of communication through policy manuals and organizational charts
- Management communicates the types of information required to achieve objectives and address risks
- Internal control documents and related reports are available to all staff in an appropriate method based on confidentiality and relevance to job responsibilities
- Appropriate information delivery systems have been determined for changes and updates
- Reports containing personally identifiable information or other protected or confidential information are available through communication methods that restrict internal and external access
- New employee orientation, annual human resources training, and the Employee Handbook are used to reinforce memo, email, internal network, and restricted communications

Procedures:
- The City maintains financial data in a computerized accounting system. Requests for financial information should be provided through a computer-generated report to maintain the integrity of the data.
- Any requests for data maintained in the city's asset management computerized system will be provided through a computer-generated report from that system to maintain the integrity of the data.
- The city complies with the Tennessee Public Records Act, Tennessee Open Meetings Act, and observes the guidelines provided by the Office of Open Records Counsel.
- All requests for information or records will be forwarded to the City Recorder to ensure compliance with state law.

- The City will redact all personally identifiable, confidential, or protected information in accordance with state law.
- Management clearly defines the lines of communication through policy manuals and organizational charts.

3. ***Management externally communicates the necessary quality information to achieve the City's objectives.***

This Involves:
- Intentional communication with external parties
- Deciding appropriate methods of communication

Policies:
- Management has developed policies and procedures for the communication of information with external parties in compliance with the Tennessee Public Records Act, Tennessee Open Records Act, and other applicable federal, state, or local requirements.

Procedures:
- All requests for information or records will be forwarded to the City Recorder to ensure compliance with applicable laws.
- The City will redact all personally identifiable, confidential, or protected information in accordance with state law.

2. Monitoring

Things change - the Operating Environment, Laws, Accounting Principles, Technology, Resources, and People, etc. For this reason, internal control policies and procedures must constantly be monitored and improved or updated. There are two (2) principles related to monitoring.

1. ***Management has established and operates monitoring activities to monitor the internal control system and evaluates the results.***

   This Involves:
   - Determining issues and deficiencies in the current internal control system
   - Testing the internal control system against the intended design
   - Evaluating the results of the monitoring tests and making necessary improvements or updates

   Policies:
   - The *City of Lakeland Internal Control Manual* is reviewed and updated on an annual basis to ensure that the City's objectives, risks, and control activities reflect current practice and are adequate.

   Procedures:
   - On an annual basis the Finance and Human Resources Director reviews this Manual and ensures that the objectives, risks, and control activities reflect current practice and are adequate – this includes:
     - o The periodic review of significant purchases for the completion of required purchase orders, reviews, and approvals
     - o Determining whether corrective actions or plans are needed for control failures
     - o Determining whether the design of the internal control system needs to be changed or updated
     - o Evaluating whether internal controls have been implemented but not documented and adding those controls to this Manual
   - The Finance and Human Resources Director presents needed changes in the internal control system to the City Manager for approval

2. ***Management remediates identified internal control deficiencies on a timely basis.***

   This Involves:
   - Reporting internal control issues and deficiencies to the responsible management representative
   - Management should document reported internal control issues and deficiencies and evaluate each issue for corrective action

- Actions should be taken to correct audit findings and other issues and deficiencies
- This may require action by the Board of Commissioners

Policies:

- The *City of Lakeland Internal Control Manual* addressing ongoing monitoring activities and requires corrective action plans be developed for identified failures in the internal control system.
- Audit findings and other significant findings are presented to the Board of Commissioners, along with management's recommended corrective action plans for oversight and approval.

Procedures:

- Management annually evaluates the state of the internal control system and determines any deviations from the designed criteria and the current condition of the system.
- Management makes a decision on whether to change the design of the internal control system or implement corrective actions to improve the effectiveness of the existing system.
- Members of management will periodically review the procedures outlined in this manual to ensure that policies are being implemented and objectives are being met.
- Financial reports will be generated monthly and reviewed by those in a position of authority over financial operations. Those in a position of authority include, but are not limited to, the Finance and Human Resources Director, City Manager, and Board of Commissioners.

INTERNAL CONTROL MANUAL

Summary

The framework of this manual complies with the state requirements and was created using the GAO Green Book as guidance. This manual will be reviewed annually and updated as needed. All employees of the City of Lakeland will be required to abide by the policies and procedures outlined in this manual, as well as any corresponding state laws. The manual will be made available electronically and in paper form.

The City of Lakeland will abide by the *Internal Control and Compliance Manual for Governmental Entities and other Audited Entities in Tennessee* issued by the Comptroller of the Treasury.

Supplementary Information

TN Comptroller of the Treasury
http://www.comptroller.tn.gov

Internal Control and Compliance Manual (12/2015)
https://www.comptroller.tn.gov/content/dam/cot/la/documents/manuals/2015_ICCManual_Complete_redesign-Final.pdf