

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 1**

**GENERAL**

---

---

- Section 1      Municipal officials should separate duties of employees so that no one person has control over a complete transaction from beginning to end. Work flow should be established so that one employee's work is automatically verified by another employee working independently. When possible, different persons should be responsible for the authorization, recordkeeping (posting), custodial (cash and materials handling), and review procedures, to prevent manipulation of records and minimize the possibility of collusion. When adequate segregation of duties is not possible, management/board oversight should be increased to provide reasonable assurance that errors, irregularities or fraud are prevented or detected and corrected in a timely manner. Such oversight would include, but not be limited to, the review of bank statements, cash receipts and cash disbursements summaries as well as the related supporting documentation, and analysis of monthly reports.
- Section 2      Municipal officials should ensure that qualified individuals are hired and that appropriate training is provided.
- Section 3      Municipal officials should have adequate surety bond coverage for all officials and employees.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 2**

**BOOKS AND RECORDS**

---

---

Municipal officials should ensure that a management level employee periodically reviews:

- Section 1 the cash receipts journal, cash disbursements journal, general ledger, and subsidiary ledgers to ensure that they are in balance.
- Section 2 bank statements and the related reconciliations to determine that they are accurate and all activity is authorized and properly recorded.
- Section 3 journal entries to determine that they are appropriate.
- Section 4 the minutes of actions taken by the governing body to determine that they are kept together and are complete and that actions taken are implemented and/or being accounted for as applicable.
- Section 5 codified ordinances to ensure that they are up-to-date.
- Section 6 the reporting process and relevant computer programs to determine whether they need to be updated, upgraded or modified.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 3**

**EXTERNAL FINANCIAL REPORTING  
GENERAL**

---

---

Section 1      Municipal officials should ensure that a contract to audit accounts is executed before the end of the fiscal year, to accommodate a timely audit. To facilitate this, an individual should be assigned to either begin the contracting process or notify the board when it is time to begin the contracting process, generally at least 3 months prior to the end of the fiscal year. A sample copy of the contract can be found on the web at:

<http://tn.gov/comptroller/ma/contract.htm>

The current contract is expected to be executed through the Comptroller's Contract and Report System (CARS), which can be accessed on the web at: [https://www.comptroller1.state.tn.us/RA\\_Upload/](https://www.comptroller1.state.tn.us/RA_Upload/).

Municipal officials should consider utilizing a request for proposal to evaluate independent audit firms. A sample request for proposal can be accessed in the *Audit Manual*, Appendix E, which is located on the web at:

<http://tn.gov/comptroller/ma/auditmanual.htm>

Section 2      The year end closing activities necessary to produce financial reports for audit purposes should be concluded as soon after the fiscal year end as is practicable.

Section 3      Municipal officials should either hire or contract with individuals (other than those conducting the audit) who have the expertise necessary to take responsibility for the annual financial report. Auditors for the municipality can not maintain their independence under current standards if municipal officials can't take responsibility for the annual financial report.

The annual financial report should be submitted through CARS by the audit firm in an electronic format. The format should be user friendly, which includes the use of bookmarks, internal document links, or other similar features.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 4**

**FINANCIAL REPORTING  
STATE STREET AID FUND**

---

---

Section 1      Assign an individual to review legal requirements, at least annually, to determine if there have been any changes with regard to (1) allowable state street aid expenditures or (2) reporting requirements surrounding state street aid revenue and expenditures.

Section 2      Assign an individual(s) who is familiar with the legal requirements and who is independent of the purchasing and record keeping responsibilities for state street aid, to review the financial reports and expenditures to ensure that they comply with those requirements.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 5**

**FINANCIAL REPORTING  
DRUG FUND**

---

---

- Section 1      Assign an individual to review legal requirements, at least annually, to determine if there have been any changes with regard to (1) allowable drug fund expenditures or (2) drug fund reporting requirements.
- Section 2      Assign an individual(s) who is familiar with the legal requirements and who is independent of the purchasing and record keeping responsibilities for the drug fund, to review the financial reports and expenditures to ensure that they comply with those requirements.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 6**

**FINANCIAL REPORTING  
MUNICIPAL SOLID WASTE ACTIVITIES**

---

---

- Section 1      Assign an individual to review legal requirements, at least annually, to determine if there have been any changes with regard to accounting and reporting for solid waste activities.
- Section 2      Assign an individual(s) who is familiar with the legal requirements and who is independent of the purchasing and record keeping responsibilities for solid waste activities, to review the financial reports and expenditures to ensure that they comply with those requirements.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 7**

**FINANCIAL REPORTING  
TELECOMMUNICATIONS AND  
CABLE TELEVISION, INTERNET, AND RELATED SERVICES**

---

---

- Section 1      Assign an individual to review legal requirements, at least annually, to determine if there have been any changes with regard to accounting and reporting for telecommunications, cable television, internet and related activities. (*TCA 7-52-601 et al*)
- Section 2      Assign an individual(s) who is familiar with the legal requirements and who is independent of the purchasing and record keeping responsibilities for telecommunications, cable television, internet and related activities, to review the financial reports and expenses to ensure that they comply with those requirements.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 8**

**FINANCIAL REPORTING  
UTILITIES**

---

---

- Section 1      Assign an individual to review legal requirements, at least annually, to determine if there have been any changes with regard to accounting and reporting for water, sewer, gas, electric, or other utility activities.
- Section 2      Assign an individual(s) who is familiar with the legal requirements and who is independent of the purchasing and record keeping responsibilities for water, sewer, gas, electric, or other utility activities, to review the financial reports and expenses to ensure that they comply with those requirements.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 9**

**FINANCIAL REPORTING  
MISCELLANEOUS**

---

---

- Section 1      Assign an individual(s) to compile, review and summarize grant information throughout the year to ensure that the schedule of expenditures of federal awards and state financial assistance is complete and accurate.
- Section 2      Assign an individual(s) to maintain information regarding debt issues and the related amortization schedules to ensure that information necessary for note disclosure and supplemental schedules is readily available, complete and accurate.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 10**

**RECORDS MANAGEMENT**

---

---

- Section 1      Assign an individual to review legal requirements and retention guides published by Municipal Technical Advisory Service (MTAS) and the Comptroller's office, at least annually, to determine if there have been any changes with regard to records management requirements.
- Section 2      Assign two individuals to prepare, at least annually, a detailed list of records that are ready for destruction. The list should be reviewed by management and approved for destruction. The means of destruction, date, items destroyed, individuals involved, and approval should be adequately documented.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 11**

**CASH**

---

---

Municipal officials should ensure that:

- Section 1 collections are deposited daily, if possible, but no more than three business days after the initial collection, as required by state law. Municipal collections should never be taken home by any municipal employee or official.
- Section 2 collections are deposited intact. Intact means that collections are deposited in the form and amount in which they are collected. All money collected must be deposited in the next deposit. No collections should be withheld from the deposit for any reason.
- Section 3 all cash maintained on hand and collections not yet deposited are kept in a secure location.
- Section 4 all “seized” cash should be promptly deposited after consultation with and concurrence of the prosecutor.
- Section 5 deposit slips are completed in duplicate at a minimum. All checks should be listed individually on the deposit slip or an attached list, itemizing the name of the payer and the amount. The receipt numbers comprising the deposit should be written on the deposit slip. The validated duplicate deposit slip or the duplicate deposit slip with deposit receipt attached must be retained.
- Section 6 all money is disbursed by prenumbered checks (except from petty cash accounts authorized by the governing body). Checks must not be signed in advance of their preparation and issuance. Checks must not be made payable to “Cash” or “Bank” if intended for cash.
- Section 7 two authorized signatures are required for all checks. Authorized signature cards at the bank must be current. Before signing checks, each signatory should review adequate supporting documentation (such as vendor invoices, purchase authorizations, etc.).

Signature stamps, if used, must be safeguarded by the official. Signature stamps intended for administrative purposes only, such as for letters, etc. must also be safeguarded.

If a municipality wishes to use on-line banking, they will need to confirm with the bank that they have a method in place that requires transactions to

be authorized by two individuals before they can be processed. If the bank does not have a method that effectively requires two individuals' authorizations to execute a transaction, the municipality should not use on-line banking for payments.

Section 8 voided checks are defaced and retained.

Section 9 bank statements are reconciled with the cash balances presented in the accounting records (general ledger). Bank reconciliations should be prepared within 30 days after the bank statements are received from the bank. Canceled checks must be retained on file with the applicable bank statements for future reference and audit purposes and should not be filed with paid invoices or purchase authorizations.

NOTE: Although by state law canceled checks must be maintained, because of current national legislation canceled checks may not be available. If imaged statements are issued, the municipality should require the bank to include both the front and back of each check and deposit slip, and require that the images be of such quality and size that they are clearly legible.

When imaged copies are not included with the bank statement, the municipality should either request the bank to send the copies to the municipality, download copies from the bank's website, or determine an alternative way to obtain adequate supporting documentation for canceled checks and deposit slips.

Any alternative must meet the following criteria: (1) be cost effective; and (2) provide timely access to the documentation. Additionally, front and back copies are required regardless of the method used to obtain the copies or the format of the copies (paper or electronic).

Section 10 the municipality ensures that bank accounts are classified as "public" accounts. If any other classification is used, the accounts will not be considered eligible for collateralization. If the depository is a part of the Bank Collateral Pool, accounts not identified as "public" will not be included in calculating collateral requirements of the Pool and money may not be adequately secured.

Section 11 the municipality complies with state statutes governing collateralization of municipal deposits. These statutes generally require collateralization of 105 percent (105%) on all deposits above the FDIC/FSLIC insured amounts. Personnel in depository institutions and the municipality's attorney should be consulted to determine that collateral agreements, trustee custodian agreements, and the type of security being held is in accordance with all applicable legal provisions.

NOTE: In 1995, the State of Tennessee Treasury Department implemented the Bank Collateral Pool as an efficient, cost effective, and safe alternative for securing public funds. Participation in the Collateral Pool relieves the municipality of most of the responsibility for ensuring collateral compliance since the collateral function is centralized in the State Treasurer's Office. For additional information regarding collateral requirements and the State of Tennessee Bank Collateral Pool, municipalities may contact the State Treasurer's Office, Division of Cash Management, (615) 532-1168 or visit their website at <http://www.tn.gov/treasury/> .

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 12**

**PETTY CASH AND CHANGE FUNDS**

---

---

Municipal officials should ensure that:

- Section 1 petty cash accounts are authorized by the governing body and checks are written to the petty cash custodian to establish the petty cash fund. Each such “account” consists of an authorized, fixed sum of money set aside as an asset for the purpose of making miscellaneous purchases and making advances for emergency travel needs.
- Section 2 petty cash disbursements are made only as needed and that an invoice/receipt accompanied by a petty cash voucher, prepared in ink, showing the items purchased, and signed by the person receiving the cash, is required in each case. The amount of cash on hand and petty cash vouchers and related invoices/receipts written must total to the originally authorized amount of the funds.
- Section 3 when the available cash has been reduced to an amount insufficient to meet routine requirements, a check is written to replenish the cash. The check, made payable to the petty cash custodian, should be delivered to the petty cash fund cashier to be cashed at the bank. The total amount reimbursed will be separated into amounts to be charged to each of the applicable expenditure accounts.
- Section 4 someone other than the person responsible for handling the petty cash fund inspects, approves, dates, initials, and marks each voucher “PAID” to prevent reuse. Municipal officials should enforce the following restrictions:
- a. The petty cash fund should be maintained at the lowest amount possible and should be replenished only after the strictest scrutiny of all supporting documentation for the petty cash disbursements.
  - b. Under no condition should the petty cash fund be commingled with personal funds of a city official or employee or used to cash personal checks or to make advances to employees.
  - c. Since checks to replenish the petty cash fund are charged to the expense accounts represented by the petty cash vouchers, the only entries to the petty cash fund asset account would be to establish the fund, increase or decrease the fund, or to close the fund.

- d. Receipts from vending machines and other miscellaneous services should be recorded and deposited like other revenue and not maintained as a petty cash fund or used for miscellaneous purposes.

Section 5      an established amount is maintained for change. Collections should be reconciled each day and amounts over or short, if any, should be accounted for in the accounting records and deposited if applicable (in the accounting records as a revenue for over and as an expense/expenditure for short). Established change funds should never be used to absorb amounts over or short.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 13**

**INVESTMENTS**

---

---

Municipal officials should ensure that:

Section 1 investments of municipal money maximize earnings and comply with state statutes and municipal investment policies. Investment options include savings accounts, certificates of deposit, short-term treasury bills and certificates, deposits in the Tennessee Local Government Investment Pool, etc. Additional guidance regarding investments can be found at <http://tn.gov/comptroller/lf/>.

NOTE: Tax-free bonds are often not considered to be good investments since the tax-free feature carries a lower interest rate. Consideration should be given to the safety of the investment and to liquidity as well as to the rate of return.

Section 2 the municipal investment policy addresses the municipality's strategies, goals and procedures. The policies and procedures should include, but not be limited to:

- authorizing individuals (purchasing, selling, roll-over, physical security)
- investment types
- requirement to annually review laws and regulations to determine if there are changes that affect the municipality
- cash forecasting requirements in determining investment options
- requirement to deposit investment proceeds, including cash received from matured certificates of deposit, into municipal accounts.
- investments that must be approved by the Comptroller (repurchase agreements), including Comptroller approved forms.

Section 3 personnel maintain an investment record card or a similar record listing the essential features of each investment, including the following:

- a. date of purchase
- b. description (or bank name) and identification number of each security
- c. interest rate
- d. original cost
- e. fund or funds providing the excess cash for investment

- f. maturity date of the investment
- g. date of and amount at termination (cashing) of investment and use of proceeds (reinvestment, deposit into municipal bank accounts, etc.)

Section 4 personnel safeguard all securities by depositing them in a safe-deposit box with access restricted to dual control by two responsible officials.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 14**

**REVENUES/RECEIVABLES  
GENERAL PROCEDURES**

---

---

Municipal officials should ensure that:

Section 1 responsibility for each step of cash handling and recording is clearly established. If possible, the employees who receive cash collections (cashiers) should be different from those who maintain the books and records (bookkeepers).

Section 2 prenumbered receipts for each revenue source are issued as required by Sections 9-2-103 and 104, *Tennessee Code Annotated*, and all unused or voided receipts are accounted for. Prenumbered receipts issued should be detailed to adequately identify and/or document the payment source, payment date, method of payment (cash or check), purpose of payment, if needed, etc. Collections from customers evidenced by stubs from utility bills and property tax bills do not require an additional receipt. However, if the bill is not presented with payment, the cashier should prepare a duplicate bill to be retained as the receipt. Each bill stub should be stamped or marked "PAID," dated by the cashier, and marked to identify whether the form of remittance is cash or check. The stubs should be organized by date of payment/deposit (See Section 11 of this Chapter) and retained.

NOTE: Anytime custody of money changes from one employee to another, the money should be counted by both employees. A prenumbered receipt or other document recording the count should be prepared and signed by BOTH EMPLOYEES INDICATING CONCURRENCE WITH THE AMOUNT TRANSFERRED. This document should be retained by the individual turning the money over.

Section 3 the payment date and amount is recorded for each individual account in the property tax roll or utility billing register on a timely basis.

NOTE: The billing registers and tax rolls should be posted no more than three working days after related collections and deposits.

Section 4 all mail is delivered intact (unopened) to two or more designated employees. The designated employees should immediately open the mail and prepare a list of all money/checks received in the mail. All checks should be stamped "FOR DEPOSIT ONLY." The money/checks received through the mail should be given to the cashier, who should give the persons opening the mail a

prenumbered receipt. The prenumbered receipt should be attached to the list prepared by the employees opening the mail.

Section 5 at the end of the day, the cashier counts the cash and checks on hand, leaving only the predetermined amount for change. The change should be kept in a secure location.

Section 6 each day the cashier summarizes all cash collections by source and fund on a daily collection report, clearly indicating the amount to be deposited, the amount retained for change, and the amount of cash over or short. Each report should be dated, and the date should be recorded on the corresponding deposit slip. The total on the corresponding deposit slip as well as the total of all applicable prenumbered receipts should agree with the total collections recorded on the daily collection report. The cashier should write the receipt numbers applicable to each collection source on the daily collection report and sign the report. Each cashier should be assigned a separate cash drawer that is accessible only to that cashier. A daily collection report should be prepared by each cashier which is then consolidated for the daily report to be sent to accounting for recording the activity.

Section 7 deposit slips are completed in duplicate (at least). Regardless of whether the remittance is received by mail or paid directly to the cashier, each check should be listed individually on the deposit slip or an attached list, itemizing the name of the payer and amount.

Section 8 collections are deposited daily, if possible, but no more than three business days after the initial collection, as required by state law. The bank's night depository should be used, if necessary, to avoid large accumulations of currency overnight.

Section 9 collections are deposited intact and only in designated depositories. Intact means that collections are deposited in the form and amount in which they are collected. Employee and third party checks must not be cashed through the cash drawers. No collections should be withheld from the deposit for any reason.

Section 10 at the end of each day, all prenumbered receipts, billing stubs, tax receipts, and other evidence of collection are turned over to the bookkeeper for posting.

Section 11 duplicate, prenumbered receipts are marked and property tax receipts and billing stubs are filed according to the deposit to which they correspond.

Section 12 all appropriate filings have been made, in accordance with *TCA 47-10-119*, if taxes, fees, fines, etc. are collected by accepting credit or debit cards.

Section 13 fees are assessed which are sufficient to cover the fees charged to the municipality when credit or debit cards are accepted for payment of taxes, fees, fines, etc.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 15**

**REVENUES/RECEIVABLES  
GOVERNMENTAL FUNDS**

---

---

**Business Tax, Business Licenses, and Other Permits**

Municipal officials should ensure that:

- Section 1 for business tax and business license collections, an alphabetical record (or other method which allows individual licenses to be readily located when needed) is maintained, preferably by the building inspector or someone outside the city recorder's office. The record should include the following details:
- a. the business name, address, and telephone number
  - b. the name and home address of the business manager or owner
  - c. the various license and tax requirements which apply to the business and the applicable dates that payments are due
- Section 2 business tax and business license enforcement procedures are established. Information on new businesses and on business ownership changes should be obtained from observations by police officers and building inspectors, utility billing changes, newspaper and telephone advertising, and state sales tax department data.
- Section 3 collections of the business tax, regulatory license fees, and permit fees are recorded on prenumbered forms designed for the specific purpose, using similar internal control procedures as for other cash receipts.
- Section 4 collection of business tax and regulatory license and permit fees is continuously and systematically enforced out of fairness to the reputable business operators who pay willingly. A numerical and alphabetical record of permits and fees issued should be maintained to facilitate accounting for all permits and locating records by licensee, as needed.

**Property Tax**

After assessment of property to establish the tax rate base, the legislative body must pass an annual tax levy ordinance to set the tax rate. The tax levy ordinance merely authorizes collection of the tax to provide resources to

finance budget appropriations. The tax levy should not be allocated to special purposes to any extent not required by law.

Municipal officials should ensure that:

- Section 5 each step of the taxation process is in strict compliance with applicable law. A receivable for property tax should be recognized on the balance sheet as of the enforceable claim date, which is the lien date (January 1 in Tennessee).
- Section 6 additions and deletions to the tax rolls are supported by appropriate documentation from the tax assessor's office.
- Section 7 when tax collections are received, the tax receipt is marked paid, dated, and signed by the person collecting. One copy of the property tax receipt is given to the taxpayer, one copy is filed numerically, and one copy is filed by date paid. Daily tax collections should be summarized in total by levy year on the daily collection report, with penalties recorded separately.
- Section 8 at least annually, each year's property tax receivable balance per the general ledger is reconciled to the total amount of unpaid accounts per the tax roll and to the total amount of the unpaid tax receipts. This reconciliation should be documented.
- Section 9 each property tax payment is promptly posted on the applicable tax roll.
- Section 10 a delinquent tax notice is published in the local newspaper at least one month before the delinquency date.
- Section 11 delinquent tax notices, showing the amount of tax, interest, and penalty due for each year of unpaid taxes, are mailed to all applicable taxpayers soon after the delinquency date. Extra effort should be made to obtain correct ownership and address information and to remind taxpayers of the additional cost of penalty and interest accruing.
- Section 12 procedures are established and followed to make sure that delinquent property tax is collected, including authorizing the sale of property, if necessary. No apparent authority exists under Tennessee law to waive or forgive property tax. State statutes should be followed in determining whether a municipality may collect its own delinquent taxes or if they should be turned over to the county for collections. Regardless of the method, detailed records of delinquent taxes turned over for collection should be maintained. Subsequent collections should be properly recorded in the accounts and noted as collected on the delinquent tax lists.

### **Traffic Citations and Court Collections**

- Section 13 Effective control of the financial aspects of traffic violations requires strict adherence to internal control procedures. *Tennessee Code Annotated*, Section 55-10-208 states:

(a) Every law enforcement officer in this state who is authorized to issue traffic citations may use a uniform traffic citation form prescribed by the department of safety.

(b) The department is authorized and directed to promulgate a uniform traffic citation form which may be used exclusively by all law enforcement officers and agencies in this state in issuing citations for traffic law violations.

The form developed by the department of safety is a four-part form, that all municipalities are encouraged to use. However, at a minimum, the municipality must use a prenumbered three-part form for traffic violations. A two-part prenumbered parking ticket is recommended for use by police officers when citing vehicles for parking violations.

Municipal officials should ensure that:

Section 14 physical control of unissued traffic ticket citations or parking tickets is maintained. Each police officer should be required to sign for each book of prenumbered traffic ticket citations or parking tickets when issued by the designated employee.

Section 15 a municipal court docket (a listing of all cases heard in municipal court) is maintained and that dispositions (judgments) are recorded on the court docket.

Section 16 when a four-part traffic ticket is issued to a violator, one copy is given to the violator, one copy remains with the police officer, and two copies are given to the city court clerk, or to the employee or official responsible for maintaining the court docket. One of those copies is the "court" copy. The person responsible for maintaining the court docket should post the violation to the court docket and file the ticket numerically. The posting to the court docket should include the ticket number.

when a three-part traffic ticket is issued to a violator, one copy is given to the violator, one copy remains with the police department, and one copy is given to the city court clerk, or to the employee or official responsible for maintaining the court docket. The person responsible for maintaining the court docket should post the violation to the court docket and file the ticket numerically. The posting to the court docket should include the ticket number.

Section 17 prenumbered receipts are issued for all payments of fines prior to court date. The violator's copy of the traffic ticket or parking ticket should be stamped "paid." The prenumbered receipt should include the ticket number. The violator's copy of the traffic ticket should be attached to the clerk's copy, filed numerically, and the payment information posted to the court docket.

NOTE: The posting to the court docket should include the receipt number. The municipality should use a system that allows easy retrieval of information by payee name but that also provides adequate evidence to demonstrate that all tickets and receipts are accounted for (i.e., receipts maintained by number.)

Section 18 prenumbered receipts are issued for bail posted for court cases. Bail should be held in trust in the municipality's bank account until the verdict is rendered and bail is forfeited or returned to the accused.

Section 19 court cases for which fines are not paid prior to court date are tried by the city judge. To ensure that all cases are heard, all citations and corresponding dispositions should be included in the court docket. The judge should sign the record of all dispositions (tickets).

Section 20 fines and costs assessed and collected are recorded in the court docket after judgment is rendered. Required refunds of bail should be made by check. Prenumbered receipts should be issued for collections in court, and the number of the prenumbered receipt should be posted to the court docket. Ticket numbers should be included on the prenumbered receipt.

Section 21 the amount due the State of Tennessee for state fines collected, including litigation tax, is paid and the special reports required by the state for violations requiring revocation of the driver's license are filed timely.

Section 22 additional efforts are initiated to collect all outstanding fines.

Unpaid fines should be reported to the state Department of Safety. *Tennessee Code Annotated*, Sections 55-50-503(b) and 55-50-502(a)(1)(H) and (I), authorize the Department of Safety to suspend driver's licenses for various reasons, including an individual's failure to pay traffic fines.

*Tennessee Code Annotated*, Sections 55-10-306, require the "... magistrate or judge of the court or clerk of the court of record in which the conviction was had or bail was forfeited shall prepare and immediately forward to the department an abstract of the record of the court covering the case in which the person was so convicted or forfeited bail, which abstract must be certified by the person so required to prepare the same to be true and correct. Report need not be made of any conviction involving the illegal parking or standing of a vehicle."

Section 23 the responsible police officer is contacted for missing traffic citations or parking tickets.

Section 24 police officers issue property receipts for all seized property.

Section 25 the police department maintains a file of all arrest reports. Periodically, a designated employee not involved in police department recordkeeping should review arrest reports and list all seized property, including money, vehicles,

drugs, jewelry, and other property. Items on the list should then be followed up to determine disposition.

Section 26 the police department maintains a log listing all seized and “found” property, and documents on the log the handling and disposition of the property.

There are times when the police department will temporarily have in its possession firearms, cash or other property that will be returned to the owner. Adequate documentation for the receipt and return of such property should be maintained. In addition, the police department should have policies and procedures in place to ensure that such assets are adequately safeguarded.

Section 27 personnel follow up all municipal cases referred to the county or other courts.

Section 28 designated personnel follow procedures set forth in state law to annually inventory and destroy applicable confiscated drugs and other property no longer needed as evidence in court proceedings.

Some property items, such as some firearms, may not be required to be destroyed. Adequate documentation of any sale, trade or use within the police department of such firearms should be maintained, including the required court order (*Tennessee Code Annotated*, Section 39-17-1317). If the firearms are destroyed, adequate documentation of the destruction process must be maintained.

**Traffic Citations - Surveillance Camera (additional requirements only)**

Section 29 an employee of the police department reviews the video evidence from a traffic light monitoring system and makes a determination as to whether a violation has occurred.

Section 30 notification of violation or a citation is sent by first class mail to the registered owner of the vehicle captured by the traffic light signal monitoring system.

Section 31 payment from the citation is received within 30 days of the mailing of the notice or that a second notice is mailed that provides for an additional 30 days for payment.

Section 32 payment from the citation is received within 30 days of the second mailing.

**Additional Revenues Not Discussed Above**

Many municipalities collect and receive revenues not specifically discussed in this title. These may include state street aid monies, intergovernmental receipts, grants, franchise fees, hotel/motel tax, vending machine collections or commissions, reimbursements from vendors, fire department call fees, mowing fees, etc. The list is practically endless. For these and all revenue

sources, including note proceeds and interfund transfers, general procedures set forth in this title should be followed. In addition, municipal officials should ensure:

- Section 33 that for collections expected by specified dates, such as franchise fees, hotel/motel tax, commissions, etc., a record is maintained of expected payment dates. Late collections should be followed up immediately.
- Section 34 that personnel maintain records of all billable services (mowing vacant lots, making fire calls, etc.) provided by the municipality. Payments should be recorded on the record and unpaid amounts should be periodically followed up.
- Section 35 for franchise fees based on a percentage of gross receipts and other similar revenues, the municipality should periodically review the franchise records or perform alternate procedures to independently verify that amounts received are correct.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 16**

**REVENUES/RECEIVABLES  
PROPRIETARY FUNDS**

---

---

Municipal officials should ensure that:

Section 1 utility meters are read monthly (or bimonthly, if desired) and the meter reading is recorded in the meter route book. The meter route book sheets should be arranged in the order in which the meters are read. The sheets should be compared periodically to the meter deposit record to ensure that all services are metered and that all meters are being read.

NOTE: Municipalities doing their own billing instead of using a commercial billing service should consider using a specialized computer software program to prepare the necessary two or three-part bills, customer ledger, and receipts. Also, the program should accumulate the total amount of user charges, consumption statistics, and the amount of sales tax payable.

Section 2 the total number of gallons of water pumped through the master meter (and listed on the bill, if water is purchased) is compared with the total number of gallons sold and the number of gallons estimated to be in storage, to identify any loss in transit. Unexplained fluctuations should be investigated to ensure that users are billed for total consumption and that malfunctioning meters and leaks in lines and mains are located promptly and repaired.

Section 3 charges disputed by customers are investigated and adjustments are approved, in accordance with the municipality's policy, by someone other than the bookkeeper handling receipt and payment records.

NOTE: Adjustments should never be made by the employee who collects or posts the accounts as paid. If the municipality utilizes a computer system, the employee who collects or posts should not have access to that portion of the computer system that allows adjustments.

Section 4 documentation of each adjustment is required and retained. Adjustments to billings for meter reading and other errors should be recorded in the billing register. All adjustments to customers' bills should be approved by the governing body or its designee.

Section 5 all applicable late payment charges are recorded. A listing of the amounts of accounts receivable from the prior month's utility billing sheets should be prepared.

Section 6 delinquent accounts receivable and penalty charges are listed in the utility billing sheet arrears column and added to the current month's billing.

Section 7 an application for utility service is completed for each new meter connection. The applications should be maintained in an alphabetical file as an index of utility customers. Each application should show the:

- customer's name;
- customer's address;
- account number;
- meter number and location;
- date;
- amount of the deposit and/or tap fee and related receipt number(s);
- deposit refund and related check number (if applicable); and
- customer's signature.

A copy of the application and a receipt for the deposit should be given to the customer. At least annually, municipal personnel should document a reconciliation of the total amount of deposits per these detailed records with the amount shown on the general ledger.

Section 8 a customer's refundable meter deposit is applied to the final billing and any remaining balance is refunded. A record (including customer's name) of any unpaid charges should be retained for future collection effort.

Section 9 if accounts remain unpaid on the municipality's cutoff date, service is discontinued in compliance with the municipality's written policy. (The cutoff policy should be adopted by the governing body, recorded in the minutes, and included in the municipality's policy manual.)

Section 10 the total amount of the unpaid individual accounts on the utility billing sheet is reconciled to the applicable general ledger account total at the end of each month.

If the billing system is not integrated into the accounting system, additional steps to perform the reconciliation will be required. This reconciliation should be performed periodically, but not less than once a year.

- begin with audited balance of accounts receivable
- add billings per the billing system
- deduct adjustments (approved by the board)
- deduct and document any other reconciling items
- deduct cash collections per bank deposits (tied to the daily cash collections report)
- compare calculated accounts receivable to accounts receivable per the billing system
- investigate any difference and document the resolution

Section 11 refundable customer deposits for customers who are no longer receiving service, and returned vendor or payroll checks that the municipality does not

refund are handled as unclaimed property. Municipal officials should ensure that the municipality complies with the Uniform Disposition of Unclaimed Property Act as set forth in Sections 66-29-101 through 66-29-153, *Tennessee Code Annotated*. This act requires every entity holding the unclaimed property of an owner who has not corresponded with the entity within the statutory period to file an annual report with the state treasurer. Reporting packets and information can be obtained and downloaded from the Unclaimed Property Division's website at

<http://www.tn.gov/treasury/unclaim/index.html> .

For questions not answered on the website, the division can be contacted at (615) 741-6499.

NOTE: Each year, municipalities should inquire with the division and determine whether property owed to the municipality has been filed by other entities. In addition, municipalities are allowed to request (by formal resolution each year) the state to return custody of certain unclaimed property previously filed by the municipality.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 17**

**EXPENDITURES/PAYABLES  
INTRODUCTION**

---

---

One of the most significant activities of any municipality is purchasing. There are many laws and regulations, federal, state, and local, that govern how a municipality may make purchases and the purposes for which money may be expended. Additional constraints are imposed by budgets, contracts, debt covenants, and grant agreements. **One of the foundational requirements of state law is that all expenditures of money made by a municipality must be made for a lawful municipal purpose (TCA 6-56-112).**

The remaining chapters of this title address:

- purchasing policies;
- general procedures (from the initial decision to purchase something to the final receipt and payment for the goods, services or capital assets that were acquired);
- proper handling of payroll;
- inventory;
- capital assets;
- debt service;
- computer controls;
- compliance;
- certain special purchasing restrictions and requirements.

Municipal officials should become familiar with the operating environment immediately upon assuming office. In addition, they should ensure that adequate training is provided for employees to ensure that they are kept up-to-date on new legislation and other matters that affect how, when, what, where, and from whom purchases may be made. Without such training, it is impossible to reasonably ensure that the purchasing process as well as the purchase itself complies with all applicable requirements.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 18**

**EXPENDITURES/PAYABLES  
POLICY**

---

---

Section 1     The governing body, by ordinance, should establish a purchasing policy. The policy should comply with the requirements of the Municipal Purchasing Law of 1983, Sections 6-56-301 through 6-56-306, *Tennessee Code Annotated*, or applicable charter provisions or private act requirements governing competitive bidding and purchasing. The procedures enumerated in this chapter are the minimum that should be included in the policy.

The municipality's purchasing policy should:

Section 2     designate persons authorized to make purchases who have the authority to determine that (1) the item/service is necessary, (2) the quantity/times requested is appropriate, (3) the expenditure is authorized by the budget (when applicable) and (4) does not exceed budgeted amounts and, (5) when related to grant contracts, meets the requirements of the grant contract.

Section 3     require use of prenumbered purchase authorizations/orders for purchases over a predetermined amount.

Section 4     outline alternate procedures for emergency and small-item purchases, if needed (i.e., purchases authorized to be made without approval).

Section 5     require approval of prenumbered purchase authorizations/orders by the finance officer or his designee to indicate that the expenditure is appropriate and authorized under the budget appropriation.

Section 6     designate individuals who are authorized to make purchases with municipal debit or credit cards. Clearly define the types of purchases permitted to be made using debit or credit cards. Such purchases must be approved in the same manner as any other purchase. If municipal officials authorize the use of credit and/or debit cards, the number of cards maintained should be kept to a minimum and should be properly accounted for. A record of the current holder(s)/user(s) should be maintained in the municipality's files. Personal charges should be strictly prohibited.

Section 7     require competitive bids for purchases over a stated amount, including management services for construction projects.

- Section 8 require that personnel retain sufficient documentation to substantiate that required competitive bids were requested. When a contract is not awarded to the lowest bidder, the reasons should also be documented in the minutes.
- Section 9 require legislative-body approval of any lease-purchase contracts which would extend beyond the current fiscal year.
- Section 10 require that when competitive bids are necessary, personnel do the following:
- a. write the specifications and advertise for bids
  - b. mail the specifications and bid requests to prospective bidders
  - c. maintain complete records of any bid deposits received
  - d. advertise the bid opening/award in a local newspaper at least one week prior to opening
  - e. hold a public bid opening/award at the time and place announced
- Section 11 require that the appropriate municipal official(s) and the successful bidder sign a written agreement after the contract is awarded. A copy of the signed contract should be maintained in the municipality's files. The purchasing policy should require that bid deposits be returned to unsuccessful bidders after the contract is signed.
- Section 12 require for those purchases not subject to a competitive bid that the person authorized to make purchases obtain price quotations and avoid any purchase contracts which may involve a potential conflict of interest on the part of a public official. The municipal purchasing policy should require that a written record be retained when quotations are obtained.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 19**

**EXPENDITURES/PAYABLES  
GOODS AND SERVICES**

---

---

Municipal officials should ensure:

- Section 1 that personnel or officials receiving goods or services purchased by the municipality sign delivery receipts, invoices, or other supporting documentation to verify that items and services for which the municipality has been billed have actually been received and accepted. The documentation should be sufficient to determine that the expenditure was for a municipal purpose. Expenditures for food, mileage, etc., generally will require additional notations to indicate the purpose, date and any other pertinent information regarding expenditures for such items.
- Section 2 that the request for payment (statement) from the vendor is compared to the individual invoices on file. Payment should never be based on a statement only. The testing of prices, extension of amounts, and addition of the total invoice should be required. In addition, timely payment should be made to avoid penalties.
- Section 3 that personnel cancel each page of supporting documentation, including purchase authorizations/orders before the checks and documentation are submitted for approval and signing. Supporting documents should be canceled by writing the check number, amount, payment date, and account to be charged on the first page of documentation and stamping "PAID" on all other pages.
- Section 4 that supporting documentation is filed alphabetically by vendor or by date paid.
- Section 5 a designated employee or official reviews all checks prior to being signed to establish the propriety of each disbursement and to be certain the purchase has not previously been paid. The designated employee or official should document on the invoice the review and approval.
- Section 6 the use of consecutively prenumbered checks on protected paper to avoid erasures. Both the checks and attached documentation should be submitted to the designated officials for examination and signature. Municipal officials should require two signatures on all checks and should never sign checks in advance of their preparation and issuance. Checks must not be made payable to "Cash."

**NOTE: All disbursements, regardless of the accounting procedures, must be supported by invoices, cash tickets, or other adequate supporting documentation. The documentation should be sufficient to determine that the expenditure was for a municipal purpose. (Statements are not adequate supporting documentation.) The supporting documents should be signed by the person receiving the goods or services to verify that the municipality received and accepted the goods/services for which it was charged.**

- Section 7 that purchases made with municipal debit or credit cards are approved in the same manner as any other purchase. All invoices from the vendor (duplicate copy of the credit or debit card transaction and the detailed invoice when a separate detailed invoice is returned with the summary debit or credit card receipt) must be maintained and included with the reconciliation of the credit card statement or bank statement.
- Section 8 the use of prenumbered work order forms to document all non-administrative jobs performed by municipal employees. The work order information should include the date, nature and location of the job, specifications of the work to be performed, and a job number which can be used to accumulate the related labor, materials, and equipment costs.
- Section 9 that all expenditures for labor and parts for routine maintenance or repair of vehicles or equipment be supported by a maintenance log system. The log should list the date of service or repair, the name of the employee performing the work, all materials and parts used, the mileage of the vehicle at the time of service, and the vehicle identification number.
- Section 10 that supporting documentation for fuel purchases, when the municipality maintains its own bulk fuel tanks, includes a reconciliation of the amount of fuel used to the amount of fuel purchased.
- Section 11 that when firearms are purchased for police officers and the officers are required to reimburse the municipality, the following procedures are followed:
- a. The municipality should make firearm purchases for police officers on a first-time basis only.
  - b. The municipality should pay for all purchases of firearms by check made payable to the vendor.
  - c. The municipality should record the firearms purchased on a detailed list, including serial numbers.
  - d. The amount of reimbursement should be recorded by the municipality in the general ledger as an "Account Receivable-Other," with the amount due from each officer recorded in a subsidiary ledger account. The balance should be reduced as payments are made by the individuals

who received the firearms or when deductions are made from the individuals' pay.

Section 12 that detailed written travel policies are enacted and disbursements for travel and municipal vehicle usage are in accordance with the municipality's written policies.

When a travel advance is given, the amount of advance should be posted to a special subsidiary ledger as an amount due the municipality from the recipient of the advance. When the travel is completed, the advance should be reconciled to the travel claim and supporting documents. The difference should be either paid to the employee (in cases where the approved travel claim amount exceeds the advance) or collected from the employee (in cases where the advance exceeds the approved travel claim amount).

NOTE: The reconciliation of the travel expenses should be completed no more than 10 days after the travel is completed. Even for accountable plans, there are payroll tax consequences for travel claims that are not submitted within a reasonable period of time after the travel.

State law requires all municipalities with populations of 100,000 or less to file all travel and expense reimbursement policies and any amendments with the Office of the Comptroller. As an alternative to writing its own policy, the municipality may adopt the model travel policy, dated February 11, 2005, provided by the Municipal Technical Advisory Service. When a municipality chooses to adopt the MTAS model travel policy, written notice should be sent to the Comptroller. The notice should include the resolution adopting the policy.

NOTE: If any modifications are made to the MTAS model policy, the resulting policy will not be considered to be the MTAS model policy, and the entire policy must be filed with the Comptroller of the Treasury.

Sections 6-54-901 through 6-54-907, *Tennessee Code Annotated*, provides that municipal legislative bodies must adopt an ordinance if the municipality wants to reimburse officials and employees whose salary is set by charter or general law for expenses incidental to holding office. The law requires that a written travel policy be enacted setting forth what expenses are reimbursable and how they should be reimbursed. Expenses for reimbursement must be reported on a standardized form in sufficient detail to determine allowability. In addition, adequate documentation must be required and maintained to support the expense report.

Section 13 that a federal Form 1099 is prepared and sent to the Internal Revenue Service for each noncorporate recipient of the municipality's money during a calendar year. (Contact the IRS for the current reporting limit.) This requirement applies to service providers and consultants under contract, as well as to any other nonpayroll, noncorporate recipients.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 20**

**EXPENDITURES/PAYABLES  
RESTRICTIONS – STATE STREET AID FUND**

---

---

- Section 1 Proceeds from the state gasoline taxes are distributed by the State of Tennessee monthly to each eligible municipality. Municipal officials should ensure that the municipality expends such funds only for one or more of the purposes listed in Section 54-4-204, *Tennessee Code Annotated*.
- Section 2 Additional information on the allowable and unallowable uses of state street aid funds can be found in the publication, *State Street Aid Fund Revenues and Expenditures: On the Road to Understanding*, revised in 2007 by the Municipal Technical Advisory Service, Conference Center Building, Suite 120, Knoxville, Tennessee, 37996-4105, (865) 974-0411. This publication can also be accessed at the MTAS web site at <http://www.mtas.utk.edu> .

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 21**

**EXPENDITURES/PAYABLES  
RESTRICTIONS – DRUG FUND**

---

---

- Section 1     The chief law enforcement officer and the mayor of a municipality shall recommend a budget for the special revenue fund, to be approved by the legislative body of the municipality according to law. Expenditures from the special revenue fund are subject to the availability of funds and budgetary appropriations for the expenditure and may be used only for certain purposes specified in state law. (*TCA 39-17-420*)
- Section 2     All expenditures from this fund should follow the same guidelines and regulations as any other expenditures of the municipality.
- Section 3     The chief law enforcement officer or his designee may request money from this fund for undercover investigations.
- Section 4     Section 39-17-420(e), *Tennessee Code Annotated*, provides for the development of procedures for handling undercover transactions. Those procedures are included in the “Procedures for Handling Cash Transactions Related to Undercover Investigative Operations of County and Municipal Drug Enforcement Programs”, issued by the Comptroller’s office in January 1991, and accessible from the Comptroller’s web site.  
(<http://tn.gov/comptroller/ma/confmanual.htm>)

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 22**

**PAYROLL AND RELATED LIABILITIES**

---

---

Section 1 Precise maintenance and centralized control of payroll records is essential, even in the smallest municipality, because of social and labor legislation and the complex accounting and reporting problems involved.

Municipal officials should ensure that:

Section 2 prospective employees prepare an employee application form listing the applicant's experience, job qualifications, and references.

Section 3 each employee file a current Internal Revenue Service Form W-4 withholding exemption certificate.

Section 4 current information is maintained for each employee. The information, whether maintained in a paper or electronic format, should include the following:

- a. name
- b. mailing address
- c. telephone number
- d. social security number
- e. number of exemptions claimed (from W-4 or W-4E)
- f. marital status and spouse's name, if applicable
- g. date of birth
- h. authorized rate of pay (referenced to the statutory and budgetary authorization)

NOTE: Detailed pay rate listings by employee classification should be included as supplementary schedules to support salary appropriations in the budget.

- i. date of original employment

j. authorizations for insurance, retirement and charitable deductions

Section 5 a cumulative employee leave record is maintained for each employee including salaried employees who earn any kind of leave. The record should clearly show all leave of any type earned and taken for each pay period, all paid and unpaid absences, and the current leave balance.

Section 6 each newly hired employee files a current employment eligibility verification (Form I-9).

Section 7 the following payroll procedures are performed:

- a. Time cards, weekly time reports, or other labor records are processed by inserting and extending pay rates.
- b. Overtime and gross earnings for the period are calculated, and the expenditure accounts charged are noted.
- c. From the tables in Internal Revenue Service Circular E (IRS Publication 15), income tax withholdings are determined, and other deductions for each employee are calculated. This document is accessible on the web at <http://www.irs.gov/> in the publications section of the site.

NOTE: Time cards or honor system time sheets (approved by department heads) should be maintained for all employees in order to eliminate unauthorized pay and repeated tardiness. Also, when applicable, union regulations and federal law, such as the Davis-Bacon Act, the Fair Labor Standards Act, and others, should be considered in pay rate determination.

Section 8 check amounts for salaried employees are calculated using the authorized rates and deductions on the employee record cards. The reason for nondelivery of all unclaimed salary checks should be investigated.

Section 9 department heads promptly notify the accounting office of all employee terminations, and officials should ensure that the final paycheck is delivered directly to the terminated employee, who must furnish a forwarding address for mailing a federal Form W-2. The date and reason for termination and the address should be recorded in the employee's personnel file.

Any city property, including keys, equipment, uniforms, etc. should be turned in before the final paycheck is processed.

Section 10 social security and federal income tax payroll withholdings for the previous month are recorded on an IRS form and deposited in an authorized bank according to IRS rules. For specific information, consult a current copy of IRS Publication 15, "Circular E, Employer's Tax Guide."

- Section 11      compensation of municipal officials does not exceed authorized amounts and payment of officials complies with Internal Revenue Service Regulations, which, in most instances, requires withholding of applicable taxes.
- Section 12      Municipal officials should note that local governmental units are required to report total salaries and make payment of income taxes withheld in the same manner as other employers. Contributions for participation in the State of Tennessee Consolidated Retirement System, if authorized, should also be made to the State of Tennessee. Payment of unemployment tax may be required for some municipalities and others may have elected to make reimbursement payments in-lieu of the tax payments in accordance with the provisions of *TCA 50-7-403(h)*. Municipal officials should ensure that the method they are using is recorded in the minutes or payroll records and that all payments are made as required. Appropriate forms can be found on the web at <http://www.state.tn.us/labor-wfd/Employers/forms/form1.html> .
- Section 13      adequate provision has been made for the administration of group insurance and other employee benefits.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 23**

**INVENTORIES**

---

---

Municipal officials should:

Section 1      adopt policies and procedures that provide safeguards for inventories of materials and supplies. These policies and procedures should, at a minimum, include the following:

- a.      a requirement to inspect and count each incoming materials and supplies delivery, with the receiver signing each invoice as received and accepted
- b.      a requirement that all materials and supplies are stored in designated areas that are protected against unauthorized withdrawals and other losses
- c.      a requirement that scrap materials that have a known salvage value are safeguarded until sold and that the proceeds from the sale of scrap are handled in the same manner as other cash receipts
- d.      inventory levels to be maintained
- e.      a requirement that work orders be used to support usage (reduction) of inventory balances (e.g., utility pipe, meters, etc.).

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 24**

**CAPITAL ASSETS AND EXPENDITURES**

---

---

Municipal officials should:

- Section 1 require that all capital assets be identified (tagged or marked), and recorded immediately following the purchase of such items. Vehicles and equipment (backhoes, mowers, etc.) should have the municipality's name or seal clearly displayed. The asset record should be retained at the municipality and should include up-to-date purchase and disposal information. An annual physical inventory should be performed, documented, and reconciled to the property records. Capital assets acquired with grant funds should be adequately identified to ensure that they are maintained, accounted for and disposed of in accordance with the terms of the grant.
- Section 2 require that a record of moveable, high-risk, sensitive property, such as TVs, cameras, chainsaws, tools, lawn mowers, and small office machines, as well as furnishings and works of art, be established and maintained. An annual physical inventory should be performed and documented in the municipality's records. All such items should be tagged or marked to identify them as municipal property immediately following the purchase of such items.
- Section 3 establish useful lives of water and wastewater systems. The Tennessee Wastewater Financing Board has adopted the following guidelines for evaluating the useful lives of assets of water and wastewater systems. The useful lives of assets should not exceed the appropriate guidelines listed below.

<u>Asset Account</u>	<u>Years</u>
Office Furniture and Fixtures	10
Office Building	40
Equipment and Tools	10
Transportation Equipment	5
Pumps and Treatment Equipment	10
Well/Dam	Engineer's Estimate
Plant Buildings	40
Lines and Storage	40-50
Sewer System	40-50

Section 4 ensure that all capital assets are adequately insured. Municipal officials should analyze risk exposure, assess the municipality's ability to absorb losses and structure their insurance purchases accordingly.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 25**

**DEBT AND DEBT SERVICE EXPENDITURES**

---

---

Municipal officials should ensure that:

- Section 1 the municipality's credit is not given or loaned to or in aid of any person, company, association or corporation except upon an election to be first held by the qualified voters of such county, city, or town and the assent of three-fourths of the votes cast at said election. An example of such credit is loans to private corporations.
- Section 2 all debt instruments are maintained in a secure location and are available for inspection, audit, and planning purposes.
- Section 3 before entering into a debt agreement, the board (as documented in the minutes) and the Comptroller (Division of Local Finance) have approved or reported on the issuance of the loan or bond.
- Section 4 any interfund or interdivisional loans are approved by the Comptroller's office.
- Section 5 reserve accounts are established as required by the loan agreement.
- Section 6 debt payments are made on a timely basis.
- Section 7 if the debt involves federal loan funds, the municipality includes such funding on the schedule of federal and state assistance and informs the audit firm of such funding.
- Section 8 an individual is assigned to review, at least annually, contracts, bond covenants, laws and regulations regarding debt to ensure that the municipality is in compliance with all current debt provisions and that new provisions have been identified to ensure on-going compliance.
- Section 9 check cashing for checks drawn on accounts other than those owned by the municipality, salary advances and similar activities are not in the best interest of the municipality and require the municipality to accept a certain level of risk of nonpayment. To avoid taking additional unnecessary risks, municipalities should not engage in such practices.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 26**

**POLICE DEPARTMENT CONTROLS  
- MISCELLANEOUS**

---

---

The specialized activities of a municipal police department present very sensitive and significant control needs. Confiscation of drugs, capital assets, and other evidentiary items presents unique control concerns. Municipal officials should ensure that:

- Section 1 detailed records of confiscated drugs and other inventory (e.g., guns) should be maintained. Sufficient evidence regarding the destruction of such drugs should also be prepared and retained for future reference, including:
- a. specific items being destroyed
  - b. date of destruction
  - c. persons witnessing the destruction
  - d. method of destruction
- Section 2 evidence rooms are adequately secured and only authorized individuals have access to the locations.
- Section 3 evidence logs are maintained which include:
- a. description of evidence and related case number/identification, name of individual placing evidence, date, time, and location in evidence room
  - b. name of individual removing evidence
  - c. date and time of removal
  - d. date and time of return
  - e. signature of individual removing and returning evidence
- Section 4 original receipts given to individuals from whom the evidence was confiscated are properly filed in a secure location for future use.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 27**

**COMPUTER CONTROLS**

---

---

Section 1 For software to be adequate for use by a municipality, the following minimum controls must be present.

- a. The software must produce an unalterable audit trail.
- b. The software must generate a new receipt number when a transaction is voided (no reuse or renumbering of receipts should be permitted).
- c. Controls must be in place to reasonably ensure that developers have not left “back doors” that can be used to alter code, output, etc.

Section 2 Municipal officials should ensure that:

- a. controls are in place to ensure that only authorized individuals have access to electronic data and municipal computers (this would include passwords, access limitations, procedures to revoke authorization when employment is terminated, etc.).
- b. backups are made of all data on a regular basis and are securely stored off-site.
- c. a disaster recovery plan has been developed.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 28**

**COMPLIANCE CONTROLS**

---

---

When acquiring and utilizing computer programs for accounting, billing and other activities the municipality should ensure that proper evaluation and testing on the software is performed. Without proper evaluation and testing this creates unknown risks to the municipality. When evaluating applications that are nationally recognized this will often require less additional testing than those that are internally developed, contracted for development, or are less widely used. That is not to imply that nationally recognized applications are more reliable than others, they have just been subjected to broader testing. The broader testing of a nationally recognized application may be considered by municipalities in determining if additional testing is necessary. Municipalities should not assume that a computer application is functioning properly without proper evaluation; therefore documentation should be maintained on file to document the municipality's evaluation of the application. For applications that are modified at a later date, additional testing and evaluation will be necessary at that time.

Section 1      Municipal officials should ensure that, at least annually, a detailed review is made of all known compliance requirements. In addition, a search should be made to identify all new requirements relevant to the municipality's operations.

A review of all relevant compliance issues would include, but not be limited to:

- federal and state grant requirements
- internal revenue service requirements
- environmental requirements
- municipal court requirements
- budgeting and expenditures requirements
- financial reporting requirements
- state and federal laws and regulations
- debt issues
- trust arrangements

Section 2      Municipal officials should ensure that employees are adequately trained and aware of all relevant compliance issues.

Section 3      Municipal officials should provide policies and procedures for updating files to include the most current requirements as employees become aware of changes.

---

---

**TITLE 5**

**CONTROL ACTIVITIES**

**CHAPTER 29**

**NONPROFIT CONTRIBUTIONS**

---

---

- Section 1      Municipal officials should ensure that all organizations requesting an appropriation of funds for financial aid are either nonprofit charitable or nonprofit civic organizations (*TCA 6-54-111*).
- Section 2      Municipal officials should develop guidelines addressing the purpose(s) for which money disbursed to nonprofit organizations may be expended.
- Section 3      The city clerk should have complete files on all nonprofit organizations requesting financial assistance. Those files should include, at a minimum, an annual audit, a description of the program that serves the residents of the municipality, and the proposed use of the municipal assistance.
- Section 4      Municipal officials should ensure that notices are published in a newspaper of general circulation notifying residents of the intent to make an appropriation to a nonprofit, but non-charitable, organization. The notification should include the name of the organization and the amount of the proposed appropriation and the purposes for which the appropriation will be spent.