



**TOWN OF ALEXANDRIA  
INTERNAL CONTROL MANUAL**

October 22, 2019

Ordinance 2019-2

First Reading           \_\_October 29, 2019\_\_

Second Reading       \_\_November 26, 2019\_\_

Mayor                   \_\_\_\_\_

Attested               \_\_\_\_\_

MTAS Finance and Accounting Team

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# Internal Control Manual

## 2 INTRODUCTION

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The Town of Alexandria has the responsibility to its taxpayers, ratepayers and constituents to be good stewards of public monies and property. In our efforts to serve the public as town officials or employees, the Town established this Internal Control Manual using widely recognized best practices and state and federal directives.

State of Tennessee statutes require the Comptroller's Office, Department of Audit to prescribe uniform accounting systems for entities that handle public funds. Those statutes require public officials to adopt and use the system designated by the Comptroller's Office. The Tennessee Legislature amended TCA Section 9-2-102 in 2015 to require local governments to establish and maintain internal controls in accordance with guidance issued by the U.S. Government Accountability Office (GAO). The guidance is titled *Standards for Internal Control in the Federal Government* (Green Book). The Green Book follows the format developed by the Committee of Sponsoring Organizations (COSO) which has been the gold standard of internal control for all entities except the federal government for several years.

The internal control system consists of three objectives and 5 main components. Within the 5 components there are 17 principles that apply to certain components. The state considers the 5 elements mandatory and the 17 principles are optional. The Town of Alexandria has chosen to only address the minimum requirements of the state in this manual however the 17 principles from the Green Book are presented below for informational purposes and to help explain the 5 components.

### **THREE (3) OBJECTIVES OF INTERNAL CONTROLS:**

1. Reporting – reliability
2. Operations – effective and efficient
3. Compliance – compliant with applicable laws, regulations, contracts and grant agreements

### **FIVE (5) MAIN COMPONENTS OF INTERNAL CONTROLS THAT ARE REQUIRED TO BE ADDRESSED:**

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

The purpose of this manual is to ensure that the objectives of reporting and compliance are established. The policies to achieve the objectives are derived from various financial best practices, state and federal laws, regulations, and policies may be developed to suit specific needs of town functions and resources. Detailed procedures are then developed and documented as a means for cities to comply with its established policies.

Figure 3: The Five Components and 17 Principles of Internal Control:

**CONTROL ENVIRONMENT:**

1. The oversight body and management should demonstrate a commitment to integrity and ethical values.
2. The oversight body should oversee the entity's internal control system.
3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

**RISK ASSESSMENT:**

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.
8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.
9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.

**CONTROL ACTIVITIES:**

10. Management should design control activities to achieve objectives and respond to risks.
11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
12. Management should implement control activities through policies.

**INFORMATION AND COMMUNICATION:**

13. Management should use quality information to achieve the entity's objectives.
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

**MONITORING:**

16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
17. Management should remediate identified internal control deficiencies on a timely basis.

Source: GAO. GAO-14-704G.

### 3 CONSIDERATIONS IN DEVELOPMENT OF INTERNAL CONTROLS

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Internal control is defined as a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance the town's objectives will be achieved. Before developing its Internal Control System (ICS), the town as a whole and each department should determine its mission, strategic goals and objectives, and then formulate a plan to achieve those objectives. The internal controls are policies and procedures put in place to help achieve those goals and objectives. By describing how a town/department expects to meet its various goals and objectives by using compensating controls to minimize risk, the entire town becomes more aware of expectations. Each department's internal control plan will be unique; however it must be based on polices included in this guide which incorporates or references to other comprehensive state, federal or standard setting agency polices that have been adopted. (Exhibits of excerpts from the Comptroller's Audit Manual listing TCA codes and Attorney General Opinions related to local governments are at the end of this manual).

Consistent monitoring of all components will ensure that the ICS (which must be reviewed and updated at least annually) is updated whenever changing conditions justify.

Since a town's policies and procedures are the control activities for its internal control plans, it is important that they be reviewed in conjunction with the plans and referenced where appropriate. Everyone in the town has a responsibility to ensure that internal controls operate effectively.

As directed by T.C.A. 9-18-102 (a) and in accordance with the guidance issued by Tennessee Comptroller's Office, the town has adopted this internal control manual. It is critical to note that the development and operation of the internal control system involves everyone in the organization. As such, management must ensure that the manual is shared with all of its employees. The manual is a work in process and will be assessed periodically.

The following sections document the 5 components of internal control and significant financial and compliance areas that are deemed high risk (*for the purpose of this example manual*).

#### 3.1 THE GREEN BOOK STATES DOCUMENTATION IS MANAGEMENT'S RESPONSIBILITY:

*3.09 Management develops and maintains documentation of its internal control system.*

*3.10 Effective documentation assists in management's design of internal control by establishing and communicating the **who, what, when, where, and why** of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors.*

## 4 FIVE COMPONENTS OF INTERNAL CONTROL

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### 4.1 CONTROL ENVIRONMENT

#### Overview

The control environment is the foundation for **all** other components of internal control, providing discipline and structure. Moreover, management establishes the tone at the top regarding the importance of internal control and expected standards of conduct, and reinforces expectations at various levels. Control environment factors include the integrity, ethical values and competence of the town's personnel; the way management assigns authority and responsibility, and organizes and develops its personnel; and the attention and direction provided by the governing body.

#### OBJECTIVES

1. The governing body and management should conduct business with integrity and ethical behavior.
2. Provide direction and oversight for town's internal control system.
3. Hire qualified and competent management.
4. Establish structure, authority and responsibility and hold individuals accountable for internal control responsibilities

#### Policies

1. A professional code of conduct has been adopted by the governing body.
2. The governing body through management has adopted a personnel manual.
3. The governing body also uses the budget process as a means of oversight with department heads.
4. Organizational charts are reviewed for needed changes in regards to authority and responsibility.

#### 4.1 Control Environment (Continued)

### Procedures

#### Procedures for policy 1 and 2

- The governing body appoints The Town Recorder/CMFO or a member of management to review the annual audit for internal controls findings. A corrective action plan is to be developed and submitted, if needed.
- The Town requires that each employee be familiar with the personnel policy.

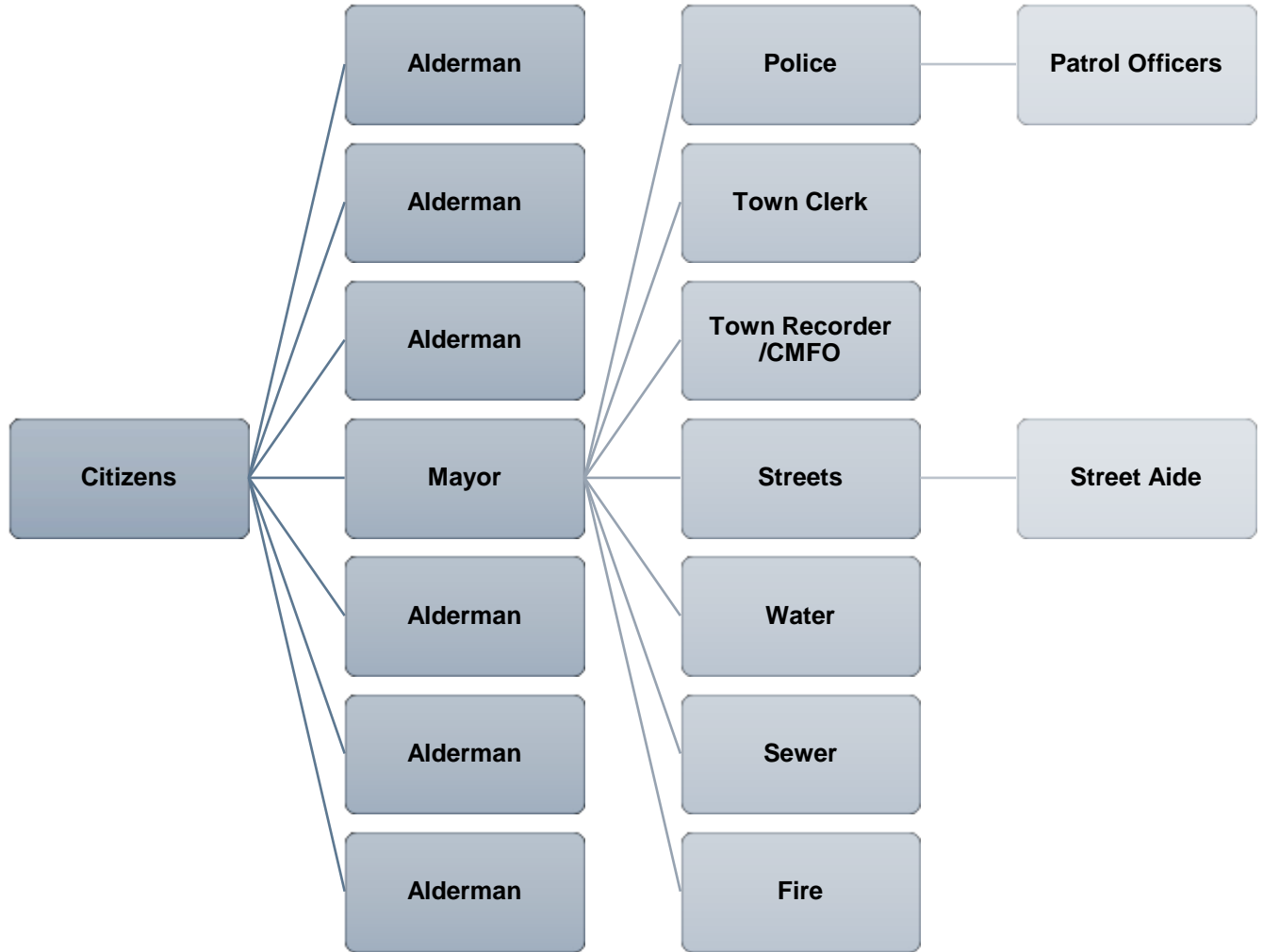
#### Procedures for policy 3

- In the first week in February the Mayor (with the assistance of the Town Recorder/CMFO) sends all department heads the budget worksheets for the up-coming fiscal year. The budgets are due back to the Finance Director by the 3<sup>rd</sup> Thursday in February.
- The Town Recorder/CMFO estimates revenues using the past 3 years collection history and current growth indicators along with any current information relevant to the revenue streams. The Town Recorder/CMFO will also estimate all the appropriations not otherwise assigned to a department head, enter the department head's budgets, and prepare the capital budget with a funding plan.
- The first budget workshop is in the beginning of March. All department heads are present to explain their respective budgets to the governing body and work to reduce any budget overages or request additional funding based on their department strategic plan of operation.
- The Town Recorder/CMFO makes the approved changes to the proposed budget and identifies problem areas that still exist. The Town Recorder/CMFO will make suggested changes to present to the governing body.
- The final budget workshop is held in the beginning of April. The budget will be finalized at this meeting and the capital plan will be included in it. The Town Recorder/CMFO will prepare the budget ordinance for its first reading at the May board meeting and the second reading to be heard at the June meeting.
- The required public notice must be placed no less than 10 days prior to second (final) reading.

#### Procedures for policy 4

- Town organizational charts were developed based on the town structure required in the town charter.
- The charts are reviewed periodically as positions are added or changed to determine if the reporting structure, authority, and responsibility documented in the chart is still accurate.
- All positions have a detailed job description which identifies the immediate supervisor and explains the responsibilities of the position.

*4.1.1 Organizational Charts for the Town of Alexandria*





## 4.2 RISK ASSESSMENT

### Overview

Town officials and management assess risk of operations continually. The town has chosen to transfer the most common types of risk through the purchase of the following types of insurance:

- Property and Casualty
- Liability
- Errors and Omissions
- Worker Compensation

There are risks we cannot anticipate or know about and as it relates to financial and compliance issues we have assessed the following areas and identified certain risks that we feel need to be addressed by the development of internal control policies and procedures. Internal controls will not eliminate all risk but will help reduce risk to gain reasonable assurance that reporting and compliance objectives are being met.

### Objectives

1. **Collections** are complete, timely and accurate.
2. **Disbursements** are for a valid town purpose and properly recorded.
3. **Assets** are properly safeguarded.
4. Town is in **compliance** with contractual, local, state and federal laws and regulations.

### Risk

#### Objective 1

1. Collections could be lost or misappropriated.
2. Collections could be recorded improperly.
3. Collections may not be deposited in the bank and recorded timely.

## 4.2 Risk Assessment (Continued)

### Risk

#### Objective 2

1. Disbursements could be unauthorized.
2. Disbursements could be for personal items.
3. Disbursements could be made for items never received.

### Risk

#### Objective 3

1. Bank balances may be inaccurate due to failure to reconcile bank accounts.
2. Capital assets or inventory items could be missing.
3. Inventory is not available when needed.

### Risk

#### Objective 4

1. Grant funds could be spent for unallowable items.
2. Grant rules may not be followed which could result in having to return federal funds.
3. Federal reporting requirements were not met.

The significant areas of risk are identified above and policies and procedures will be documented in the **next section** to explain how the town plans to put internal controls in place to help reduce some of the risks associated with these areas of operations.

## 4.3 CONTROL ACTIVITIES

### Overview

This section is where the detailed procedures will be documented. The objectives, policies and implemented procedures will be described for each of the significant areas identified in the Risk Assessment section.

#### 4.3.1 *General Collections/ACHs*

### Objectives

1. Collections are complete, timely and accurate.
2. Collections are safeguarded.
3. Collections should be recorded accurately and timely in the accounting system.

### Policies

#### Objective 1

1. A receipt will be issued for each collection made.
2. Cash drawers will be counted down as needed.
3. No checks will be cashed from the cash drawers.
4. All funds will be deposited within no more than 3 business days.
5. There will be no checks or cash left out of a deposit. If there is a question as to how it should be processed, it will be deposited as miscellaneous revenue in the General Fund or Utility Fund to be resolved later.

### 4.3.1 General Collections (continued)

#### Procedures

##### Procedures for policies 1-5

- The Town has one cashier. The cashier collects everything except property tax payments. The Town Recorder collects the property tax payments and other source revenue. In the event of the absence of one of the employees, the other may collect these receipts.
- Cashiers immediately stamp all checks “for deposit only” and issue pre-numbered receipts for all collections with the exception of utility receipts, a copy of the bill will suffice if there is no payment stub. Receipt lists date, amount, payer, cash or check and is signed by cashier. A copy is given to every customer and one is retained with the daily cash report.
- The cashier will count down the cash drawers as needed.
- A responsible employee is notified and takes the deposit to the bank.
- Daily cash reports and bank deposit records are given to the Town Recorder/CMFO.
- The Finance Director will reconcile the daily cash reports, deposit slips, and bank statements on a monthly basis. Dates will be compared to deposit records for timeliness. Receipts will be reviewed for accurate amounts, coding, and other required information.

#### Policies

##### Objective 2

6. All cash drawers are locked when unattended.
7. All cash drawers are locked in the vault during closed hours.
8. Access to the cash drawers and vault is always restricted.
9. Deposit bag is secured until the employee transports it to the bank.
10. At no time will cash be left out in the open unattended.
11. Employees are prohibited from comingling town assets with personal assets.

### 4.3.1 General Collections (continued)

#### Procedures

##### Procedures for policies 6 - 11

- The cash drawers are to remain locked at all times when unattended.
- The vault should be unlocked each morning; it may be left unlocked but should remain closed during the day. Once all cash drawers are counted down they should be placed in the vault and locked for the night and the weekend. Only the Town Recorder/CMFO, Utility Clerk/Court Clerk, and mayor should have access to the vault key/combination.
- All computer passwords will be changed as needed and access to collection, adjustment, voiding and other administrative functions will be restricted and checked regularly.
- The Town Recorder/CMFO will reconcile the daily cash reports, deposit slips, and bank statements on a monthly basis.
- The Town Recorder/CMFO is the only person authorized to have computer software support change restrictions or change control levels.

#### Policies

##### Objective 3

12. Chart of accounts codes will be reviewed with cashier on a regular basis.
13. All daily collection reports are posted to the general ledger by the Town Recorder/CMFO.
14. All accounting system updates and changes are discussed with office staff and appropriate changes made if necessary.
15. Reconciliations are performed monthly by the Town Recorder/CMFO.

#### Procedures

##### Procedures for polices 12-15

- The Town Recorder/CMFO will notify the cashier if an account code is changed or added.
- The Town Clerk/Utility Clerk forwards the daily cash collection reports to the Town Recorder/CMFO when the deposit records are picked up from the bank which alerts that the daily activity can be posted to the general ledger.
- The Town Recorder/CMFO will notify the office staff when computer updates are scheduled. Staff is to report any problems to the Town Recorder/CMFO immediately.
- The Town Recorder/CMFO will reconcile the daily cash reports, deposit slips, and bank statements on a monthly basis.

### **4.3.1.1 Town Courts**

#### **Objectives**

1. Police citation collections are complete, timely and accurate.
2. Citation collections are reconciled to citation records.
3. All legal requirements regarding citation transactions are met

#### **Policies**

##### Objective 1-2

1. A receipt will be issued for each collection made.
2. Periodic reconciliations of collections made.

#### **Procedures**

##### Procedures for policies 1-2

- The Town has one cashier. The cashier collects everything except property tax payments. The Town Recorder collects the property tax payments and other source revenue. In the event of the absence of one of the employees, the other may collect these receipts.
- Cashiers immediately stamp all checks “for deposit only” and issue pre-numbered receipts for all collections with the exception of utility receipts, a copy of the bill will suffice if there is no payment stub. Receipt lists date, amount, payer, cash or check and is signed by cashier. A copy is given to every customer and one is retained with the daily cash report.

### 4.3.1.2 Property Tax Collections

#### Objectives

1. Tax receivables are accurate and recorded in a timely manner.
2. Tax collections are reconciled to tax records.
3. Late penalties are properly calculated and recorded.
4. All legal requirements regarding property tax transactions are met.

#### Policies

##### Objective 1-4

1. A receipt will be issued for each collection made.
2. Additional and deletion to the tax rolls have to accompany an approval from the Tax Assessor's Office.

#### Procedures

##### Procedures for policies 1-4

- The Town has one cashier. The cashier collects everything except property tax payments. The Town Recorder collects the property tax payments and other source revenue. In the event of the absence of one of the employees, the other may collect these receipts.
- Cashiers immediately stamp all checks "for deposit only" and issue pre-numbered receipts for all collections with the exception of utility receipts, a copy of the bill will suffice if there is no payment stub. Receipt lists date, amount, payer, cash or check and is signed by cashier. A copy is given to every customer and one is retained with the daily cash report.
- Daily property tax receipt report is given to the Town Recorder/CMFO who makes up the bank deposit.
- Prior year taxes will be turned over for collection to the local Clerk and Master on or around May 1 every year. Once the prior year is turned over the collections cannot be processed at the town level.
- When an addition or deletion of a property tax is received from the Tax Assessor's Office it is forwarded to the Town Recorder/CMFO for posting.

### 4.3.1.3 Utility Billings and Collections

#### Objectives

1. Utility collections are reconciled to utility billing.
2. Late penalties are properly calculated and recorded.
3. All legal requirements regarding utility transactions are met.

#### Policies

##### Objective 1-3

1. A receipt will be issued for each collection made by stamping of the customers utility stub. If they don't have their bill the cashier will reprint the bill from the utility software.
2. Reconciliation of utility collections will process daily or as needed.
3. Delinquent utility notification will be processed monthly.
4. An adjustment policy is in place, internal corrections can be approved by the Utility Clerk, all other adjustments are approved by the Board of Aldermen at monthly town meetings.

#### Procedures

##### Procedures for policies 1-4

- The Town has one cashier. The cashier collects everything except property tax payments. The Town Recorder collects the property tax payments and other source revenue. In the event of the absence of one of the employees, the other may collect these receipts.
- Cashiers immediately stamp all checks "for deposit only" and issue pre-numbered receipts for all collections with the exception of utility receipts, a copy of the bill will suffice if there is no payment stub. Receipt lists date, amount, payer, cash or check and is signed by cashier. A copy is given to every customer and one is retained with the daily cash report.
- Daily utility report is given to the Town Recorder/CMFO to be reconciled with the bank deposit.
- Delinquent utility bills are processed the day after due date assessing penalty, cut-off notices showing the cut-off date are hung based on non-payment.



### 4.3.2 General Disbursements/Drafts

#### Objectives

- Disbursements are for a valid town purpose and necessary.
- Disbursements are timely.
- Disbursements are accurately coded and recorded in the accounting system.
- Disbursements are legally appropriated.

#### Policies

##### Objective 1-4

1. The town has adopted purchasing policies that comply with state law.
2. Checks are written at least weekly to ensure invoices are paid timely
3. All checks require two signatures.
4. All checks have documentation attached at the time of signing.
5. The Town Recorder/CMFO uses a computerized accounts payable system.
6. Purchase orders and packing slips are matched and entered into the accounts payable system weekly.
7. The Town Recorder/CMFO reviews the accounts payable prior to check run.
8. Budget availability is verified by the Town Recorder/CMFO prior to check run.

#### Procedures

##### Procedures for policies 1-8

- The Town receives bids on items that are more than their purchasing policy allows.
- Town Recorder/CMFO receives invoices and has department head to verify they did order and received items.
- Checks are written at least each week.
- The checks are presented with invoices attached for approval and signatures of the Town Recorder and Mayor/Vice Mayor.
- Town Recorder/CMFO uses a computerized system that tracks vendors and invoices.

### ***4.3.2.1 Payroll disbursements and payroll liabilities***

#### **Objectives**

1. Ensure that payroll is a centralized process in the municipality.
2. Ensure that all employees have an up to date personnel file.
3. Ensure that payroll is properly supported, calculated and recorded, including overtime.
4. Ensure that paychecks are issued in a timely manner.
5. Ensure that payroll is handled in accordance with all local, state and federal laws.
6. Ensure all payroll deductions are supported with the appropriate federal forms and are properly calculated.

#### **Policies**

##### Objective 1-6

1. Personnel files are kept up to date and in the Town Recorder office.
2. Payroll is supported by time sheets and calculated through computer software.
3. All payrolls is subject to local, state and federal laws.
4. Payroll deductions have supporting documents and are calculated through computer software.

#### **Procedures**

##### Procedures for policies 1-4

- Time sheets are turned in by department heads to the Town Recorder/CMFO.
- Town Recorder/CMFO inputs the information into the computer and process the payroll.
- Any deductions are then disbursed to the proper vendors by the Town Recorder/CMFO.

### 4.3.3 Safeguarding of Assets

#### Objectives

1. Ensure Town assets are properly valued and protected.
2. Ensure Cash, Accounts Receivable and other asset accounts are reconciled.
3. Ensure investments are safe.
4. Ensure Town assets are protected against loss, misappropriation or theft.
5. Ensure inventory items are available when needed for use.

#### Policies

1. All bank account statements (checking, savings, investments, etc.) are reconciled to the municipal general ledger accounts within 30 days of the date of the statement.
2. All bank accounts are appropriately collateralized. Any bank account balance that exceeds the FDIC coverage limit will be covered at 105% of the balance as per state statute. Any bank account balance maintained in a bank participating in the State Collateral Pool will be made to verify annually the accounts held are classified on the records of the bank as "Public."
3. All bank accounts are held in financial institutions under the municipality's name.
4. All withdrawals, checks, liquidations, etc., from any bank account requires two signatures.
5. All investments require two signatures.
6. Inventory records contain enough information to readily identify corresponding capital assets. Capital assets are tagged or otherwise identified during a physical inventory that is performed annually.

#### Procedures

##### Procedures for policies 1-8

- Town Recorder/CMFO reconciles bank accounts to the G/L monthly.
- Account balances are reviewed to see if FDIC/State Collateral coverage is adequate as part of the annual audit.
- All accounts are under the Town's name and any withdrawals or investments require two signatures.
- Department heads perform a yearly inventory.

### 4.3.4 Compliance

#### Objectives

1. Ensure that state law regarding the issuance of debt is followed.
2. Ensure that state and federal grant regulations are understood and followed.

#### Policies

##### Objective 1

1. The Town has adopted a debt management policy in accordance with state requirements.
2. The Town Recorder/CMFO is well versed on the state requirements for issuing debt.

##### Objective 2

3. Every department must notify the Town Recorder/CMFO when an application for 100% grant funding is submitted and subsequently awarded. All grants with matching requirements must be approved by the Mayor and Board of Aldermen and Town Recorder/CMFO prior to submission of application.
4. Once awarded, the Town Recorder/CMFO is to be notified of the project budget and detailed expenditure requirements of the grantor agency.
5. The Town Recorder/CMFO must be provided with the grant contact information, grant or contract numbers and whether the grant is state or federal funds.

#### Procedures

##### Procedures for Policies 1-5

- All debt management and grant contracts are approved through the Mayor and Board of Aldermen.

## 4.4 INFORMATION AND COMMUNICATION

### Overview

Management has the responsibility to adequately communicate and provide information to both internal and external parties. It is important that employees know the objectives, policies and procedures management has established and what the expectations are for internal controls. External stakeholders also seek information regarding objectives and reliable financial information.

### Objectives

1. Necessary quality information for achieving the entity's objectives is available and used.
2. Necessary quality information for achieving the entity's objectives is internally communicated by management.
3. Necessary quality information for achieving the entity's objectives is externally communicated by management.

### Policies

1. Information maintained in a format should be communicated in that same format. For example, if the general ledger is maintained on computer, the monthly budget to actual reports should be provided through a computer generated report from that software package.
2. Reliable and accurate quality information from municipal internal sources must be communicated to the people who need it in a timely and useful format.
3. Because the credibility of the municipality, its governing body, and its public officials is at stake whenever information is released to outside parties, management should be confident the information being released is accurate and the release is in compliance with policies and procedures.

## 4.4 Information and Communication (Continued)

### Procedures

#### Procedures for policy 1

- Review and document the information requirements to achieve key objectives and address the risks of the government.
- Review and document changes that occur in the local government's objectives and the related changes in information requirements.
- Identify and evaluate the reliability and timeliness of relevant data from both internal and external sources.
- Review and evaluate whether data has been processed into quality information that allows management to make informed decisions and evaluate whether the local government is achieving its objectives.

#### Procedures for policy 2

- Management clearly defines the lines of communication through organizational charts.
- Management has communicated the types of information required to achieve objectives and address risks.
- All internal control documents and related reports will be available to all staff in an appropriate method based on confidentiality and relevance to job responsibilities.
- The appropriate information delivery system has been determined (e.g. email, written memo, staff meetings, etc.) for changes and updates.
- Reports containing personally identifiable information or other protected or confidential information will be made available through communication methods that restrict internal and external access.

#### Procedures for policy 3

- Management should develop policies and procedures for communicating with external parties.
- Management should develop policies and procedures for evaluating the reliability of information provided to and received from external parties.
- Management should develop policies and procedures for ensuring that only authorized individuals provide information to external parties.
- Management should develop policies and procedures for ensuring that restricted information is provided only to authorized external parties.
- Management should develop policies and procedures for the redacting of information when requested under the open records statutes.

## 4.5 MONITORING

### Overview

The internal control system changes as technology, staff, objectives and policies change. Management is charged with continually monitoring the internal control system to determine if it is operating as it was designed to do and to insure the controls are being followed.

### Objectives

1. To practice activities to monitor the internal control system and evaluate the results.
2. To address deficiencies noted in the internal control system in a timely manner.

### Policies

1. To ensure that internal controls do not deteriorate and continue to work as designed over time, an annual risk assessment will be conducted by municipal management.
2. To establish more efficient and effective operations over time.
3. To ensure accurate and reliable financial information is used in decision-making.

### Procedures

#### Procedures for policies 1 and 2

- Evaluate and document the current state of the internal control system and document the differences between the criteria of the design and the current condition of internal control, for purposes of establishing a baseline.
- Determine whether to change the design of internal control or implement corrective actions to improve the operating effectiveness of internal control for differences that exist.
- Monitor internal control through built in monitoring activities and periodic separate evaluations and document the results.
- Evaluate differences to determine if 1) changes in internal control have occurred but have not been documented, 2) internal control has not been properly implemented, or 3) internal control design changes are needed.

## 4.5 Monitoring (Continued)

### Procedures for policy 3

- A member of management will review cash drawers and deposits randomly once a week to ensure policies are being followed, such as no cashing of personal checks, no borrowing from cash drawer and the makeup of cash vs checks is being documented.
- All accounts with financial institutions (checking, savings, investment, etc.) will be reconciled to the general ledger within 30 days of receipt of any statement from the financial institution.
- The above reconciliation will include a listing of outstanding checks and will be reviewed by management.
- Reconciling items on the above reconciliation will not be carried for more than 60 days.
- Reports comparing actual to budget amounts for revenues and expenditures (expenses) will be generated monthly and reviewed by those in a position of authority over financial operations. Those in a position of authority include, but are not limited to, the Town Recorder/CMFO, Mayor, and Town Council.



# EXHIBIT A - EXCERPT OF LOCAL GOVERNMENT RELATED LAWS FROM THE COMPTROLLER'S AUDIT MANUAL

Laws and Regulations - Section APP.D  
June 2015

## 4. Selected State Laws Affecting Municipalities

Municipalities must comply with federal, state, and local laws and regulations and charter and contract requirements. When determining which laws and regulations have a material direct or indirect impact on the financial statements, both quantitative and qualitative aspects must be considered. No one source summarizes all the applicable laws and regulations. The following list of references should be used only as a guideline in determining which state laws affect the municipality and should not be considered a comprehensive list of compliance features. These references do not necessarily represent the most significant laws, but represent areas in which recurring questions have arisen.

**Many municipalities have "Private Act" charters. The Private Acts of the State of Tennessee should be reviewed for these municipalities to assess compliance requirements.**

### *Selected Tennessee Code Annotated References for Municipalities*

#### **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 9-2-102	Books closed within two (2) months after fiscal year end <i>(GO TO DETAILED GUIDANCE – APP.D-9)</i>
Section 9-2-103 – 104	Consecutively prenumbered receipts required
Section 9-2-106	Violation of receipt requirements is a Class C misdemeanor
Section 9-18-102(a)	Government to establish internal controls (effective 6-30-2016)
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

#### **Audits and Other Regulatory Reporting to Local Government Audit**

Section 4-30-101	Local Government Electronic Technology Act of 2009
Section 6-54-903	Travel Policies – Filing Requirements
Section 6-56-105	Audits of municipalities
Section 8-4-109	Audits of governmental entities, Comptroller authorized
Section 8-4-115	Audit of Standardized Booking Procedures
Section 8-4-501 – 505	Local Government Instances of Fraud Reporting Act

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# EXHIBIT A - EXCERPT OF LOCAL GOVERNMENT RELATED LAWS FROM THE COMPTROLLER'S AUDIT MANUAL

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## Audits and Other Regulatory Reporting to Local Government Audit (continued)

Section 9-3-212	Duty to order and pay for audits
Section 9-3-405	Audit Committees
Section 12-9-101 – 112	Local Government Joint Venture Entity Reporting (see Section K of this manual for additional information)
Section 47-10-101 – 103	Uniform Electronic Transactions (audit contract and audit report)
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 54-4-203	Request to combine State Street Aid with General Fund
Section 68-221-1012	Reporting water loss

## 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 57-4-306	Mixed drink tax allocation of funds
Section 67-5-2005	Delinquent municipal real property tax certified to county trustees
Section 67-5-2404	Delivery of delinquent tax list to attorney

## Purchasing

Section 6-54-107	Officers' interest in municipal contracts prohibited
Section 6-56-301	Municipal purchasing law
Section 12-2-407	Sale of surplus property to governmental entities and not-for-profit corporations
Section 12-3-1201	Purchases for local governmental units (by department of general services)
Section 12-3-1209	Contracts with professional persons
Section 12-4-101	Personal interest of officers prohibited
Section 12-4-107	Contracts for professional services - engineering
Section 39-16-105	Buying and selling in regard to offices held or elected to

## 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

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**Debt**

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

**Disbursements**

Section 6-54-111	Appropriation of funds for nonprofit organizations <i>(GO TO LAW SUMMARY – APP.D-15)</i>
Section 6-54-901	Reimbursement for expenses incident to holding office
Section 6-56-111	Deposit within three working days–petty cash fund
Section 6-56-111(c)	Use of consecutively prenumbered checks
Section 6-56-112	Expenditures for lawful municipal purpose
Section 54-4-204	State street aid: Purposes for expending funds; Accounting

**Deficits and Unaccounted for Water**

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

**Landfills/Solid Waste**

Section 68-211-835(g)	Solid Waste Disposal Fees
Section 68-211-874	Accounting

**Municipal Utilities**

Section 7-34-115	Disposition of revenue
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
Sections 7-39-404, 7-52-118, 7-52-304, 7-52-404, and 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

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## Police and City Courts (continued)

Section 39-17-420	Drug control fines and forfeitures, allowed use of drug funds, Comptroller's guidelines must be followed for confidential expenditures—fingerprinting equipment
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 55-10-207	Electronic citation fees – special revenue fund
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
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 6-21-104 - 105	Surety bond required – City Manager-Commissioner Charter
Section 6-35-411	Surety bond required – Modified City Manager-Council Charter

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**Other (continued)**

Section 6-51-121	Recording of annexation ordinance or resolution by annexing municipality
Section 6-56-401 et al	Municipal Finance Officer Certification and Education Act of 2007
Section 6-56-407	Penalty for noncompliance with Municipal Finance Officer Certification and Education Act of 2007
Section 8-44-101	Sunshine Law – Policy
Section 8-44-102	Open meetings
Section 8-44-103	Notice of public meetings
Section 9-1-109	Penalty for worthless checks/money orders
Section 9-3-504	Pension Funding Policies
Section 9-21-130	Guidelines and rules and regulations relating to contracts and agreements authorized. <i>(GO TO SUMMARY – APP.D-9)</i>
Section 10-7-503	Records open to public inspection
Sections 6-54-107 & 12-4-101	Conflict of interest
Section 62-2-107	Employment of licensees in public works

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## 5. Municipal Donations to Nonprofit Organizations

Section 6-54-111, *Tennessee Code Annotated*, as amended, authorizes a municipality's governing body to appropriate funds for the financial aid of any nonprofit charitable organization that provides year-round services benefiting the general welfare of the residents of the municipality or any nonprofit civic organization working to maintain and increase employment opportunities in the municipality. This section also provides for the Comptroller of the Treasury to establish standard procedures to assist the municipal governing body in the disposition of funds so appropriated. The auditor should consider whether the municipality has complied with the following laws and rules:

1. A municipality may appropriate funds for only those nonprofit charitable organizations that provide year-round services benefiting the general welfare of the residents of the municipality, or any nonprofit civic organization classified under Sections 501(c)(4) or (6) of the Internal Revenue Code working to maintain and increase employment opportunities in the municipality.
2. Municipal payments to nonprofit organizations shall be limited to the amounts appropriated for such purposes and in keeping with the municipality's guidelines for how the appropriated funds may be spent.
3. The municipality shall require that each nonprofit organization receiving financial assistance from the municipality file with the disbursing official of the municipality a copy of an annual audit\* of its business affairs and transactions and the proposed use of the contributed funds.
4. For appropriations to nonprofit civic organizations, notices shall be published in a newspaper of general circulation in the municipality of the intent to make an appropriation, specifying the intended amount and purpose.

\* Attorney General Opinion number 91-52, addresses the requirement for an annual audit. The basis for the opinion indicates that an annual audit as used in this statute does not mean an audit conducted by an independent certified public accountant.

## EXHIBIT B EXCERPT OF LOCAL GOVERNMENT RELATED TN ATTORNEY GENERAL OPINIONS

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### 7. Selected Attorney General Opinions

The State Attorney General issues written legal opinions to certain state officials upon request. The Attorney General is required to provide written legal opinions to "the governor, secretary of state, state treasurer, comptroller of the treasury, members of the general assembly and other state officials...in the discharge of their official duties." 8-6-109 (b)(6), *Tennessee Code Annotated*.

The following is a summary of select opinions of interest;

#### 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>

#### Bids

<u>Date</u>	<u>Opinion Number</u>	<u>Description</u>
08/23/13	13-065	Requirement for local governments to seek competitive bids for liability insurance

#### 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

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**EXHIBIT B EXCERPT OF LOCAL GOVERNMENT RELATED TN ATTORNEY GENERAL OPINIONS**

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		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

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