

STATE OF TENNESSEE

DIVISION OF MUNICIPAL AUDIT

INTERNAL CONTROL AND
COMPLIANCE MANUAL
FOR
TENNESSEE MUNICIPALITIES



PROCEDURES

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JUSTIN P. WILSON
COMPTROLLER OF
THE TREASURY

DENNIS F. DYCUS
CPA, CFE, DIRECTOR



TABLE OF CONTENTS

Preface		i
Title 1	Overview of Internal Control	1
	Introduction Integrated Framework	1
Title 2	Control Environment	4
	Chapter 1 Setting the Tone at the Top	4
Title 3	Risk Assessment	5
	Chapter 1 Identifying Risks	5
Title 4	Information and Communication	12
	Chapter 1 General	12
	Chapter 2 Books and Records	13
	Chapter 3 External Financial Reporting – General	15
	Chapter 4 Financial Reporting – State Street Aid Fund	20
	Chapter 5 Financial Reporting – Drug Fund	21
	Chapter 6 Financial Reporting – Municipal Solid Waste Activities	22
	Chapter 7 Financial Reporting – Telecommunications and Cable Television, Internet, and Related Services	24
	Chapter 8 Financial Reporting - Utilities	26
	Chapter 9 Records Management	27
Title 5	Control Activities	32
	Chapter 1 General	32
	Chapter 2 Books and Records	33
	Chapter 3 External Financial Reporting – General	34
	Chapter 4 Financial Reporting – State Street Aid Fund	35
	Chapter 5 Financial Reporting – Drug Fund	36
	Chapter 6 Financial Reporting – Municipal Solid Waste Activities	37
	Chapter 7 Financial Reporting – Telecommunications and Cable Television, Internet, and Related Services	38
	Chapter 8 Financial Reporting – Utilities	39
	Chapter 9 Financial Reporting – Miscellaneous	40

Chapter 10	Records Management	41
Chapter 11	Cash	42
Chapter 12	Petty Cash and Change Funds	45
Chapter 13	Investments	47
Chapter 14	Revenues/Receivables – General Procedures	49
Chapter 15	Revenues/Receivables – Governmental Funds	51
Chapter 16	Revenues/Receivables – Proprietary Funds	57
Chapter 17	Expenditures/Payables – Introduction	60
Chapter 18	Expenditures/Payables – Policy	61
Chapter 19	Expenditures/Payables – Goods and Services	63
Chapter 20	Expenditures/Payables – Restrictions – State Street Aid Fund	66
Chapter 21	Expenditures/Payables – Restrictions – Drug Fund	67
Chapter 22	Payroll and Related Liabilities	63
Chapter 23	Inventories	71
Chapter 24	Capital Assets and Expenditures	72
Chapter 25	Debt and Debt Service Expenditures	74
Chapter 26	Police Department Controls - Miscellaneous	75
Chapter 27	Computer Controls	76
Chapter 28	Compliance Controls	77
Chapter 29	Nonprofit Contributions	78
Title 6	Monitoring	79
Chapter 1	Functional Analysis	79
Chapter 2	Compliance Analysis	81
Chapter 3	Audit Committees	82
Chapter 4	Requirements When Unlawful Conduct (Fraud) is Discovered	83
Appendices		
Appendix A	General Report Outline	A-1
Appendix B	Schedule of Expenditures of Federal Awards and State Financial Assistance	B-1
	Schedule of Unaccounted For Water	B-2
	Schedule of Changes in Property Tax Receivable	B-3
Appendix C	Tennessee Code Annotated - Selected References	C-1
Appendix D	Attorney General Opinions – Selected Opinions	D-1
Appendix E	Emerging Issues and Current Developments	E-1

PREFACE

Section 9-2-102, *Tennessee Code Annotated*, requires the Department of Audit, Comptroller of the Treasury, to prescribe a uniform accounting system for all municipal offices that handle public funds. The statute states, “It is the duty of all officials to adopt and use the system and the character of books, reports, and records designated; . . .” An accounting system is defined as the methods and records established to identify, assemble, analyze, classify, record and report a government’s transactions and to maintain accountability for the related assets and liabilities.

To fulfill this responsibility to provide a comprehensive uniform accounting system, we are issuing the *Internal Control and Compliance Manual for Tennessee Municipalities* (the “City Manual”) dated June 2010, which replaces the City Manual dated 2009. This manual is effective upon release, except as otherwise noted. This manual sets forth guidance for establishing internal controls and identifies compliance issues related to state laws and regulations affecting municipalities. This manual is to be used in conjunction with the Government Finance Officers Association’s 2012 *Governmental Accounting, Auditing, and Financial Reporting*, (GAAFR), including all updates, except as noted below. The GAAFR is commonly known as the Blue Book.

Because of certain specialized accounting requirements, Tennessee municipalities should not use the illustrative chart of accounts in Appendix E of the GAAFR but should contact the Municipal Technical Advisory Service (<http://www.mtas.utk.edu>) for assistance when developing a chart of accounts. Unique reporting requirements applicable to the State of Tennessee, as outlined in Title 4 of this manual, may exceed the minimum requirements of the GAAFR and are required to be followed.

The City Manual provides references for *Tennessee Code Annotated* requirements and applicable state attorney general’s opinions for certain major topics. Please note that these references, which are included in the appendices, are not intended to be all-inclusive.

TITLE 1

OVERVIEW OF INTERNAL CONTROL

INTRODUCTION

INTEGRATED FRAMEWORK

Overview

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission published *Internal Control—Integrated Framework* (the COSO Report) in 1992. COSO has established a common definition of internal controls, standards, and criteria against which companies and organizations can assess their control systems. Because this framework is widely accepted, it will be used as the basis for all internal control matters related to municipalities.

Definition of Internal Control

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

- the municipality’s financial reporting will be reliable;
- the municipality will be operated effectively and efficiently; and
- the municipality will comply with applicable laws, regulations, contracts and grant agreements.

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

- Internal control is a process. It is a means to an end, not an end in itself.
- Internal control is affected by people. It is not merely policy manuals and forms, but people at every level of an organization.
- Internal control can be expected to provide only reasonable assurance, not absolute assurance, to an entity’s management and board.
- Internal control is geared to the achievement of objectives in one or more separate but overlapping categories.

Internal controls are most effective when they are built into the entity’s infrastructure and are part of the essence of the enterprise. They should be built in rather than built on. (*Internal Control – Integrated Framework*, Committee of Sponsoring Organizations of the Treadway Commission, 1994 Edition).

When management sets objectives, they can be broadly categorized into:

- Entity-wide objectives
- Activity-level objectives

Entity-wide objectives are broad statements and guidance on what the municipality wants to achieve. These objectives, as identified in this manual, are very general to encompass

many of the basic responsibilities of municipalities in Tennessee. These general entity-wide objectives should be tailored to meet the unique requirements of each municipality without abandoning the risks and related control procedures that are considered essential to all municipalities in Tennessee.

Activity-level objectives are developed out of the broad entity-wide objectives. These objectives are often stated as goals and should address all significant operating activities of the municipality. As with the entity-wide objectives, for purposes of this manual we have identified activity-level objectives which are relevant to all Tennessee municipalities. While each municipality may identify their activities in different ways, the relevant risks and related control procedures that are included in this manual, or adequate alternative control procedures, should be incorporated into the municipality's activity-level objectives.

Components of Internal Control

The COSO Report identifies five (5) main components of internal control:

1. Control environment
2. Risk assessment
3. Control activities
4. Information and communication
5. Monitoring

The control environment is the foundation for all the other components. It “sets the tone at the top”. That is, if management (the board, city administrator, etc.) views internal control as important, the rest of the organization will likely follow that same path. Control environment factors include integrity, ethical values, management's philosophy and operating style, organizational structure, assignment of authority and responsibility, and human resource policies and practices.

A precondition to risk assessment is the establishment of objectives. Once objectives have been established, risks that could impair the municipality's ability to achieve those objectives should be identified. That is, public officials should identify the factors or conditions that could occur that would cause a municipality to be partially or totally unable to achieve the objectives. Assessing the risks related to achieving those objectives is an ongoing process and is a critical component of an effective internal control system.

Control activities are management's specific policies and procedures that help ensure that the risks related to achieving management's objectives are addressed.

Information and communication systems should provide reliable reports for both internal and external purposes. The means of communicating information in the organization will significantly impact whether objectives are achieved.

Monitoring the internal control system provides assurance to management that: policies and procedures are being followed; information is being communicated accurately and timely; and, risks are being identified and appropriately addressed. In addition, it ensures that internal control continues to operate effectively, since processes, goals, and

circumstances are not static and changes in those areas will necessitate changes in internal control.

Summary

A good internal control structure is essential to providing reasonable assurance that municipalities are achieving their objectives. Such objectives include, but are not limited to, utilizing public resources in compliance with laws, regulations and budgetary limitations. An adequate control structure will provide information that helps detect errors and fraud, and provides reasonable assurance that financial reports are accurate. It will limit the opportunity for theft or unauthorized use of assets, including cash, inventory and capital assets.

The remainder of this manual is not designed to be an exhaustive analysis of the different components of internal control or a comprehensive listing of compliance requirements. Rather this manual establishes the minimum requirements of the Comptroller's office related to internal control and compliance. In developing these minimum requirements, certain objectives and risks which apply to many, if not all, municipalities have been identified. Developing an adequate internal control system requires continual analysis and modification to address changing circumstances. Municipal officials should identify and address additional objectives that are relevant to their operations.

TITLE 2

CONTROL ENVIRONMENT

CHAPTER 1

SETTING THE TONE AT THE TOP

The control environment involves much more than just setting policies, it involves communicating and enforcing those policies. Though not comprehensive, at a minimum, municipal officials should:

- Section 1 develop an employee manual that addresses:
- management’s expectations regarding business practices and ethical behavior (includes pay scales, promotions, dress code, probationary period, evaluations, conflict of interest issues, etc.)
 - job skills requirements (job descriptions, lines of authority and responsibility, certifications, education, training, etc.)
 - employee benefits (leave, flex plans, health insurance, 401k, pension, etc.)
 - disciplinary policies and procedures
- Section 2 develop a policies and procedures manual that incorporates or references all the policies and procedures required in this Internal Control and Compliance manual plus any additional policies and procedures that are specific to the municipality. The manual should include the assignment of authority and responsibility.
- Section 3 establish a simple and flexible organizational plan that clearly places responsibility for specific activities upon specified individuals. Control over the accounting function should be centralized under one official who is responsible for all recordkeeping and reporting and who has the authority to supervise the entire financial operation. Centralizing the accounting function does not eliminate the approval and custodial functions. It allows for consistent application of accounting rules and a general overall review of all activities of the municipality.
- Section 4 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.

Additional areas which should be considered are:
 Establishment of an audit committee
 Establishment of internal audit functions

TITLE 3

RISK ASSESSMENT

CHAPTER 1

IDENTIFYING RISKS

Municipal officials should have processes in place to identify potential risks due to changing circumstances. Technological developments, employee turnover, new programs, new accounting standards, new laws and regulations, economic growth and decline, and many other factors impact the adequacy of a municipality's internal control structure. Each change will present different risks that must be identified and adequately addressed. Throughout this manual, various control procedures, information and communication system designs as well as monitoring processes, are required as a result of risks that the Comptroller's office has previously identified in numerous local governments. Because those risks were not addressed, theft and other improprieties occurred and were not detected by municipal officials or were only detected after a significant amount of cash or other assets were misappropriated.

- Section 1 Municipal officials should review all operations periodically and reassess the risks related to entity-wide and activity-level objectives.
- Section 2 Municipal officials should identify risks during the planning process for all new programs, projects, and activities.
- Section 3 Municipal officials should adopt a policy defining risk management objectives and evaluating alternative methods of meeting these objectives.

Although the following example objectives are relatively generic due to the broad-based focus of this manual, they should be used as guidelines in developing specific objectives.

Entity-wide objectives considered in this manual:

Operations (O) –

- Ensure that the municipality's resources are adequately safeguarded
- Provide taxpayer services efficiently and effectively
- Limit the need for tax increases
- Provide for the long-term stability of the municipality
- Provide a stable and rewarding environment for employees

Financial Reporting (F) –

- Provide timely interim financial reports and schedules for evaluating operations
- Issue timely financial reports that comply with generally accepted accounting principles and the additional requirements of the Tennessee Comptroller of the Treasury and federal OMB Circular A-133

Compliance (C) –

- Comply with all relevant laws, regulations, contracts and grant agreements

Limited assessment of activity-level objectives considered in this manual:

Activity	Objectives	Related Entity-wide Objectives	Risks	Manual Reference for Control Activities
Internal and External Reporting	Prepare accurate and timely internal reports necessary to meet legal and organizational responsibilities	O, F, C	Incomplete or inadequate information is available	Title 4, Chapters 2, 3, 4, 5, 6 and Title 5, Chapters 1, 2, 4, 5, 6
			Records are discarded improperly or before all audit, contractual and legal retention limits are met	Title 4, Chapter 7 and Title 5, Chapter 7
	Prepare accurate and timely external reports necessary to meet legal and organizational responsibilities	O, F, C	Incomplete or inadequate information is available or provided to users	Title 4, Chapters 2, 3, 4, 5, 6 and Title 5, Chapters 1, 2, 3, 4, 5, 6
			Financial report does not include all required statements, schedules and disclosures	Title 4, Chapters 3, 4, 5, 6 and Title 5, Chapters 1, 2, 3, 4, 5, 6
			Records are discarded improperly or before all audit, contract and legal retention limits are met	Title 4, Chapter 7 and Title 5, Chapter 7
Manage Cash and Investments	Ensure that all cash receipts are accurately recorded and adequately safeguarded	O, F	Cash could be misappropriated, lost or stolen	Title 5, Chapters 1, 8, 9, 10, 11, 12, 13
			Cash collections could be manipulated to cover shortages	Title 5, Chapters 1, 8, 9, 10, 11, 12, 13
			Cash collections are not accurately posted to the accounting records	Title 5, Chapters 1, 8, 9, 10, 11, 12, 13

	Ensure that petty cash is secure and properly accounted for	O, F	Petty cash could be used for unauthorized purposes	Title 5, Chapters 1, 8
			Petty cash transactions are not properly recorded	Title 5, Chapter 9
			Petty cash is not maintained at a fixed amount or is commingled with other receipts	Title 5, Chapter 9
			Responsibility for petty cash is not clearly established	Title 5, Chapter 9
	Change funds are secure and properly accounted for	O, F	Change funds are not monitored resulting in loss of money, inappropriate use of money, excessive or inadequate cash on hand	Title 5, Chapters 1, 9
	Ensure that all cash balances are adequately insured or collateralized	O, C	Cash balances exceed insured limits and are not properly collateralized, which could result in loss of funds	Title 5, Chapter 8
	Cash flow forecasts are accurate so that investment returns can be maximized and cash shortfalls can be avoided	O	Adequate information is not available to forecast cash flows or inaccurate information is used resulting in incorrect forecasts	Title 5, Chapter 10
	Investments are authorized, provide maximum returns with minimum risks and comply with legal requirements	C	Investments are not in compliance with state and local laws or are not as profitable or the risk of loss of funds is excessive	Title 5, Chapter 10
		O	Investments are not properly timed or monitored resulting in lost revenue or early withdrawal fees	Title 5, Chapter 10

			Negotiable investments are not adequately safeguarded	Title 5, Chapters 1, 10
	Ensure that all disbursements are for municipal purposes	O, C	Disbursements are not for a municipal purpose and inappropriate or unauthorized disbursements could be made	Title 5, Chapter 14
	Ensure that all disbursements are accurately recorded	O, F	Disbursements are recorded to the wrong accounts or for the wrong amounts	Title 5, Chapters 1, 15, 16
			Payroll reports for federal reporting are inaccurate resulting in penalties	Title 5, Chapter 19
	Ensure that all disbursements are authorized and proper	O, C	Disbursements are not authorized or exceed available budgeted amounts or are not for a municipal purpose	Title 5, Chapters 1, 15, 16
			Bids are not solicited for purchases exceeding bid limits which can result in the best price/product not being obtained	Title 5, Chapter 15, 16
			Disbursements are unnecessary	Title 5, Chapter 15, 16
			Disbursements are for goods that were never received	Title 5, Chapters 15, 16
			Disbursements do not comply with legal or contractual restrictions, and may be required to be returned to the grantor	Title 5, Chapters 15, 16, 17, 18, 25, 26
			Duplicate payments occur	Title 5, Chapters 15, 16
			Payroll amounts are improper	Title 5, Chapter 19

			Compensation of officials is improper	Title 5, Chapter 19
			Debt payments are improper	Title 5, Chapter 22
			Travel payments are improper	Title 5, Chapter 16
	Ensure that all payments are timely	O	Penalties have to be paid	Title 5, Chapters 16, 22
	Ensure that all investments are accurately recorded	O, F	Investments are not recorded properly, or in inaccurate amounts	Title 5, Chapter 10
	Ensure that all investments are authorized and comply with all internal and external restrictions	O, C	Investments are not authorized in accordance with applicable restrictions	Title 5, Chapter 10
			Investments have not been properly approved by the Comptroller	Title 5, Chapter 10
			Investments exceed risk thresholds set by the board	Title 5, Chapter 10
			Investments are not maximizing earnings	Title 5, Chapter 10
			Penalties are incurred due to early withdrawal to meet cash flow demands	Title 5, Chapter 10
	Investments are adequately safeguarded	O	Investments are misappropriated	Title 5, Chapters 1, 10
Manage other assets (inventory, capital assets, and moveable, high-risk, sensitive property)	Ensure that all assets are properly recorded	O, F	Inventory and capital assets are not recorded or are valued incorrectly	Title 5, Chapters 20, 21
			Obsolete inventory or retired capital assets are still recorded	Title 5, Chapters 20, 21

	Ensure that all assets are adequately safeguarded	O	Inventory, capital assets and moveable, high-risk, sensitive property are misappropriated or lost	Title 5, Chapters 1, 20, 21
			Inadequate insurance is maintained and the municipality is susceptible to losses beyond its ability to pay	Title 5, Chapter 21
	Ensure that inventory is necessary and reasonable	O, F	Inventory levels are excessive	Title 5, Chapter 20
			Inventory items are not available when needed	Title 5, Chapter 20
Human Resources	Ensure that the municipality is in compliance with applicable laws, regulations and policies and maintain adequate documentation of same	O, C	Officials are unaware of legal requirements	Title 5, Chapter 25
			Documentation is not maintained to demonstrate compliance	Title 5, Chapter 19
			Records are discarded improperly or before all audit, contractual and legal retention limits are met	Title 4, Chapter 7 and Title 5, Chapter 7
	Ensure that sufficient qualified personnel are hired	O	Employees are unable to perform basic required duties	Title 5, Chapters 1, 19
			Segregation of duties can not be achieved	Title 5, Chapter 1
	Employee benefits are properly administered	O, C	Group insurance is not adequately overseen resulting in excessive or additional costs	Title 5, Chapter 19

	Information is adequately communicated to employees	O, C	Employees are unaware of requirements or important changes	Title 5
			Controls do not prevent or detect errors, thefts, or abuse in a timely manner	Title 5
			Employees do not monitor expenditures to ensure that they are allowable resulting in loss, theft and/or penalties	Title 5
Manage Information Systems	Ensure that information is complete, accurate, and available to only authorized individuals	O, F	Information is incomplete, inaccurate, and/or unavailable	Title 5, Chapter 24
			Unauthorized access occurs, resulting in distribution of confidential information and or data being corrupted	Title 5, Chapter 24
			Information is not able to be audited	Title 5, Chapter 24

TITLE 4

INFORMATION AND COMMUNICATION

CHAPTER 1

GENERAL

The Comptroller's office, in accordance with *Tennessee Code Annotated*, Section 9-2-102, is required "...to prescribe a uniform system of bookkeeping designating the character of books, reports, receipts, and records, and the method of keeping same, in all state, county, and municipal offices, including utility districts, which handle public funds." In addition, certain external reporting is mandated by *Tennessee Code Annotated*. However, other information needs, both internal and external, may be required to operate the municipality effectively and efficiently. Management should review all information needs and should determine the appropriate means of communicating to employees what reports (including detailed content requirements) are needed, when the reports should be prepared and to whom they should be submitted. The accounting structure should be reviewed to determine that information is being collected and summarized to provide the required reports. Any system modifications required to prepare those reports should be communicated, evaluated, and implemented in accordance with the municipality's policies and procedures and the control activities identified in this manual.

Accurate, timely and effective communication is essential to any organization. It is also one of the most difficult needs to meet. Even in the smallest organization, there are frequent communication break-downs. In municipalities, the built-in political process ensures regular and on-going changes in management. Each administration will have its own agenda and focus. Changes in objectives and the related information needs, responsibilities and control requirements will have to be communicated throughout the municipality. The most effective means of communication will be unique to each municipality. However, policies and procedures manuals, training, employee orientation meetings, memos, and staff meetings are some of the tools that can be used in developing adequate communication. Finding the appropriate means of communicating within the municipality should be a high priority task, since it will affect all areas of the municipality. Throughout this manual, various reports, manuals, and other requirements are presented which may facilitate the communication needs of the municipality.

The remainder of this Title identifies the basic information requirements of the Comptroller's office. Other internal and external reporting needs of the municipality should be identified and responsibilities and related control procedures should be communicated to all personnel involved.

across the board wage increases; and, (3) the amount of funds allocated to departments to be allocated to employees by the department heads or other designated individual(s). Adequate policies governing authorization of pay increases should be developed and maintained by the municipality. Wage and salary rates increases delegated by the board should be adequately documented in the personnel records.)

- d. copies of bond and revenue anticipation resolutions
- e. authorizations of loans and transfers between funds
- f. notices of public hearings and resulting decisions
- g. copies of federal and state grant applications (whether a final award was received or not)
- h. summaries of action taken on competitive bids
- i. copies of contracts entered into by officials. Municipal officials must obtain a written contract for all agreements with other entities or individuals for services received or provided, regardless of whether payment is involved, including the following:
 - (1) contract labor and consultant agreements, including computer services, day labor, and similar work
 - (2) leases
 - (3) rentals
 - (4) management agreements
 - (5) mutual aid agreements
 - (6) cable or other franchise agreements
- j. purchasing policy
- k. expense reimbursement policy

statements or schedules of the major and nonmajor funds or, as additional supplemental schedules. Excessively detailed object classifications for expenditures should be avoided.

3. Supplemental Information:

- a. Combining statements for nonmajor governmental and proprietary funds.
- b. Combining statements for internal service funds.
- c. Combining statements for fiduciary funds (trust funds and agency funds).
- d. Individual budgetary schedules for all governmental funds with annual appropriated budgets that were not included as basic financial statements. (The schedule should include three (3) columns, one for the original budgetary amounts, one for the final budgetary amounts, and one for actual expenditures. An additional column is recommended, though not required, to display variances.)
- e. Fund information for discretely presented component units that do not issue a separate audit report.
- f. Schedules.
 - (1) A Schedule of Expenditures of Federal Awards and State Financial Assistance. (This schedule is required if the organization has expended any subrecipient funds, regardless of the amount expended. In addition, the composition of the schedule should conform to the example in Appendix B, which exceeds OMB requirements.)

For additional guidelines governing reporting on separate audits of departments, divisions or funds, please refer to the Topical Index on the Division of Municipal Audit's web site

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

- (2) The following schedules are required, if applicable, whether the municipality issues a CAFR or not (except as otherwise noted). Certain schedules may exceed GASB's minimum requirements; however, the information provided is used by other state departments.
 - (a) Schedule of Transfers (may be omitted if transfer disclosure in the notes to the financial statements is adequate, i.e., transfers disclosed by individual fund for all major and nonmajor funds).

- (b) Schedule(s) of Long-Term Debt, Principal, and Interest Requirements (e.g., bonds, notes, and other long-term debt – by individual issue) by Fiscal Year – All Funds. Schedules should also be included for interfund and intrafund (i.e., between divisions within a utility fund) receivables and payables related to telecommunications, cable, etc.
 - (c) Uncollected Delinquent Taxes Filed in accordance with applicable laws
 - (d) Utility Rate Structure and Number of Customers
 - (e) Unaccounted for Water (See Example Schedule in **Appendix B**). This schedule must be used in the **exact** format presented in **Appendix B**.
 - (f) Schedule of Changes in Property Taxes Receivable – By Levy Year (which should tie to the financial statements and may be omitted if a CAFR is issued) (See Example Schedule in Appendix B).
 - (g) Property Tax Rates and Assessments – Last 10 Years
 - (h) Additional schedule(s), if necessary, of taxes and intergovernmental revenue by specific source and expenditures by object.
- (3) If a municipality provides several utility services (e.g. gas, electric, water/sewer combined or separately depending on the policies of the municipality, bond covenants, etc.) and accounts for all of those activities in a single fund, detailed schedules that provide information consistent with what would have been presented in fund financial statements should be included in supplemental information for each division/department (ie, assets, liabilities and net assets; revenues, expenses, and changes in net assets; and cash flows). If sufficiently detailed information is included in the notes to the financial statements, these additional schedules are not required. This information is necessary to demonstrate compliance with state laws regarding utility operations.
- (4) If a municipality is providing cable, internet, and/or related services, additional schedules must be included that provide sufficient detail to demonstrate compliance with *Tennessee Code Annotated 7-52-601 et al.* unless sufficient detail is presented in the basic financial statements.

- (5) If a municipality is providing telecommunications services, additional schedules must be included that provide sufficient detail to demonstrate compliance with *Tennessee Code Annotated* 7-52-401 et al. unless sufficient detail is presented in the basic financial statements.
- (6) If a municipality issues a separate financial report for the Board of Education, additional guidelines for reporting for “departmental financial statements” can be found on the Division of Municipal Audit’s web site at:

<http://www.tn.gov/comptroller/ma/financialreporting.htm>

Current Developments Affecting Reporting:

GASB 54

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, has created a conflict between the Comptroller’s requirements, *Tennessee Code Annotated (TCA)*, and reporting in accordance with GAAP. Generally the accounting records of local governments should be maintained in such a way to reflect the reporting requirements of GAAP. That is, if the accounting records reflect a fund, that fund should be reported in the financial statements of the local government. *TCA* 68-211-874 requires activities related to solid waste to be accounted for in either a proprietary fund or a special revenue fund. The activities being accounted for in a proprietary fund are not impacted. However, activities being accounted for in special revenue funds will be affected. Solid waste activities will not meet the criteria for being reported in a special revenue fund. To bridge the gap, the accounting records will still account for solid waste activities as they have in the past. However, for financial reporting purposes, the activities will be rolled into the general fund. A supplemental schedule should be created to reflect the activities to demonstrate compliance with *TCA*.

Other special revenue funds not mandated by state law should be evaluated to determine whether they need to be closed out and the activities reported in the general fund (e.g., library activities). No supplemental schedule to demonstrate compliance would be required for those activities. The close-out of the fund would be consistent with the general requirement that the books and records be maintained in such a way to reflect the reporting requirements of GAAP.

1. Recovery Act (ARRA)

The requirements related to ARRA funding will present unique auditing and reporting challenges. The web sites for many state departments include information related to ARRA. Municipal Audit also has information on the web related to complying with the requirements related to ARRA funding. Federal, state and local web sites, and grant and loan agreements all provide information related to ARRA funding. ARRA requirements for separate accountability for Recovery Act funds

affect the presentation requirements relating to the Schedule of Expenditures of Federal Awards and State Financial Assistance and other matters.

Section 3 Object expenditure codes to be used in solid waste accounting include the following:

297	Landfill Facilities Fee
480	Landfill Materials
481	Daily Cover Material
482	Drainage Materials
483	Geotextile Materials
484	Synthetic Membrane
485	Liner Material
486	Wire or Fencing
487	Testing Supplies
488	Natural Materials
489	Other Landfill Material
560	State Fees and Charges
561	Application Fee
562	Tipping Fee (Surcharge)
563	Other Landfill Fees
564	Annual Maintenance Fee
565	Permit Fee
566	Sanitary Survey Fee
567	Plans Review Fee
568	Annual Emission Fee
569	Other State Fees and Charges
911	Site Acquisition
912	Site Development

NOTE: Refer to Title 4, page 17, for information related to the implementation of GASB 54 and the impact on Solid Waste accounting and reporting.

Section 9 The municipal electric system shall charge the same fees as it charges any other franchise holder providing the same service.

Section 10 The cable division must present sufficient detail of all financial activity in supplemental schedules or in the notes to the financial statements to demonstrate compliance with *Tennessee Code Annotated 7-52-601 et al.*

TITLE 4

INFORMATION AND COMMUNICATION

CHAPTER 9

RECORDS MANAGEMENT

Section 1 Section 10-7-702, *Tennessee Code Annotated*, provides for alternative retention for permanent records, but does not address alternative retention methods for records that will ultimately be destroyed. Care should be taken to ensure that the records can still be accessed as new technologies are installed.

Section 2 Section 10-7-702, *Tennessee Code Annotated*, provides that the Municipal Technical Advisory Service (MTAS), "...is authorized to compile and print, in cooperation with the state library and archives, records retention manuals which shall be used as guides by municipal officials in establishing retention schedules for all records created by municipal governments in the state." The following schedule is a summary of the unique retention provisions recommended by the Comptroller. These unique provisions as well as other detailed provisions are addressed in the MTAS guide issued in 2008, *Records Management for Municipal Governments: A Reference Guide for City Officials and Municipal Public Records Custodians*. This guide can be accessed at <http://www.mtas.utk.edu>.

MTAS has also issued *New Amendments to the Federal Rules of Civil Procedure and Their Effects Upon Records Retention*, that can be accessed at the same site.

Record	Retention Period	Legal Authority/Rationale
Accounts Payable.	Retain 10 years.	Requirement of the Comptroller.
Accounts Receivable.	Retain 10 years.	Requirement of the Comptroller.
Annual Reports to City Officials. Submitted by city departments, boards, or agencies.	Permanent record.	Keep for historical purposes.

Record	Retention Period	Legal Authority/Rationale
<p>Audit Reports. All audit reports relative to city finances. Audit reports show name of office, name of fund or account, account of all receipts and disbursements, date of audit, and signature of auditor.</p>	<p>Permanent record.</p>	<p>Requirement of the Comptroller. Record has high historical value.</p> <p>NOTE: T.C.A. § 6-56-104 requires the city to place a copy of the audit in the main branch of the public library.</p>
<p>Bonded Indebtedness, Record of. Register book shows bond issue, date, and amount set up by year; as bonds and coupons are returned, these are shown in the book. Other records include the trust indenture, loan agreements, bond counsel opinion, documentation of expenditure of bond proceeds, copies of management contracts and research agreements, documentation of all sources of payment or security for the bonds, and documentation of investment of bond proceeds. Other records may also include documentation specific to any single and multi-family housing bonds and small issue industrial development bonds.</p>	<p>Retain 6 years.</p>	<p>Based on procedures established in T.C.A. § 9-21-123.</p> <p>T.C.A. § 28-3-113.</p>

Record	Retention Period	Legal Authority/Rationale
<p>Canceled Checks. Canceled checks showing date check issued, name of bank on which drawn, check number, to whom payable, purpose of payment, amount of check, and date canceled. <i>See Title 5, Chapter 8, Section 9, of this manual for comments on this due to current banking laws.</i></p>	<p>Retain 7 years.</p>	<p>Based on statute of limitations for legal action for breach of contract plus one year. T.C.A. § 28-3-109.</p>
<p>Cash Journals. Record of all receipts and disbursements as distributed to various city accounts, showing date of entry, amount, source of receipt or purpose of payment, amount of debit or credit, and name of account credited or charged.</p>	<p>Permanent record.</p>	<p>Requirement of the Comptroller. Comptroller's office considers this record important for demonstrating patterns in investigations of misappropriation of funds. Prior to the advent of general budgetary practices, the <i>Recorder's Cash Journal</i> was the best record for tracking the total revenue stream of the city and has historical value. For this reason, older records should be kept permanently.</p>
<p>Daily Collection Report. Summarizes all cash/check collections by source and fund and indicates the deposit amount, amount retained for change and amount short or over.</p>	<p>Retain at least 3 years from the date the audit was filed with the Comptroller's office</p>	<p>Keep for audit, review, and investigative purposes.</p>
<p>Cash Reconciliation Report. Shows balances at beginning of month, outstanding checks, cash balances, checks issued during month, checks paid,</p>	<p>Retain at least 3 years from the date the audit was filed with the Comptroller's office</p>	<p>Keep for audit, review, and investigative purposes.</p>

Record	Retention Period	Legal Authority/Rationale
Cash Reconciliation Report (con'd). cash and outstanding checks at end of the month.		
Check Books. Books containing stubs of checks issued by the Recorder showing check number, date issued, name of payee, amount, and purpose of payment.	Retain 7 years after date of last check.	Based on statute of limitations for legal actions for breach of contract plus one year. T.C.A. § 28-3-109.
Check Stubs. From all city accounts and accounts of all its departments.	Retain 7 years.	Based on statute of limitations for legal actions for breach of contract plus one year. T.C.A. § 28-3-109.
Development and Proposal Files. Reports, planning memos, correspondence, studies, and similar records created for and used in the development of grant proposals submitted to state or federal agencies and contracts relating to the grant.	Retain all unsuccessful applications for 5 years. Retain all records regarding grants that are received for life of grant plus 7 years.	Keep unsuccessful proposals in case of appeal or for administrative use in re-application. Keep records of grants received based on statute of limitations for contract actions. T.C.A. § 28-3-109.
Financial Reports to City Legislative Body. (1) General; (2) Final—Report gives information on different accounts, balances on last report, receipts, disbursements, commissions, transfers, balances on this report, totals, bank balances of city accounts in different banks, and classification of receipts (sources received from, e.g., state, local, etc.).	Permanent record.	These reports should be recorded in the minutes of the city legislative body. Requirement of the Comptroller.

Record	Retention Period	Legal Authority/Rationale
Financial Reports to City Legislative Body (con'd). Reports of street department chief administrative officer and other officials when required by law.		
General Ledger Accounts. Record of all receipts and disbursements for the various city accounts, showing date of entry, amount, source of receipt or purpose of payment, amount of debit or credit, and name of account credited or charged.	Permanent record.	Requirement of the Comptroller.
Court Case Ledgers. Records and materials regarding case funds received and distributed.	Permanent Record.	Requirement of the Comptroller.
Moveable, High-Risk, Sensitive Property. Inventory records of non-capitalized property items, such as cameras, computers, printers, scanners, etc.	Retain 5 years.	Keep for audit purposes and to ensure that such items are retained for use in the municipality and are not lost, misplaced or stolen.
Investment Ledgers. Surplus cash investments, rate of interest, date, and amount collected.	Retain 10 years.	Keep for audit purposes and to address arbitrage concerns.

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/.

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.

TITLE 6

MONITORING

CHAPTER 1

FUNCTIONAL ANALYSIS

Section 1 Municipal officials should provide constant, close supervision to ensure that:

- a. internal controls are working.
- b. personnel are following the prescribed routines.
- c. work flow obstructions are minimized.
- d. bank accounts and control accounts in the municipality's accounting records. (i.e., accounts receivable) are being reconciled systematically and the reconciliation is documented and retained.
- e. procedures are effective and efficient.
- f. adequate information is being furnished promptly.

Section 2 Municipal officials should require internal control procedures that help prevent and/or detect errors and irregularities. These procedures include designating an employee without prior access to the records to:

- a. reconcile bank accounts and match reconciled amounts to general ledger cash account balances.
- b. reconcile subsidiary ledgers detailing tax receivables, utility accounts receivables, customer deposits, etc., with general ledger totals and confirm balances with taxpayer/utility users.
- c. periodically reconcile petty cash.
- d. open mail and list mail collections for the cashier.
- e. reconcile unpaid court fines with the court docket and general ledger account.
- f. reconcile cases referred to county courts with related fine revenue received.
- g. test for uniform application and collection of interest and penalties.

- h. perform routine duties of other employees who, because of their access to cash, are required to have their job duties performed by another employee for at least one vacation period per year.
- i. prepare monthly financial reports and review for budgetary compliance requirements and for any unusual or unexpected balances that should be investigated for potential accounting errors, misstatements and/or irregularities

Section 3 Municipal personnel should evaluate each municipal bank account's purpose and determine if the account is required and/or necessary for efficient recordkeeping. All unnecessary and dormant accounts should be closed immediately.

NOTE: All tests and reconciliations should be documented and the documentation retained.

TITLE 6

MONITORING

CHAPTER 2

COMPLIANCE ANALYSIS

Section 1 Assign an individual(s) who is familiar with legal, grant, contractual, debt, drug funds, solid waste, utility, state street aid and other requirements and who is independent of the purchasing and record keeping responsibilities, to review the financial reports and expenditures to ensure that they comply with those requirements.

TITLE 6

MONITORING

CHAPTER 3

AUDIT COMMITTEES

Local governments are encouraged to establish an audit committee. Under certain circumstances, the Comptroller may require that an audit committee be established. When establishing an audit committee, the governing body should:

Section 1 ensure that the committee members they select are external to management and include: members of the governing body and/or citizens from within the boundaries of the local government.

Section 2 ensure that a resolution addressing the responsibilities and duties of the audit committee is established and approved. Such resolution shall, at a minimum, address:

- financial reporting practices
- internal control
- compliance with laws, regulations, contracts and grant agreements
- ethics

Section 3 ensure that, if the committee is being established pursuant to the requirement of the Comptroller, the draft resolution is submitted to and approved by the Comptroller prior to being adopted by the governing body.

TITLE 6

MONITORING

CHAPTER 4

**REQUIREMENTS WHEN UNLAWFUL CONDUCT
(FRAUD) IS DISCOVERED**

A good internal control structure will only provide reasonable assurance that unlawful conduct does not occur or is detected on a timely basis. Though it is common to assume “it will never happen to us” it can happen. In fact, monitoring may be the means by which some unlawful conduct or fraud is detected. Unlawful conduct or fraud may be discovered because of tips from other employees, as a result of internal or external audits, because of internal control that has been established, and even by accident. Regardless of the method of discovery, the amount of money involved, or the frequency of occurrence, all discoveries should be reported in writing to the Comptroller. Unlawful conduct or fraud must be reported whether money is repaid and/or whether the employee is terminated. Simply because you do not believe that the person could ever have participated in unlawful activities or fraud or believe that they will not participate again, is not a basis for failing to report what has been discovered.

Section 1 Reporting when a public official believes unlawful conduct has occurred:

Tennessee Code Annotated, Section 8-4-501, defines unlawful conduct as “...theft, forgery, credit card fraud, or any other act of unlawful taking of public money, property, or services.”

Tennessee Code Annotated, Section 8-4-503 states:

A public official with knowledge based upon available information that reasonably causes the public official to believe that a theft, forgery, credit card fraud, or any other act of unlawful taking of public money, property, or services has occurred shall report the information in a reasonable amount of time [i.e., five (5) working days] to the office of the comptroller of the treasury.

The form for reporting can be found on the web at:

<http://www.tn.gov/comptroller/ca/fraudreport.htm>

APPENDIX A

GENERAL REPORT OUTLINE

All audit reports shall include the following information, as applicable, and should conform to the following outline.

I. Introductory Section

Table of contents, letter(s) of transmittal, roster of publicly elected officials, roster of management officials, roster of board members, and any other material deemed appropriate by management.

II. Financial Section

A. Management's Discussion and Analysis

B. Financial statements of the organization including Notes to the Financial Statements.

C. Required Supplementary Information (GASB)

D. Supplemental information

E. Schedule of Expenditures of Federal Awards and State Financial Assistance (could be included in the Single Audit section of the report).

III. Statistical Tables (as required by GAAP, if a CAFR is issued)

APPENDIX B

EXAMPLE SCHEDULES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

Anytown, Tennessee
Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended June 30, 20XX

Federal Grantor/ Pass-Through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
Federal Awards						
US Dept. of Transportation*	20.509	04-37689-5	\$ -	\$ 400,320.00	\$ 400,320.00	\$ -
US Dept. of Transportation/TN Dept. of Transportation	20.509	Z9704933	(18,000.21)	480,009.12	490,723.14	(28,714.23)
Total Program 20.509			\$ (18,000.21)	\$ 880,329.12	\$ 891,043.14	\$ (28,714.23)
US Dept. of Agriculture/TN Dept. of Agriculture (Note: Noncash Assistance)	10.555	GR9707367	\$ 434.82	\$ 1,200.44	\$ 1,400.93	\$ 234.33
US Dept. of Justice	16.580	N/A	-	20,000.00	20,000.00	-
TOTAL FEDERAL AWARDS			\$ (17,565.39)	\$ 901,529.56	\$ 912,444.07	\$ (28,479.90)
State Financial Assistance						
TN Dept. of Environment & Conservation	N/A	Z60728725	\$ 2,000.00	\$ 24,853.19	\$ 26,853.19	\$ -
TN Dept. of Human Services	N/A	GR6104895	(719.93)	11,818.93	19,584.68	(8,485.68)
TOTAL STATE AWARDS			\$ 1,280.07	\$ 36,672.12	\$ 46,437.87	(8,485.68)
TOTAL FEDERAL & STATE AWARDS			\$ (16,285.32)	\$ 938,201.68	\$ 958,881.94	\$ (36,965.58)

*This grant was passed through to a subrecipient, the Clearwater Utility District.

Loans Outstanding:

Note 1: At June 30, 20XX, there was an outstanding balance of \$352,291.07 on a loan obtained in a previous year through the State Revolving Loan Fund. The loan was 80 percent federally funded. Payments during the current fiscal year totaled \$23,818.54.

Basis of Presentation:

Note 2: The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of Anytown under programs of the federal and state governments for the year ended June 30, 20XX. The schedule is presented using the modified accrual basis of accounting.

APPENDIX B

EXAMPLE SCHEDULES
 UNACCOUNTED FOR WATER

Town/Utility District of Anywhere
 Schedule of Unaccounted For Water
 June 30, 2009

(All amounts in gallons)

A Water Treated and Purchased:		
B	Water Pumped (potable)	2,000,000
C	Water Purchased	500,000
D	Total Water Treated and Purchased (Sum Lines B and C)	2,500,000
E Accounted for Water:		
F	Water Sold	1,800,000
G	Metered for Consumption (in house usage)	200,000
H	Fire Department(s) Usage	50,000
I	Flushing	10,000
J	Tank Cleaning/Filling	7,200
K	Street Cleaning	0
L	Bulk Sales	0
M	Water Bill Adjustments	2,000
N	Total Accounted for Water (Sum Lines F thru M)	2,069,200
O	Unaccounted for Water (Line D minus Line N)	430,800
P	Percent Unaccounted for Water (Line O divided by Line D times 100)	17.232 %

Q Other (explain) See Below

Explain Other:

Used in Horticulture 150,000

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

APPENDIX B

EXAMPLE SCHEDULES
SCHEDULE OF CHANGES IN PROPERTY TAX RECEIVABLE

Town of Anywhere
Schedule of Changes in Property Tax Receivable
June 30, 2009

Tax Year	Property Tax Receivable Balance June 30, 2008	Property Tax Levied	Anticipated Current Year Levy	Abatements and Adjustments	Collections	(This column is optional) Allowance for Uncollectibles	Net Receivable Balance June 30, 2009
2009	\$ -	\$ -	\$100,500	\$ -	\$ -	\$ -	\$100,500
2008	-	100,000		(500)	(95,000)	(300)	4,200
2007	3,000			(20)	(1,000)	(350)	1,630
2006	2,000				(150)	(300)	1,550
2005	1,000				(325)	(250)	425
2004	800				(250)	(200)	350
2003	600				(100)	(250)	250
2002	400				(200)	(100)	100
2001	300				(90)	(100)	110
2000	200			(50)	(75)	(50)	25
1999	100				(20)	(70)	10
Totals	<u>\$8,400</u>	<u>\$100,000</u>	<u>\$100,500</u>	<u>(\$570)</u>	<u>(\$97,210)</u>	<u>(\$1,970)</u>	<u>\$109,150</u>

NOTES: All uncollected taxes for years prior to 2009 have been turned over to the Clerk and Master for collection.

APPENDIX C

**TENNESSEE CODE ANNOTATED
- SELECTED REFERENCES**

This section is not intended to be a comprehensive listing of all relevant statutes. No inference regarding significance is implied simply because a law is listed or not listed. It is for general reference only.

Charters

Section 6-1-101	Mayor – Alderman
Section 6-18-101	City Manager – Commission
Section 6-30-101	Modified City Manager – Council

Books and Records

Section 6-56-201	Municipal budget law of 1982
Section 8-44-104	Minutes required, open for public inspection
Section 9-2-102	Uniform accounting system
Section 9-2-103 – 104	Consecutively prenumbered receipts required
Section 9-2-106	Violation of receipt requirements is a Class C misdemeanor
Section 39-14-130	Destruction of valuable papers with intent to defraud
Section 39-16-504	Destruction of and tampering with governmental records
Section 66-29-113	Reporting abandoned property
Section 68-221-1012	Reporting water loss

Audits

Section 6-56-105 & 8-4-109	Audits of governmental entities, comptroller authorized and required
Section 8-4-115	Audit of standardized booking procedures
Section 9-3-212	Duty to order and pay for audits
Section 9-3-405	Audit committees
Section 47-10-101 – 103	Uniform electronic transactions (audit contract and audit report)

Taxes

Section 6-55-101	Collection and payment of tax
Section 6-55-201	Sale of real estate for delinquency
Section 6-55-301	Privilege tax
Section 8-21-107	Payment (receipt) of fees, fines, costs, etc. by credit card
Section 9-1-108	Collection of taxes with credit or debit card
Section 67-5-2005	Delinquent municipal real property tax certified to county trustees

Taxes (Continued)

Section 67-5-2404 Delivery of delinquent tax list to attorney

Disbursements/Purchasing

Section 6-54-107 Officers' interest in municipal contracts prohibited
Section 6-54-111 Appropriation of funds for nonprofit organizations
(*SEE TITLE 5, CHAPTER 29*)
Section 6-54-901 Reimbursement for expenses incident to holding office
Section 6-56-111(c) Use of consecutively prenumbered checks
Section 6-56-112 Expenditures for lawful municipal purpose

Section 6-56-301 Municipal purchasing law
Section 12-2-407 Sale of surplus property to governmental entities and non-
for-profit corporations
Section 12-3-1001 Purchases for local governmental units (by department of
general services)
Section 12-4-101 Personal interest of officers prohibited
Section 12-4-106 Contracts for professional services
Section 39-16-105 Buying and selling in regard to offices held or elected to
Section 54-4-204 State street aid: Purposes for expending funds; Accounting

Investing and Banking

Section 6-56-106 Authorized investments
Section 6-56-110 Deposits to be secured by collateral
Section 9-1-107 Investments – deposits exceeding insurance limits
Section 9-4-101 Collateral

Debt

Section 9-21-408 Interfund loans
Section 9-21-601 Capital outlay notes
Section 9-21-903 Refunding bond issues

Deficits and Unaccounted for Water Loss

Section 68-221-1010 Report filed with Water and Wastewater Financing Board
Section 68-221-1012 Unaccounted for water loss

Landfills/Solid Waste

Section 68-211-874 Accounting

Municipal Utilities

Section 7-34-115 Disposition of revenue

Municipal Utilities (Continued)

Section 7-35-401	Sewers and waterworks – authority granted
Section 7-39-302	Municipal gas companies
Section 7-52-101	Municipal electric plant law
Section 7-52-401	Telecommunications Services
Section 7-52-601	Cable Television, Internet and Related Services
Section 7-39-404, 7-52-118, 7-52-304, 7-52-606	In-lieu of tax payments

Police and City Courts

Section 8-4-115	Standardized procedures for booking of arrestees
Section 18-1-105	Court clerk – duties
Section 18-1-206	Disposal of physical evidence
Section 39-16-609	Failure to appear
Section 39-17-420	Fines and forfeitures – fingerprinting equipment and allowable drug fund expenditures
Section 39-17-428	Mandatory minimum fines – allocation of proceeds
Section 39-17-505	Possession of gambling device or record – forfeiture
Section 39-17-1317	Confiscation and disposition of confiscated weapons
Section 39-17-1318	New serial numbers for confiscated firearms
Section 40-33-201	Application (procedures in confiscation – general)
Section 40-35-313	Expungement from official records
Section 53-11-201	Procedure in confiscation
Section 53-11-204	Disposition of proceeds
Section 53-11-415	Special revenue account for drug fund
Section 53-11-451	Goods subject to forfeiture – seizure – disposition
Section 55-8-198	Citations based on surveillance cameras
Section 55-10-204	Illegal cancellation of traffic citations
Section 55-10-208	Uniform traffic citation form
Section 55-10-303	Disposition of collections
Section 55-10-306	Record of traffic cases – report of convictions to department
Section 55-10-403	Forfeiture of vehicles (DUI)
Section 55-16-101	Report of unclaimed vehicles
Section 55-50-502	Suspension of Licenses
Section 55-50-503	Surrender of license

Criminal Statutes

Section 39-11-106	Definitions (criminal offenses)
Section 39-14-104	Theft of services
Section 39-16-401	Definitions for public misconduct offenses
Section 39-16-402	Official misconduct
Section 39-16-403	Official oppression
Section 39-16-501	Definitions for interference with government operations offenses

Criminal Statutes (Continued)

Section 39-16-503 Tampering with or fabricating evidence
Section 40-39-201 Tennessee Sexual Offender and Violent Sexual Offender
Registration, Verification, and Tracking Act of 2004.

Other

Section 4-4-108 Blanket surety bond required
Section 6-54-903 Travel policies – Filing requirements
Section 6-56-111 Deposit within three working days – petty cash fund
Section 8-44-101 Sunshine Law – Policy
Section 8-44-102 Open meetings
Section 8-44-103 Notice of public meetings
Section 9-21-130 Guidelines and rules and regulations relating to contracts
and agreements authorized.
(GO TO SUMMARY – APP.C-5)
Section 10-7-503 Records open to public inspection
Section 12-4-101 Conflict of interest
Section 47-10-119 Filing of pre-implementation statement and post-
implementation review for electronic business systems
that provide for electronic records of signatures and/or
authorizations
Section 6-56-401 – 408 Municipal Finance Officer Certification and Education Act
of 2007

APPENDIX C

**TENNESSEE CODE ANNOTATED
- SELECTED REFERENCES**

**State Funding Board's Guidelines
Interest Rate and Forward Purchase Agreements**

Pursuant to *TCA* 9-21-130, the State Funding Board approved the following Guidelines on August 5, 2009.

In summary, the proposed Guidelines now:

- Require adoption of debt management and derivative policies
- Require financial statements with a clean audit opinion
- Require independence of advisors and counsel
- Require avoidance of conflicts among third party professionals involved in the transactions
- Specify staff and required knowledge
- Impose ongoing reporting for Interest Rate and Forward Purchase Agreement transactions

Additional information regarding these Guidelines can be found on the web at:
<http://tn.gov/comptroller/lf/>.

APPENDIX D

ATTORNEY GENERAL OPINIONS
- SELECTED OPINIONS

Books and Records

<u>Date</u>	<u>Opinion Number</u>	<u>Description</u>
08/16/89	89-102	Accounting and auditing standards for local housing authorities
11/28/89	U89-134	Vending machines and pay telephone operations
08/13/90	U90-114	Application of open meetings act to city council interviews with applicants for city manager position
12/23/91	U91-164	Publication of official notices

Audit

<u>Date</u>	<u>Opinion Number</u>	<u>Description</u>
05/29/91	91-52	Filing annual audit under Section 6-54-111(c), <i>Tennessee Code Annotated</i>

Disbursements

<u>Date</u>	<u>Opinion Number</u>	<u>Description</u>
11/04/80	None	In-lieu-of-tax payments by a municipality's wholly-owned utility
10/27/88	88-194	Use of state street aid funds at the intersection of a state highway and a municipal street
11/09/89	U89-130	Providing municipal services to residents on a private street
02/06/90	90-12	Spouse travel expenses
10/12/90	U90-149	Donations to nonprofit charitable and civic organizations

Disbursements (Continued)

09/01/92	U92-100	Municipal utilities and utility revenues
03/04/92	93-18	Loan by municipality to county industrial development corporation
06/11/93	U93-63	Conflict of interest/employee serving as mayor
04/08/94	U94-070	Installation of water lines in a private development
03/06/95	U95-021	Municipality's authority to engage in development of a residential subdivision

Police and City Courts

<u>Date</u>	<u>Opinion Number</u>	<u>Description</u>
11/01/88	88-195	Disposition of confiscated weapons, Section 39-6-1708, <i>Tennessee Code Annotated</i>
10/22/90	90-98	Law enforcement agencies' authority to use drug funds to acquire and install satellite communication equipment and pay officer tuition fees for drug enforcement training
10/28/91	91-85	Disposition of criminal fines
05/28/92	92-45	Use of drug fines for drug education programs
10/08/92	U92-121	Deposit of fines under Section 39-17-428, <i>Tennessee Code Annotated</i>
11/26/08	08-179	Issuance of traffic citations based on evidence obtained from a surveillance camera

APPENDIX E

**EMERGING ISSUES
AND CURRENT DEVELOPMENTS**

The American Recovery and Reinvestment Act (ARRA)

There are many regulations and additional requirements applicable to money received from ARRA programs.

Please check the Comptroller's web site and the Division of Municipal Audit's web site for further guidance in this area.

<http://www.tn.gov/comptroller/shared/arra.htm>

http://www.tn.gov/comptroller/ma/arra_ma.htm

Identity Theft Red Flags Rules

The Federal Trade Commission has issued final rules that implement sections 114 and 315 of the Fair and Accurate Credit Transactions Act of 2003. These rules and requirements apply to "financial institutions" and "creditors." The definition of "creditor" is broad and includes businesses or organizations that regularly defer payment for goods or services or provide goods or services and bill customers later. Based on this definition, municipalities that have utility departments will need to ensure compliance with the provisions of these rules. Other activities of municipalities may fall within this broad definition of "creditor" as well. For guides and further information on what a municipality must do to comply with these requirements, please check the following web site <http://www.ftc.gov/redflagsrule> .