

RESOLUTION 16-76

**A RESOLUTION TO ADOPT AN INTERNAL CONTROL MANUAL
FOR THE CITY OF SPRING HILL, TENNESSEE**

WHEREAS, the City of Spring Hill, TN has the responsibility to its taxpayers, ratepayers and constituents to be good stewards of public moneys and property; and

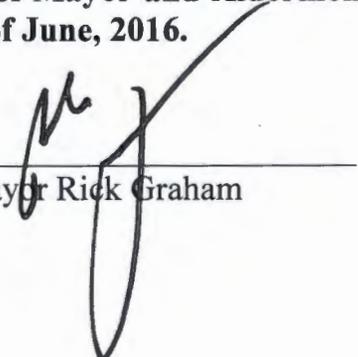
WHEREAS, State of Tennessee statutes require the Comptroller's Office, department of Audit to prescribe uniform accounting systems for entities that handle public funds; and

WHEREAS, the City of Spring Hill wishes to comply and has established an Internal Control Manual, using widely recognized best practices and state and federal directives; and

WHEREAS, the purpose of this manual is to ensure that the objectives of reporting and compliance are established.

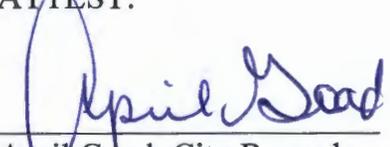
NOW, THEREFORE BE IT RESOLVED, that the City of Spring Hill Board of Mayor and Aldermen adopts the Internal Control Manual, contained herein and attached hereto.

Passed and adopted by the Board of Mayor and Aldermen of the City of Spring Hill, Tennessee on the 20th day of June, 2016.



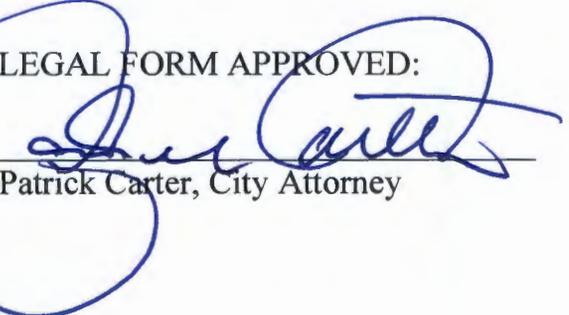
Mayor Rick Graham

ATTEST:



April Goad, City Recorder

LEGAL FORM APPROVED:



Patrick Carter, City Attorney



2016

CITY of SPRING HILL
Internal Control Ma

Approved:

Board of Mayor & Aldermen

June 20, 2016

Internal Control Manual

1 INTRODUCTION

The City of Spring Hill, TN 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 city officials or employees, the City 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 City of Spring Hill, TN has chosen to address these minimum requirements of the state in this manual. In addition, the City will utilize 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 operational objective will be developed using various financial best practices, state and federal laws, and regulations. Policies will be developed to suit specific needs of city functions and resources. Detailed procedures will then be 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.

2 FIVE COMPONENTS OF INTERNAL CONTROL

2.1 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 city'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 city'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. The governing body through management has adopted a personnel manual which includes job descriptions with minimum job requirements.
2. The governing body also uses the budget process as a means of oversight with department heads.
3. Organizational charts are reviewed for needed changes in regards to authority and responsibility.

2.1 Control Environment (Continued)

Procedures

Procedures of policy 1

- Detailed job descriptions with minimum job requirements are a part of the city's personnel manual. The minimum job requirements are based on like positions in similar governments and will meet state or federal requirements if applicable.
- Hiring procedures are detailed in the manual and prohibit hiring anyone who does not meet the minimum job requirements.

Procedures for policy 2 & 3

- By the 15th of January the Finance Director sends all department heads budget worksheets for the up-coming fiscal year. Budget worksheets have two columns, **Base** and **Proposed**. The base column will typically be the same budget as the current year's with minor adjustments due to contractual obligations, etc. The proposed column will reflect the department head's requests for new personnel, desired changes in operational expenditures and new capital improvement projects. These are due back to the Finance Director by 1st of February.
- The Finance Director will create a budget calendar by the 15th of January and distribute it to department heads and the Board of Mayor and Aldermen (BOMA).
- The Finance Director will use ytd numbers through January for revenue as a beginning point of revenue estimates. Additionally, the past 2 years' revenue history plus current growth indicators along with any current information relevant to the revenue streams will be used. The Finance Director will also estimate all the appropriations not otherwise assigned to a department head.
- Senior management will develop the Capital Improvement Plan for the proposed budget. The City Administrator, the Assistant City Administrator & Finance Director and the Assistant City Administrator for Infrastructure will be referred to in the budget process as senior management.
- During February, senior management will meet with department heads individually to discuss requests for the proposed budget. After all requests have been made, senior management will review any updated revenue estimates.
- Typically, in March, senior management will host budget workshops for the BOMA. Feedback received from the BOMA will be incorporated into the proposed budget. Resulting budget overages and/or underages will be reviewed by senior management for BOMA approval.

- In April, at a separately called BOMA meeting, the budget is presented to BOMA. Suggested changes will be incorporated into the budget and will become the finalized budget to be presented at the BOMA work session on the 1st Monday in May.
- The Finance Director 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 will be placed in the local newspaper 7 days after the first ordinance reading and must be placed no less than ten days prior to second (final) reading.
- City organizational charts are developed based on the city structure required in the city charter.
- The organizational charts are reviewed periodically as positions are added, changed or deleted to determine if the reporting structure, authority, and responsibility documented in the chart is still accurate.
- As part of the personnel manual, all positions have detailed job descriptions which identifies the immediate supervisor and explains the responsibilities of the position.
- The organizational charts are updated if a job description is changed.

2.1.1 City Organizational Charts

Organizational charts for the City will be shown on the following 5 pages.

City of Spring Hill, TN Organizational Chart - 2016

City Administrator – Victor Lay

Assistant City Administrator & Infrastructure Director – Dan Allen

Assistant City Administrator & Finance Director – Jim Smith

Water Plant

Sewer Plant

Public Works

Parks and Rec

GIS and IT

Planning

Codes

Engineering

Stormwater

Human Resources

Fire

Police

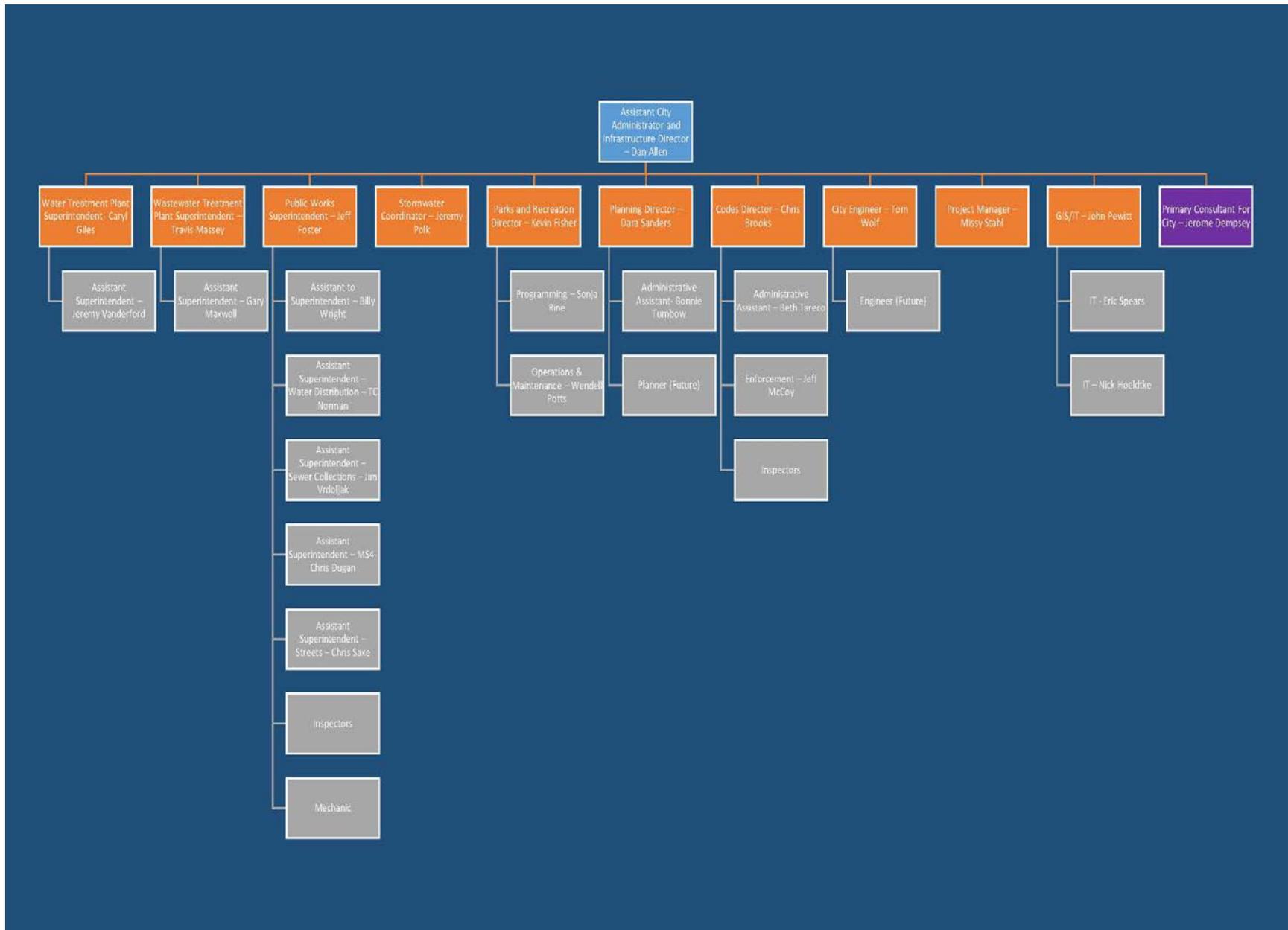
Dispatch

Library

Finance

Utility Billing

Communications



Assistant City Administrator and Infrastructure Director – Dan Allen

Water Treatment Plant
Superintendent- Caryl Giles

Wastewater Treatment Plant
Superintendent – Travis
Massey

Public Works Superintendent – Jeff Foster

Stormwater Coordinator –
Jeremy Polk

Parks and Recreation
Director – Kevin Fisher

Planning Director – Dara
Sanders

Codes Director – Chris
Brooks

City Engineer – Tom Wolf

Project Manager – Missy
Stahl

GIS/IT – John Pewitt

Primary Consultant For City –
Jerome Dempsey

Assistant Superintendent – Jeremy
Vanderford

Assistant Superintendent – Gary
Maxwell

Assistant to Superintendent – Billy
Wright

Assistant Superintendent – Water
Distribution – TC Norman

Assistant Superintendent – Sewer
Collections – Jim Vrdoljak

Assistant Superintendent – MS4-
Chris Dugan

Assistant Superintendent – Streets –
Chris Saxe

Inspectors

Mechanic

Programming – Sonja Rine

Operations & Maintenance –
Wendell Potts

Administrative Assistant- Bonnie
Turnbow

Administrative Assistant – Beth
Tareco

Enforcement – Jeff McCoy

Inspectors

IT - Eric Spears

IT – Nick Hoeldtke

Assistant City
Administrator and
Finance Director – Jim
Smith

Utility Billing/ City
Recorder- April Goad

Finance/City
Accountant – Robin
Bates

Fire – Chief Terry Hood

Library – Hulin Bivens

Dispatch – Brandi
Arabie-Smith

Communications –
Jamie Paige

Police – Chief Don Brite

Battalion Chief Kevin
Glen (A-Shift)

Battalion Chief Greg
Boyd (B-Shift)

Battalion Chief Brian
Garza (C-Shift)

Fire Marshal – Tony
Wallace

Deputy Chief – Jason
Fogle

Criminal Investigations
– Lt. Justin Whitwell

Patrol – Lt. Kenny
Seibold

Support – Lt. Shauna
Dooley

Assistant City Administrator and Finance Director – Jim Smith

City Recorder/Office
Manager – April Goad

Finance/ City Accountant –
Robin Bates

Fire – Chief Terry Hood

Library – Hulen Bivins

Dispatch – Brandi Arabie-
Smith

Communications – Jamie
Paige

Police – Chief Don Brite

Battalion Chief Kevin Glen (A-Shift)

Battalion Chief Greg Boyd (B-Shift)

Battalion Chief Brian Garza (C-Shift)

Fire Marshal – Tony Wallace

Deputy Chief – Jason Fogle

Criminal Investigations – Lt. Justin
Whitwell

Patrol – Lt. Kenny Seibold

Support – Lt. Shauna Dooley

2.2 RISK ASSESSMENT

Overview

City officials and management assess risk of operations continually. The city 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. 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 city purpose and properly recorded.
3. **Assets** are properly safeguarded.
4. City 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.

2.2 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 or state funds.
3. Federal or state 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 city plans to put internal controls in place to help reduce some of the risks associated with these area of operations.

2.3 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.

2.3.1 Collections – Includes any and all monies owed to the City to include (but not necessarily limited to):

- Water and sewer revenues
- Property taxes
- Franchise taxes
- Wholesale liquor taxes
- Business license fees
- Recycling fees
- Garbage fees
- Stormwater fees
- Building permits
- Charges for various city services
- City court revenues
- Insurance recoveries
- Bond forfeitures
- Intergovernmental revenues

Objectives

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

2.3.1 Collections (continued)

Policies

Objective 1

1. A receipt will be issued for each collection made.
2. Each cashier will have their own cash drawer.
3. Two people will count down each cash drawer daily and verify funds to the journal register report.
4. No checks will be cashed from the cash drawers.
5. All cash drawers will be closed out and counted daily.
6. All funds will be deposited daily.
7. All monies are receipted at the Finance Office in City Hall.
8. There will be no checks or cash left out of a deposit.

Procedures

Procedures for policies 1-8

- The city has 3 cashiers. Cashiers 1 and 2 generally receipt utility payments and permit fees. Cashier 3 is the court clerk and collects court related payments. All cashiers can receipt other collections as necessary due to vacations, illness, lunch breaks, etc.
- Checks are stamped "for deposit only" and prenumbered receipts are issued for all collections. Receipts list the date, amount, payer, proper accounting code, form of payment and the cashier. A copy is given to the customer and one is retained for office records.
- Cash drawers are counted down daily and the Accounting Clerk verifies cash drawers when preparing the deposit.
- Bank deposits are secured in a locked bank bag.
- A departmental employee who is not associated with receiving, receipting, and counting of money takes the deposit to the bank.
- Daily cash reports and bank deposit records are given to the City Accountant.
- The City Accountant reconciles the daily cash reports and deposit slips on a weekly basis for the general fund and the water/sewer fund. Bank statements are reconciled monthly.

2.3.1 Collections (continued)

Policies

Objective 2

9. All cash draws are locked when unattended.
10. All cash drawers are kept in a fire proof locked cabinet or the locked cash drawer located at the cashier's workstation during non-business hours.
11. Access to the fire proof cabinet is restricted.
12. The locked deposit bag is secured until the designated employee transports it to the bank.
13. At no time will cash be left out in the open unattended.
14. Employees are prohibited from comingling city assets with personal assets.

Procedures

Procedures for policies 9 – 14

- Each cashier is issued a separate cash drawer to which they have the key. The drawers are to remain locked at all times when unattended.
- The fire proof cabinet will be unlocked each morning and will remain closed during the day. Cash drawers are placed in the fire proof cabinet or the locked drawer at the cashier's workstation. The Accounting Clerk and the City Recorder have access to the keys.
- All cash drawers will be closed and counted and will be done one at a time so there is always one cashier to take payments.
- All computer passwords will be changed periodically and access to collection, adjustment, voiding and other administrative functions will be restricted and checked regularly.
- The City Accountant reconciles the daily cash reports and deposit slips on a weekly basis for the general fund and the water/sewer fund. Bank statements are reconciled monthly.

2.3.1 Collections (continued)

Policies

Objective 3

15. Chart of accounts changes will be reviewed with cashiers as needed.
16. All daily collection reports are posted to the general ledger by the Accounting Clerk.
17. All accounting system updates and changes are discussed with office staff and appropriate changes made if necessary.
18. Reconciliations are performed monthly by the City Accountant.

Procedures

Procedures for polices 15-18

- The City Accountant will notify the cashiers if an account code is changed or added.
- The Accounting Clerk forwards the daily cash collection reports to the City Accountant when the deposit records are returned from the bank and the Accounting Clerk posts to the general ledger.
- The Finance Director/IT department will notify the office staff when computer updates are scheduled. Staff is to report any problems to their supervisor immediately.
- The City Accountant reconciles the daily cash reports and deposit slips on a weekly basis for the general fund and the water/sewer fund. Bank statements are reconciled monthly.

2.3.2 Disbursements/Drafts

Objectives

1. Disbursements are for a valid city purpose and necessary.
2. Disbursements are timely.
3. Disbursements are accurately coded and recorded in the accounting system.
4. Disbursements are legally appropriated.

2.3.2 Disbursements (continued)

Policies

Objective 1 and 2

1. The city has adopted purchasing policies that comply with state law.
2. Various levels of authority have been assigned.
3. Purchase orders and invoices are matched and sent manually or electronically to accounts payable for payment as soon as possible.
4. Checks are processed as often as necessary to ensure invoices are paid timely.
5. All checks require two signatures.
6. Payment registers are reviewed prior to check signing.

Procedures for policies 1-3

- The City has an adopted a purchasing policy and will review/update it on a periodic basis.
- Department heads will approve purchase requests for their departments and have them entered into the City's automated accounting software system.
- The City Administrator and Finance Director (both) will review and then approve all such requests on a periodic basis as needed.
- If the City Administrator or Finance Director has a question, the process will be halted until such time that issue is resolved or disapproved.
- Once a purchase request has been approved, the accounting software will create and assign a purchase order number (PO).
- The Accounts Payable Clerk will process PO's as they occur.
- Incoming daily mail will be delivered to the Accounts Payable Clerk who will open the envelopes. If the correspondence is an invoice, the clerk will process the invoice after approval from the department head. Department heads can also submit electronic invoices via the accounting software for processing.
- The Accounts Payable Clerk will scan invoices not received electronically.

Procedures

2.3.2 Disbursements (continued)

Procedures for policies 4-6

- Payments can be processed electronically through the software but can, on occasion, be processed manually.
- All checks will have two signatures whether it is prepared electronically or manually.
- The Mayor, Vice-Mayor, City Administrator, Finance Director and City Recorder are authorized to sign checks.
- The City Recorder is responsible for any changes in signatories.
- The Accounts Payable Clerk generates a payment register report and emails it to the two signatories that will be electronically signing the check. Checks manually signed will have appropriate documentation to be reviewed prior to a signature.

Policies

Objective 3 and 4

7. The finance office uses a computerized accounts payable system.
8. All purchase requests are coded by the department head.
9. Invoices are entered in the accounts payable system.
10. Budget availability is verified by the accounting system check run.
11. The signatories will review the payment register prior to the check run.
12. A purchase amount that is \$10,000 or higher requires a resolution to the BOMA for approval.

2.3.2 Disbursements (continued)

Procedures

Procedures for policies 7-12

- Purchase requests begin at the department level and are entered into the accounting system for a purchase order to be electronically generated.
- Invoices are entered into the accounting system by the department heads and his/her designee as well as the Accounts Payable Clerk.
- Budget availability is verified by the accounting system when the purchase request is made. If the amount requested exceeds the total amount budgeted, the department head will contact the Finance Director for resolution.
- The purchasing policy states that any single purchase greater than \$10,000 requires a resolution to be voted on by the BOMA.
- Prior to a check run, the Accounts Payable Clerk will generate a payment register and email it to the two signatories.
- The two signatories will review the purchase request prior to entering their coded signature.
- A request to break down a purchase request into a lesser amount to be under the \$10,000 limit will be reviewed and disallowed.

2.3.3 Payroll disbursements and payroll liabilities

Objectives

1. Payroll transactions are for a valid city purpose and necessary.
2. Payroll transactions are timely.
3. Payroll transactions are accurately coded and recorded in the accounting system.
4. Payroll transactions are legally appropriated.

2.3.3 Payroll disbursements and payroll liabilities (continued)

Policies

Objective 1 and 2

1. The city has adopted a budget with specific job positions and employee benefits.
2. Various levels of authority have been assigned.
3. Timesheets are submitted electronically for payroll processing. The related benefit deductions are electronically generated in the accounting system as an ap packet and forwarded to accounts payable.
4. Payroll is processed every other Friday, with minor exceptions.
5. All manual checks require two signatures. Direct deposits do not require signatures.
6. Payroll summary registers are sent to the City Administrator and City Recorder prior to transmission of direct deposits.

Procedures for policies 1-3

- The City has an adopted a budget which will reviewed and updated on a periodic basis.
- Employees submit timesheets in the ESS system and the department heads approve their department's timesheets.
- Benefit payments are generated by payroll and verified against the related invoice, several times a year.
- If the Payroll Administrator has a question on a timesheet, payroll will be halted until such time that issue is resolved or disapproved.
- Once timesheets are reviewed by the Payroll Administrator various processes are completed to calculate payroll. The accounting software will create an invoice for benefit payments after the payroll process updates.
- The Accounts Payable Clerk will process benefits deduction as they are due.
- The Accounts Payable Clerk will scan all invoices not received electronically.

Procedures

2.3.3 Payroll disbursements and payroll liabilities (continued)

Procedures for policies 4-6

- Payments can be processed electronically through the software but can, on occasion, be processed manually.
- All accounts payable checks will have two signatures whether it is prepared electronically or manually. Direct deposits do not require signatures or any additional electronic approvals for submission.
- The Mayor, Vice-Mayor, City Administrator, Finance Director and City Recorder are authorized to sign checks.
- The City Recorder is responsible for any changes in signatories.
- The Accounts Payable Clerk generates a payment register report and emails it to the two signatories that will be electronically signing the check. Manual checks signed will have appropriate documentation to be reviewed prior to a signature.

Policies

Objective 3 and 4

7. The finance office uses a computerized payroll system.
8. All employee payroll account codes, pay rates and benefit deductions are entered by Human Resources per the approved budget.
9. Timesheets are entered into the ESS system and invoices are generated for benefits deductions for the Accounts Payable Clerk.
10. Budget availability is periodically reviewed by the Finance Director.
11. The City Administrator and City Recorder are sent the Summary Register and/or supporting documentation for review prior to the check run or direct deposit.

2.3.3 Payroll disbursements and payroll liabilities (continued)

Procedures

Procedures for policies 7-11

- Timesheets begin at the employee level and are entered into the ESS system for the department heads review and approval.
- Benefit deductions are entered into the accounting system from an ap packet generated by the payroll process for the Accounts Payable Clerk to process.
- Budget availability is reviewed periodically by the Finance Director. If the amounts exceed the total amount budgeted, the Finance Director may recommend a budget amendment.
- Prior to a check run, the Accounts Payable Clerk will generate a payment register and email it to the two signatories.
- The two signatories will review receive the payment register prior to signing checks.

2.3.4 Safeguarding of Assets

Objectives

1. Ensure city assets are properly valued and protected.
2. Ensure Cash, Accounts Receivable and other asset accounts are reconciled.
3. Ensure investments are safe and in accordance with adopted investment policy.
4. Ensure city 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 15 days of the receipt 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. Purchase documents contain enough information to readily identify corresponding capital assets. Capital assets are identified during the insurance renewal period that is performed annually.
7. Proper safeguards are in place to prevent theft or loss of assets.

Procedures

Procedures for policies 1-7

- The City Accountant reconciles the daily cash reports and deposit slips on a weekly basis for the general fund and the water/sewer fund. Bank statements are reconciled monthly.
- The Finance Director and City Recorder verify that all bank accounts and/or investments are in the municipality's name and in the State Collateral Pool.
- All bank transactions will have two signatures.
- The City Administrator, Finance Director and City Recorder are authorized to add, delete or change accounts.

2.3.5 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 city has adopted a debt management and financial policy in accordance with state requirements.
2. The Finance Director is well versed on the state requirements for issuing debt.

2.3.5 Compliance (continued)

Objective 2

3. Every department must notify the Finance Director when an application for grant funding is submitted and subsequently awarded. All grants with or without matching requirements must be approved by the City Administrator prior to submission of application.
4. Once awarded, the Finance Director and Infrastructure Director are to be notified of the project budget and detailed expenditure requirements of the grantor agency.
5. The Finance Director and Infrastructure Director must be provided with the grant contact information, grant or contract numbers and whether the grant is state or federal funds.

Procedures for Policies 1-2

- The Debt Management and Financial Policy will be reviewed and updated as needed.
- The Finance Director, whether a CMFO or a CPA, will be required to attend classes or conferences to keep abreast of State requirements.

Procedures

Procedures for Policies 3-5

- The budget will be amended after award of a grant to ensure appropriations have been approved by the BOMA.

2.4 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 City's objectives is available and used.
2. Necessary quality information for achieving the City's objectives is internally communicated by management.
3. Necessary quality information for achieving the City'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 (or downloadable) 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.

2.4 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 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 City is achieving its objectives.

Procedures for policy 2

- Management clearly defines the lines of communication through policy manuals and 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.
- Staff meetings will be used to reinforce memo, email, intranet, and restricted communications.

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.

2.5 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 City management.
2. To establish more efficient and effective operations over time.
3. To ensure accurate and reliable financial information is used in decision-making.

2.5 Monitoring (continued)

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.

Procedures for policy 3

- The Accounting Clerk will review cash drawers and deposits daily 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 15 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: City Administrator, Finance Director, City Accountant and BOMA.

2.6 SUMMARY

The framework of the manual complies with the state requirements and was created using the Green Book as guidance.

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

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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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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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		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