
TITLE 5

CONTROL ACTIVITIES

CHAPTER 1

GENERAL

- Section 1 District 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 District officials should ensure that qualified individuals are hired and that appropriate training is provided.
- Section 3 District officials should have adequate surety bond coverage for all officials and employees.

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CONTROL ACTIVITIES

CHAPTER 2

BOOKS AND RECORDS

District 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 board 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 the reporting process and relevant computer programs to determine whether they need to be updated, upgraded or modified.

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CONTROL ACTIVITIES

CHAPTER 3

**EXTERNAL FINANCIAL REPORTING
GENERAL**

Section 1 District 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://www.comptroller1.state.tn.us/Audit/contract.asp>

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/

District 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://www.comptroller1.state.tn.us/Audit/auditmanual.asp>

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 District 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 district can not maintain their independence under current standards if district 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.

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CONTROL ACTIVITIES

CHAPTER 4

**FINANCIAL REPORTING
ANNUAL REVIEW**

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

TITLE 5

CONTROL ACTIVITIES

CHAPTER 5

**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.
- Section 3 Assign an individual to ensure that all information required to be published in a newspaper of general circulation is published in a timely manner and includes all required information.
- Section 4 Assign an individual to draft an annual operating budget for review and approval by the board. Review the requirements for filing the budget with the Comptroller's office and ensure that it is filed, if required.

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CONTROL ACTIVITIES

CHAPTER 6

RECORDS MANAGEMENT

Section 1 Assign an individual to review legal requirements and retention guides published by the Comptroller's office, at least annually, to determine if there have been any changes with regard to records management requirements. (If the district has referenced guidelines issued by the Municipal Technical Advisory Service (MTAS) or the Tennessee Association of Utility Districts (TAUD), those guidelines should be reviewed for changes as well.)

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.

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CONTROL ACTIVITIES

CHAPTER 7

CASH

District 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. District collections should never be taken home by any district 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 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 5 all money is disbursed by prenumbered checks (except from petty cash accounts authorized by the board). 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 6 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 and should only be used by the person whose name is on the stamp.

If a district 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 district should not use on-line banking for payments.

Section 7 voided checks are defaced and retained.

Section 8 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 by someone not directly involved in the collections and/or disbursements processes. 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 district 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. If the bank does not provide detail for all pages (back and front) of the deposit slips or checks, the district should download this information monthly.

When imaged copies are not included with the bank statement, the district should either request the bank to send the copies to the district, 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 9 the district 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 10 no bank account is closed until images of all deposit slips and checks have been downloaded or provided by the bank.

Section 11 the district complies with state statutes governing collateralization of district 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 district'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 district 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, districts may contact the State Treasurer's Office, Division of Cash Management, (615) 532-1168 or visit their website at <http://www.tn.gov/treasury/> .

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CONTROL ACTIVITIES

CHAPTER 8

PETTY CASH AND CHANGE FUNDS

District officials should ensure that:

- Section 1 petty cash accounts are authorized by the board 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 and given to the petty cash custodian 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. The board 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 district 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 (recorded 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 9

INVESTMENTS

District officials should ensure that:

Section 1 investments of district money maximize earnings and comply with state statutes and district 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 district investment policy addresses the district'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 district
- cash forecasting requirements in determining investment options
- requirement to deposit investment proceeds, including cash received from matured certificates of deposit, into district 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 (in multi-fund districts) 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 district 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 individuals.

TITLE 5

CONTROL ACTIVITIES

CHAPTER 10

**REVENUES/RECEIVABLES
GENERAL PROCEDURES**

District 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 (identifying the individual payor) 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 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: Any time 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 utility billing register on a timely basis.

NOTE: The billing registers 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 who are not involved in the collections and/or disbursements processes. 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 collections by source and fund (in multi-fund districts) 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 third party checks are not accepted for payments to the district. In addition, customers should not be given cash back if checks are written for more than the amount due.

Section 11 at the end of each day, all prenumbered receipts, billing stubs, and other evidence of collection are turned over to the bookkeeper for posting.

Section 12 duplicate, prenumbered receipts are marked and billing stubs are filed according to the deposit to which they correspond.

Section 13 all appropriate filings have been made, in accordance with *TCA 47-10-119*, if billings and other revenues are collected by accepting credit or debit cards.

Section 14 fees are assessed which are sufficient to cover the fees charged to the district when credit or debit cards are accepted for payment of taxes, fees, fines, etc.

Additional Revenues Not Discussed Above

Some districts collect and receive revenues not specifically discussed in this title. These may include intergovernmental receipts, grants, vending machine collections or commissions, reimbursements from vendors, etc. The list is practically endless. For these and all revenue sources, including note proceeds, general procedures set forth in this title should be followed.

TITLE 5

CONTROL ACTIVITIES

CHAPTER 11

**REVENUES/RECEIVABLES
UTILITY OPERATIONS**

District officials should ensure that:

Section 1 regardless of the method used (manual, wireless or other electronic meter reading equipment) utility meters are read monthly (or bimonthly, if desired). The meter readings should be properly stored, uploaded, and processed. Tests should be conducted periodically to ensure that all meter reading equipment is functioning properly and that all services are metered and that all meters are being read.

NOTE: Districts 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 district'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 district 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, district 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 district's cutoff date, service is discontinued in compliance with the district's written policy. (The cutoff policy should be adopted by the governing body, recorded in the minutes, and included in the district'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 monthly.

- begin with audited balance of accounts receivable
- add billings per the billing system (including penalties and taxes)
- deduct adjustments (approved by the board)
- deduct and document any other reconciling items (such as write-off of accounts)
- 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 district does not refund are handled as unclaimed property. District officials should ensure that the district 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, districts should inquire with the division and determine whether property owed to the district has been filed by other entities.

TITLE 5

CONTROL ACTIVITIES

CHAPTER 12

**EXPENSES/PAYABLES
INTRODUCTION**

One of the most significant activities of any district is purchasing. There are many laws and regulations, federal, state, and local, that govern how a district may make purchases and the purposes for which money may be expended. Additional constraints are imposed by contracts, debt covenants, and grant agreements. **One of the foundational requirements of state law is that all expenditures of money made by a district must be made for a lawful district purpose (TCA 7-82-113).**

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.

District officials should become familiar with the operating environment immediately upon assuming office. Please refer to Chapter 20, Section 3, of this Title for information regarding required commissioner training. In addition, commissioners 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 13

**EXPENSES/PAYABLES
POLICY**

Section 1 The governing body should establish a purchasing policy. The policy should comply with the requirements of Sections 7-82-801 through 7-82-804, *Tennessee Code Annotated*, governing competitive bidding and purchasing. The procedures enumerated in this chapter are the minimum that should be included in the policy.

The district'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 and, (3) 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 purchases, if needed (i.e., purchases authorized to be made without approval).

Section 5 require approval of prenumbered purchase authorizations/orders by the board or their designee to indicate that the expenditure is appropriate and authorized.

Section 6 designate individuals who are authorized to make purchases with district debit, credit, or p-cards. Clearly define the types of purchases permitted to be made using debit, credit, or p-cards. Such purchases must be approved in the same manner as any other purchase. If district officials authorize the use of debit, credit, and/or p-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 district's files. Debit, credit, and/or p-cards should not be "loaned" to other employees. That is, if the card has been issued/signed out to one employee, another employee should not be permitted to use that card. Personal charges should be strictly prohibited.

Section 7 establish provisions for open-market purchases.

Section 8 establish provisions for documentation of compliance with purchasing procedures, whether competitive, negotiated or open-market purchases.

Section 9 require that the appropriate district 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 district's files.

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CONTROL ACTIVITIES

CHAPTER 14

**EXPENSES/PAYABLES
GOODS AND SERVICES**

District officials should ensure:

- Section 1 that personnel or officials receiving goods or services purchased by the district sign delivery receipts, invoices, or other supporting documentation to verify that items and services for which the district has been billed have actually been received and accepted. The documentation should be sufficient to determine that the expenditure was for a district 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. District 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 district 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 district received and accepted the goods/services for which it was charged.

Section 7 that purchases made with district 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 district 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 district maintains its own bulk fuel tanks, includes a reconciliation of the amount of fuel used to the amount of fuel purchased.

Section 11 that detailed written travel policies are enacted and disbursements for travel and district vehicle usage are in accordance with the district'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 district 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 30 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 districts 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 district may adopt the model travel policy published by TAUD. When a district chooses to adopt the TAUD 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 TAUD model policy, the resulting policy will not be considered to be the TAUD model policy, and the entire policy must be filed with the Comptroller of the Treasury.

Section 12 that a federal Form 1099 is prepared and sent to the Internal Revenue Service for each noncorporate recipient of the district'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 15

PAYROLL AND RELATED LIABILITIES

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

District 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 (cross-referenced to the board approval in the minutes)
- 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 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 district 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 district 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 District 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 districts 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)*. District 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 16

INVENTORIES

District 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 17

CAPITAL ASSETS AND EXPENDITURES

District 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 district's name or seal clearly displayed. The asset record should be retained at the district 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 district's records. All such items should be tagged or marked to identify them as district 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. District officials should analyze risk exposure, assess the district's ability to absorb losses and structure their insurance purchases accordingly.
- Section 5 establish policies regarding personal use by district personnel of capital assets (such as heavy equipment and vehicles), cell phones, and other district property. **Personal use is generally discouraged** because of the additional costs and potential liability exposure for the district. However, if personal use is allowed it is generally considered to be a taxable fringe benefit and should be included in the individual's wages.
- Section 6 ensure that all district vehicles have government tags.
- Section 7 ensure that complete maps of the system are maintained and updated regularly.
- Section 8 ensure that a policy is developed regarding the disposal of surplus property. The district should ensure that the disposal of property acquired with grant funds (federal, state, local, nonprofit, etc) is handled in accordance with contractual and statutory requirements.

TITLE 5

CONTROL ACTIVITIES

CHAPTER 18

DEBT AND DEBT SERVICE EXPENDITURES

District officials should ensure that:

- Section 1 all debt instruments are maintained in a secure location and are available for inspection, audit, and planning purposes.
- Section 2 before entering into a debt agreement (other than through a direct lending department of the government of the United States), the board shall:
- a. adopt a resolution authorizing the issuance of the debt;
 - b. submit the public debt form CT0253 to the Comptroller (Office of State and Local Finance);
 - c. publish once in a newspaper of general circulation the report of the Comptroller during the week following the receipt of the report from the Comptroller.
- Section 3 after entering into a debt agreement, ensure that an annual budget is adopted and filed with the Comptroller (Office of State and Local Finance) prior to the beginning of any fiscal year for which debt is outstanding (*TCA 7-82-501(e)(1)*).
- Section 4 in multi-fund districts, there is no statutory authority for interfund loans and, therefore, they are **NOT** permitted.
- Section 5 reserve accounts are established as required by the debt agreement.
- Section 6 debt payments are made on a timely basis.
- Section 7 if the debt involves federal loan funds, the district 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 district 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 district, salary advances and similar activities are not in the best interest of the district and require the district to accept a certain level of risk of

nonpayment. To avoid taking additional unnecessary risks, districts should not engage in such practices.

TITLE 5

CONTROL ACTIVITIES

CHAPTER 19

COMPUTER CONTROLS

Computerized activities can improve performance, provide reporting tools to analyze operations, and transmit information automatically. However, additional computerization will not automatically yield better controls. In fact, there are inherent risks that must be addressed to ensure that inputs and outputs are reliable and data is secure.

Section 1 For software to be adequate for use by a district, 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 District officials should ensure that:

- a. controls are in place to ensure that only authorized individuals have access to electronic data and district 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.

Section 3 When acquiring and utilizing computer programs for accounting, billing and other activities the district should ensure that proper evaluation and testing on the software is performed. Without proper evaluation and testing this creates unknown risks to the district. 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 districts in determining if additional testing is necessary. Districts should not assume that a computer application is functioning properly without

proper evaluation; therefore documentation should be maintained on file to document the district's evaluation of the application. For applications that are modified at a later date, additional testing and evaluation will be necessary at that time.

TITLE 5

CONTROL ACTIVITIES

CHAPTER 20

COMPLIANCE CONTROLS

Section 1 District 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 district'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
- district court requirements
- budgeting and expenditures requirements
- financial reporting requirements
- state and federal laws and regulations
- debt issues
- trust arrangements

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

Section 3 The board should ensure that all commissioners have complied with the training and continuing education requirements of *TCA 7-82-308(f)*. The TAUD has developed a form related to this training that must be completed annually by each commissioner and maintained on file in the district's offices. Please refer to the *Utility Commissioner's Handbook*, 2011, page 2, for a copy of the form.

Section 4 District 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 21

NONPROFIT CONTRIBUTIONS

Section 1 TCA 7-82-304(a)(12)(A), provides that certain natural gas districts may, upon adoption of a resolution by the board, provide funding to chambers of commerce and economic and community organizations.

Section 2 TCA 7-82-304(b)(1) – (3) provides that:

(1)...upon the adoption of a resolution by its board of commissioners, has the power to accept and distribute voluntary contributions for bona fide charitable purposes pursuant to programs approved by the board of commissioners, which programs may include, but shall not be limited to, programs in which utility bills are rounded up to the next dollar when such contribution is shown as a separate line on the utility bill.

(2)Contributions accepted by a utility district pursuant to programs authorized by subdivision (b)(1) shall not be considered revenue to the utility district, and such contributions shall be used only for charitable purposes.

(3)For purposes of this subsection (b), a charitable purpose is one that provides relief to the poor or underprivileged, advances education or science, addresses community deterioration, provides community assistance, assists in economic development...