

## **Introduction**

In 2015 the Indiana Legislature passed, and the governor signed, Indiana Code 5-11-1-27 establishing Uniform Internal Control Standards for Indiana Political Subdivisions. The Homecroft Town Council and Town Officials embrace this initiative to promote the stewardship of community funds, government accountability and transparency.

Homecroft was settled in 1923 and incorporated in 1951. The Indiana State Legislature consolidated the local city and town governments with the new Marion County government Unigov in 1970. Homecroft became an "included town" under the Unigov system. "Included Town" meant the town continued to offer some direct services to residents while conceding others to the consolidated Indianapolis-Marion County governmental unit. The Town maintained specific services including police protection, and maintenance of roads and streets.

The way to describe the scale of Homecroft's local government is "small." It has approximately 750 residents and 6.2 miles of paved streets. The town has one full-time employee, the Town Marshall, and all its other police officers are part time reserve officers. An elected part-time Clerk-Treasurer handles all the financial transactions and record keeping for the town. There are four elected council members with the Council President responsible for overseeing the town finances. Having many tasks consolidated into very few people presents a daunting task in establishing meaningful controls. Separation of duties, a key to internal controls, is challenging such limited personnel. However, the town's size provides advantages as well. Income and expense flows are quite predictable and significant variations within the financial statements are easily recognized.

Homecroft's Town Council is committed to protecting the assets of the community, effective governance and transparency. The standards and procedures adopted by the Town of Homecroft includes: (1) Control of the Environment, (2) Risk Assessment, (3) Control Activities, (4) Information and Communication, and (5) Monitoring.

## **Control Environment**

The Homecroft Town Council is responsible for establishing an oversight committee to ensure Homecroft's commitment to integrity and ethical values. This oversight committee will consist of: 1.) Town Council President, 2.) Clerk/Treasurer, 3.) Town Marshall, 4.) Town Legal Advisor, and any additional member specifically designated by a majority of the Council.

The Oversight Committee shall demonstrate that same commitment to integrity and ethical values. It shall oversee the design, implementation, and operation of Homecroft's internal control system. The Oversight Committee will work with the Town Marshall and other Town Managers to establish an organizational structure, assign responsibility and delegate

authority to achieve Homecroft's objectives. The Police Commissioner who is a member of the Town Council is appointed by the Town Council to oversee the Police Department. The Town Marshall assumes the responsibility for managing the part time reserve officers. The Street Commissioner assumes management responsibility over any other part time employees, of which there are currently zero. Included in these management duties are recruitment, training, mentoring and retention of personnel.

The Oversight Committee, along with the above Managers, are jointly responsible in evaluating performance and holding individuals accountable for their internal control responsibilities.

## **Risk Assessment**

The Town of Homecroft faces risk of loss from a myriad of sources that can adversely affect its ability to meet its objectives. These losses can be tangible such as a storm, fire or other natural catastrophe destroying town property, or intangible, such as a loss of public trust resulting from a dereliction or malfeasance of duty. Such risk can arise from an internal source such as an employee theft or an external force, such as a hacker gaining access to Homecroft funds.

A first step in the process of managing these risks is to define the level of risk of loss that Homecroft can tolerate. This is done by establishing the deductible levels of the Town's insurance coverages. Homecroft has also adopted a materiality ordinance for reporting of losses and or misappropriation of funds to the State Board of Accounts. If a loss of a single erroneous irregular variance, shortage, or theft of cash exceeds one thousand dollars, or the series of such losses exceeds one thousand dollars. Any erroneous, irregular variance, shortage, or theft of non-cash items in excess of one thousand dollars are also to be reported to the State Board of Accounts.

Physical risks to Homecroft assets include fire, windstorm, earthquake, flood, collapse, theft and associated perils to buildings, personal property in facilities, and personal property in the open. Also included is damage to vehicles and their contents by collision and comprehensive perils. Roads and other infrastructure are subject to collapse, erosion and general deterioration.

Homecroft also faces risk of loss through litigation. Basis of litigation losses can include allegations of negligence, personal injury, employment practices, police liability and the wrongful acts of Homecroft's elected officials and/or its agents.

Numerous risks to the Town are the result of continuous operations of the town as an ongoing enterprise and the political environment. Employees regularly face job related injuries, none more so than paid and reserve police officers. Negative publicity and public opinion can bring devastating results. Funding cuts by the state, city, or county government could threaten or destroy financial viability. Significant changes in key relationships such as with the Department of Public Works, Indianapolis Fire and the Indianapolis Metropolitan Police Department, to name a few, are risks. Sudden erosion of the Homecroft tax

base could present significant material reductions in available funds, limiting services the town normally provides.

Potential for fraud presents a substantial risk of loss which this document is designed and required to focus on. Types of fraud fall into three broad categories. These are:

- I. Misappropriation of Assets: Thefts of Homecroft's assets can include theft of property, embezzlement of receipts, or fraudulent payments.
- II. Corruption: This source of risk includes bribery, nepotism, ghost employment and other illegal acts.
- III. Fraudulent Financial Reporting: This is a risk of intentional misstatements or omissions of amounts or disclosures in financial statements. This can include intentional alteration of accounting records, misrepresentation of transactions, or intentional misapplication of accounting principles.

Related to fraud is the risk of loss that exists with waste, extravagant spending, or expending resources carelessly. Additionally, misusing authority or position for personal gain may not necessarily involve fraud or illegal acts but impedes the Town from meeting its goals and obligation to its citizens. Factors that increase risk of fraud and related losses include incentives, pressure, opportunity and rationalization.

Once identified, the Homecroft Oversight Committee along with Management will determine the best method of managing that risk. This includes:

- I. Mitigation: This includes actions taken to reduce the risk or to eliminate it. Examples of mitigation are safety programs, training programs, physical safety equipment, rules and procedures changes, or changing and or eliminating the process causing risk and any other action that results in reduced probability in frequency and severity of loss.
- II. Risk Transfer: This action eliminates the risk of loss to Homecroft by contractual transferring that risk to an insurance carrier or other third party. Hold harmless and indemnification agreements are typical tools used in risk transfer.
- III. Acceptance: No action is taken as the risk is within our acceptable threshold or unavoidable. Examples of risk accepted by Homecroft include road and sidewalk deterioration. Other risks that fall under "acceptance" include unavoidable risks for which there is no insurance market or ability to transfer contractually. Actions by the state legislature that reduce funding are an example of this category of risk.

Risks are never static. The Homecroft Oversight Committee and Management are to monitor and respond to significant changes that could impact the internal control system.

## **Control Activities**

The Town of Homecroft has implemented control activities to mitigate risks and protect assets. These can best be analyzed under two categories; 1.) Homecroft Police Department and 2.) Activities of the Clerk/Treasurer and Town Council.

The Homecroft Police Department consists of a full time Town Marshall, and approximately fifteen (15) reserve officers, unpaid volunteers. Most of the personal property owned by the Town of Homecroft is police related including autos, radios, uniforms, weapons and miscellaneous equipment. Most human resource issues are related to the police department.

Controls in effect for the department include:

- I. Detailed Rules and Regulation Manual defining ethical expectations, procedures, job requirements, rules of conduct, asset protection, administrative provision and disciplinary actions are received and signed off on by every Officer. All police officers refer to and review this manual throughout the year.
- II. Police vehicles are checked regularly, expected to be neat and clean with regular maintenance documented.
- III. Officers receive all state mandated training and other additional training as the Town Marshall deems necessary or advisable. Meetings are held as needed for all Officers to address specific topics. All training sessions are recorded and documented with the Indiana Law Enforcement Academy.
- IV. An annual meeting addressing personal use of town assets including updating the computerized log with an annual inventory of all town assets.
- V. The Town Marshall must approve all departmental purchases, select vendor, review and sign off any invoices before they are submitted to the Clerk-Treasurer and Town Council for payment.

In addition to the above control activity, the Town Marshall is responsible for implementing and documenting numerous employment policies. These include:

- I. Written job descriptions for all positions.
- II. Detailed descriptions of all training completed by each Officer and maintained in that Officer's Training file.
- III. Written evaluations of job performance on a regular, annual basis for every Officer and addressing any skill deficiency.
- IV. Address any violations of departmental regulations and implement a graduated disciplined policy.

- V. Maintain all employee files in a locked cabinet with access limited to the Town Marshall and as may be required for town administrative necessities.

Controls related to non-police activities include those involving the Clerk-Treasurer and Town Council Members. Many of these address transactional risks of disbursement and receipting activities. Also addressed are ethical expectations of each official.

The key to fiscal controls is segregation of duties. This presents an extreme challenge to Homecroft as its size, and state statutes, dictates that most financial transactions are handled by a single Clerk-Treasurer on a part time basis. The Town attempted to mitigate this deficiency by involving the council and, as required by state statute, approve all expenditures monthly.

The Clerk/Treasurer is expected to reconcile all bank statements, review all disbursements and receipts and prepare a proforma cash projection for the entire council on a regular basis.

Key internal control measures in place for the Town of Homecroft (non-police) include:

- I. The Clerk-Treasurer and the Council President each and independently balance all banking statements with the state mandated Financial Accounting System.
- II. The Clerk-Treasurer and the Council President each have access to Homecroft's online banking system for Homecroft and no one else should have authorized access.
- III. A majority of council members have to review and approve each invoice and sign off on all checks issued.
- IV. Council must pre-authorize any expenditures except those occurring monthly or those designated as emergency repairs.
- V. The Council President reviews the Town of Homecroft's financial activity on a regular basis (bi-monthly) comparing actual activity to budgeted receipts and expenditures.
- VI. The town maintains no petty cash fund.
- VII. The town issues credit cards to monitor town expenditures.
- VIII. The Clerk-Treasurer dates and initials all mail received. All paper checks are to be endorsed immediately with "For Deposit Only" or stamped with a "Deposit Only" stamp. Any receipts must be listed on the "Receipt" log and deposited within one working day. This log is to be provided to the Council President for monthly review.

- IX. If cash is received (very rarely), the cash must be documented on the receipt log, a cash receipt must be generated and signed by the individual paying or giving cash and the Clerk-Treasurer. A copy must be retained with the receipt log.
- X. Clerk-Treasurer to examine bank statements and cancelled checks to be certain checks are not issued out of sequence. Any discrepancies will be brought to the attention of the Council President.
- XI. Blank checks maintained in locked desk or file cabinet.
- XII. Voided checks must be defaced, retained and audited semi-annually.
- XIII. Invoices to be marked with paid, paid date, transaction number, check number, stapled to signed invoice/voucher and maintained in secured file cabinet. Homecroft Town
- XIV. Council requires strict adherence to budgets.
- XV. Material variance policy is in place and monitored.
- XVI. Misappropriation of funds policy is in place and monitored.
- XVII. Homecroft makes no expenditures for political purposes, contributions to political campaigns or parties.
- XVIII. Surveys taken at the January Regular Council Meeting of all council members and Clerk-Treasurer regarding possible conflicts of interest and nepotism. These surveys are maintained by the Clerk-Treasurer.
- XIX. Detailed minutes of all meeting are maintained and available for public review.

## **Information and Control Management**

Town government exists to serve the needs of its constituents. The Town of Homecroft depends upon accurate information to make decisions that allow it to meet its objectives. Once this information is received, it needs to disseminate the data internally so that it is available to all stakeholders making various decisions. A third major step in this process is constantly sending out quality information to outside parties. These can be regulatory agencies but most vital is effectively communicating with the citizens of the community.

Homecroft does not maintain a significant infrastructure for data management. Physical assets used to process information include one outdated personal computer for the Clerk Treasurer and several personal computers used by Officers in their police duties. The

town relies on web based applications of state and private organizations for many of its needs. Of course, face to face, written memos/documents, telephone conversations and electronic mail all are employed as means of communication.

How does Homecroft management receive information and verify its accuracy? Much of the data it relies upon comes by the internet from various state agencies. The State Board of Accounts provides internet access to its data for guidelines, procedures and its staff that our Clerk-Treasurer regularly uses. The Department of Governmental Local Finance provides access to a wide array of data -bases that are accessed and used in most financial decisions. "The Statehouse Files" outlining changes or potential in state statutes is sent to Homecroft by the newsroom in the statehouse. All council members and the Clerk Treasurer regularly receive periodic newsletters from the elected officials whose districts include Homecroft and Homecroft's representation on the Indianapolis Marion County City County Council.

The Homecroft Police Department also receives regular communications from various federal state and local agencies. Highly classified data is received from the Indiana Fusion Center through a protected e-mail connection. These are particularly vital in today's environment of severe threats of bodily harm to our Officers and their families. Officers are also connected to the IDEX and the ZClient systems of the Indiana State Police. These data basis allow for individual Officers to use in car laptops to obtain a myriad of data during traffic stops and in pursuing potential arrestees. The Homecroft Police Department works closely with Indianapolis Metropolitan Police Department, the Marion County Sherriff's Department and other local, state and federal law enforcement agencies. This means monthly, weekly and even daily updates on activity in the Indianapolis area, Officers also monitor the IMPD's district radio broadcasts in real time. The department also receives a monthly e-mail briefing from the Marion County Prosecutor's Office.

A second source of regular information is private companies, vendors and, trade associations. All the town's financial transactions are processed and recorded through "Net Results," a state mandated financial software system provided by the vendor, TOM'S Reporting. TOM'S Reporting works closely with the State Board of Accounts and includes any changes the State Board of Accounts dictates. The Clerk-Treasurer accesses Net Results via a secured internet connection using an individual password. The Clerk Treasurer is currently in the process of adding system access to the Council President on a "read only" basis. All of this data is maintained off premise and backed up at a separate location. The Clerk/Treasurer receives monthly checking and money market account statements and provides the Council President a duplicate copy. Both the Council President and Clerk /Treasurer have a "real time" access to the Town's online banking system. Passwords are individual and not shared.

All council members and the Clerk/Treasurer receive regular updates from the Indiana Association of Cities and Towns on various issues including changes in procedures and laws. Council members and the Clerk/Treasurer avail themselves of the offerings from IACT for both in-person and online seminars. Homecroft's Street Commissioner monitors the ACT

daily bulletin board for items that may be useful to the town's management. The Clerk/Treasurer receives regular updates from the Indiana State Clerk Treasurer's Association. Robert Lutz, Homecroft's outside counsel, provides pertinent information to council members and the Clerk/Treasurer via both email and at meetings.

The third broad source of outside information is the citizens of Homecroft themselves. The town has worked diligently to maintain this important line of communication. The town's website, Town of Homecroft, is maintained and asks for input from anyone on concerns or suggestions they might have.

The Homecroft Street Commissioner maintains a dedicated phone line for citizens to report needed repairs to streets and sidewalks. All council members and the Clerk -Treasurer have been issued town business cards containing their phone and email contact information. Each is encouraged to attend local functions and visit local

businesses and distribute the cards. Finally, the Council President sets aside time at each council meeting for "Public Comment." People are encouraged to provide their input and concerns on any topic they feel is appropriate to make Homecroft a more livable, enjoyable community.

Internally communicating quality information is dynamic and a continuous process. Methods of communication are varied, including verbal, electronic, written and formal exchanges. Special care is given by council members to assure that such communication is conducted within the framework of the Indiana Open Door statute. Outside council is consulted to verify compliance as necessary.

The crux of internal communication is the monthly council meeting. This meeting is advertised and open to any member of the public. The Council President prepares a monthly meeting agenda with the input from council members, the town attorney, Homecroft's Town Marshall the Clerk/Treasurer and other interested stakeholders. The agenda is distributed to all of the above parties, posted in the town meeting room and available to all in attendance.

The first order of business is distribution of the minutes of the previous meeting to all attending. Council members are asked to verify the accuracy of the documents and vote on their approval. These minutes are then organized by the Clerk/Treasurer into binders and are maintained in the town hall for council reference and public review. The second order of business is the distribution and review of monthly financial reports. These reports are prepared by the Clerk/Treasurer and previously reviewed by the Council President for accuracy. After review by the entire council, and any appropriate discussion, the minutes are then formally approved. These are also maintained for any interested citizen's review in the future.

Continuous communication on behalf of the town occurs outside the formal structure of organized meetings. Regular in-person meetings, as may be necessary, are held between the Clerk/Treasurer and Council President to discuss financial matters. Council Committee Chairmen regularly exchange information with both internal and external parties in the course of their duties.



The Homecroft Police Department provides monthly updates of activities and issues to the council at the monthly meetings. The Department also has prescribed information and communication procedures for internal business, Reserve Officers receive regular briefings. Written directives are posted to a bulletin board advising all officers of specific data necessary for the safe execution of their duties.

The Clerk/Treasurer is charged by state law with maintaining all the town's records except those pertaining to the Police Department. These records are maintained on site with no effective back up. As mentioned before, financial data is maintained off site and backed up. There is no formal retention policy for either the town or the Police Department. Individual communication records of the Clerk/Treasurer and council members are not monitored or controlled in any way.

The Police Department has a social media guideline while the remainder of the town does not. The lack of retention policy, lack of controls of individual communication records, and lack of a social media policy for council members will be reviewed by the Internal Control Committee and remediation adopted as appropriate.

The third aspect of information and communication management is Homecroft's communication of quality information to outside parties.

Many of the methods Homecroft uses to communicate information to outside parties is determined by statute. Financial reporting requirements are determined by both the State Board of Accounts and the Department of Local Government Finance (DLGF). Budget documentation is submitted through the state "Gateway" portal and is available for the public to view. Significant contracts also must be submitted to the DLGF and entered into the Gateway portal. Various proposed ordinances must be published for public review before adopted. Requests for bids are routinely advertised, even if they fall under the state statute's threshold requirement. Any material variances are submitted to the State Board of Accounts based upon the adopted Variance Statute.

A more difficult communication challenge is getting quality information about Homecroft out to its citizens. Earlier, information flow during the monthly meeting was highlighted. All interested citizens are invited to attend any of these meetings and receive the same information provided to council members. These meetings are advertised as prescribed. Signs are placed around town to advertise both regular meetings and special events. The town and the Police Department each maintain websites where citizens can go and obtain news and pertinent information.

Homecroft enjoys being a small town with a very close relationship with all its citizens. Accurate information and communication of this information is a key component of this council.

### **Monitoring and Conclusion**

The final component of the Uniform Internal Control Standards requirement is monitoring the activities of town officials for compliance. This also includes periodic review of the internal controls and procedures themselves for deficiencies.

The responsibilities for monitoring lies with all council members and town officials. All stakeholders of the town of Homecroft are encouraged to report internal control issues to any member of the Internal Control Oversight Committee. Stakeholders include town officials, employees, citizens, outside vendors and contractors, state agencies and any other party interested in the good governance of Homecroft. Particularly valuable is the input of external reviewers such as the State Board of Accounts as they conduct their evaluations and audits.

The Internal Controls Oversight Committee will also meet annually to review all control activities and identify deficiencies. Such deficiencies should be documented, evaluated and remediated in a timely basis. Such controls that may be desirable but not practical should be noted and re-evaluated on a regular basis. The Clerk-Treasurer will provide and maintain minutes of each committee meeting.

Once an internal control or procedure deficiency is identified, that committee member will then forward a written or electronic summary of the noted issue to all members of the committee. Depending on the issue it may also be necessary to report the issue to an outside party. Items that require to be reported to outside agencies include illegal acts and fraud or theft in excess of the materiality threshold,

Once reported to the committee, the committee chairman will determine what process is appropriate to remediate the deficiency. Appropriate response can be as simple as a documented discussion with a town official or may require a special Internal Controls Oversight Committee meeting and subsequent board action.

Management of the town of Homecroft is committed to providing proper governance and oversight of its community through proper internal control standards and procedures using the components of: (1) Control Environment, (2) Risk Assessment, (3) Control Activities, (4) Information and Communication and (5) Monitoring.