
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.

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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.

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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.

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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>