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**TITLE 6**

**MONITORING**

**CHAPTER 1**

**FUNCTIONAL ANALYSIS**

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Section 1 District 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 district'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 District 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 accounts receivables, customer deposits, etc., with general ledger totals and confirm balances with utility users.
- c. periodically reconcile petty cash.
- d. open mail and list mail collections for the cashier.
- e. test for uniform application and collection of interest and penalties.
- f. 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.

- g. prepare monthly financial reports and review for any unusual or unexpected balances that should be investigated for potential accounting errors, misstatements and/or irregularities

Section 3      The district should evaluate each 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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**TITLE 6**

**MONITORING**

**CHAPTER 2**

**COMPLIANCE ANALYSIS**

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Section 1      Assign an individual(s) who is familiar with legal, grant, contractual, debt, and other 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.

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**TITLE 6**

**MONITORING**

**CHAPTER 3**

**AUDIT COMMITTEES**

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Districts are encouraged to establish an audit committee. When establishing an audit committee, the board should:

Section 1 ensure that the committee members they select are external to management and include: members of the board and/or customers from within the service area of the district.

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

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**TITLE 6**

**MONITORING**

**CHAPTER 4**

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

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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 must 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 8-4-502, defines unlawful conduct as ...”Unlawful conduct means theft, forgery, credit card fraud, or any other act of unlawful taking, waste, or abuse of, or official misconduct, as defined in 39-16-402, involving public money, property, or services.”

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

- (a) A public official with knowledge based upon available information that reasonably causes the public official to believe that unlawful conduct has occurred shall report the information in a reasonable amount of time to the office of the comptroller of the treasury.
- (b) The comptroller of the treasury shall have the power to prescribe the method of making the reports.

*Tennessee Code Annotated*, Section 8-4-502, defines reasonable amount of times as “...any amount of time that is reasonable under the particular circumstances, but shall not under any circumstances exceed five (5) working days...”.

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

<http://www.comptroller1.state.tn.us/ca/fraudreport.asp>