

ORDINANCE NO. 20200629-02
AN ORDINANCE TO ADOPT AN INTERNAL CONTROL SYSTEM FOR THE
TOWN OF BRIGHTON, TENNESSEE

An ordinance of the Town of Brighton adopting an internal control system as required by the Tennessee Comptroller of the Treasury's Internal Control Manual dated December 2015. The requirement resulted from the amendment of TCA 9-18-102 known as The Financial Integrity Act of 1983, section (a). The amendment required the establishment and maintenance of internal controls that provide reasonable assurance that:

1. Obligations and costs are in compliance with applicable law;
2. Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriations; and
3. Revenues and expenditures are properly recorded and for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.

Be it Ordained by the Board of Mayor and Aldermen of the Town of Brighton, Tennessee that:

Section 1. The responsibility for the design and day to day oversight of the internal control system be delegated to the Mayor and the Town Recorder/CMFO. The manual will comply with the requirements of the State of Tennessee and if applicable the U. S. Federal Government as required by grant regulations.

Section 2. The maintenance and update of the official Internal Control Manual is to be adopted and amended by resolution.

Section 3. All town employees are expected to follow the prescribed procedures as documented in the Internal Control Manual and it shall the responsibility of the respective department head to ensure personnel under their supervision observe and follow the proper controls.

Section 4. If any section, subsection, sentence, clause or phrase of this ordinance is, for any reason, held to be unconstitutional, such decision shall not affect the validity of the remaining portions of this ordinance. The governing body hereby declares that it would have passed this ordinance, and each section, subsection, clause or phrase thereof, irrespective of the fact that any one or more sections, subsections, sentences, clauses and phrases be declared unconstitutional.

Section 6. That the Town Recorder is hereby ordered and directed to cause this ordinance to be published.

Section 7. That this ordinance and the rules, regulations, provisions, requirements, orders and matters established and adopted hereby shall take effect and be in full force and effect from and after the date of its final passage and adoption.

Passed 1st Reading June 24, 2020

Passed 2nd Reading June 29, 2020



Sarah Crocker, Mayor

Attest:



Tammy McKinney, CMFO



TOWN OF BRIGHTON INTERNAL CONTROL MANUAL

June 29, 2020

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Internal Control Manual

2 INTRODUCTION

The Town of Brighton 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 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 most entities except the federal government for several years.

The internal control system consists of three objectives and five main components. Within the five components there are 17 principles that apply to certain components. The state considers the five elements mandatory and the 17 principles are optional. The Town of Brighton 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 five 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 addressed at a later time.) The policies to achieve the objectives are derived from various financial best practices, state and federal laws, and regulations and policies may be developed to suit specific needs of city 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

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 policies included in this guide which incorporates or references to other comprehensive state, federal or standard setting agency policies 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/department'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.

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

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

A conflict of interest form is completed annually by all employees and officials.

Action Items

- The Town Recorder/CMFO is responsible for preparing the annual conflict of interest forms for distribution.
- The forms are distributed with the last payroll receipt in October and it must be returned before the employee's W-2 will be released.
- The forms are filed in one folder labeled with the calendar year and reviewed by the Town Recorder/CMFO.
- If there are any conflicts documented or any conflicts suspected but not documented the cases should be discussed with the Mayor.
- The Mayor will schedule a meeting with the employee in question to discuss the conflict and a resolution will be made.

A professional code of ethics and a personnel manual has been adopted by the governing board and management and is reviews annually with all employees.

Action Items

- The governing body appoints a member of management to review the annual audit for internal controls findings. A corrective action plan is to be developed and submitted
- The Town shall hold annual required training where human resource topics are covered. The code of ethics and the personnel manual are always part of the training.
- Training agendas, content and sign-sheets are reviewed to ensure all employees have attended.
- Employees who miss training are required to take online classes and sign a form verifying the code of conduct and personnel manual have been made available to them.
- When an employee leaves, an exit checklist is required which includes a statement that they have attended the required training in the current year or the past calendar year.

The governing body also uses the budget process as a means of oversight with department heads.

Action Items

- In March the Mayor or Town Recorder/CMFO sends all department heads the budget worksheets for the up-coming fiscal year. The budgets are due back as outlined in the transmission memo.
- 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 typically occurs in April. 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 Mayor and/or Town Recorder/CMFO make the approved changes to the proposed budget and identify problem areas that still exist. The Mayor and/or Town Recorder/CMFO will make suggested changes to present to the governing body.
- The final budget workshop is held the end of April or close to it. 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 board meeting.
- The required public notice will be placed in the local newspaper no less than ten (10) days prior to second (final) reading.

The governing body also uses the budget process as a means of oversight with department heads.

Action Items

- 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.

4.1.1.1

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.

Risks

Collections are complete, timely and accurate.

Risks

- Collections could be lost or stolen.
- Collections could be recorded improperly.
- Collections may not be deposited in the bank and recorded timely.

Disbursements are for a valid Town purpose and properly recorded.

Risks

- Disbursements could be unauthorized or without appropriate supporting documentation.
- Disbursements could be for personal items.
- Disbursements could be made for items never received.
- Disbursements could be coded incorrectly for processing

Assets are properly safeguarded.

Risks

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

Town is in compliance with contractual, local, state and federal laws and regulations.

Risks

- Grant funds could be spent for unallowable items.
- Grant rules may not be followed which could result in having to return federal funds.
- 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, Property Tax, Utility/ACHs Collections

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

A receipt will be issued for each collection made.

Action items

- Cashiers immediately stamp all checks "for deposit only" and issue computer/software generated receipts for all collections. Receipt lists as much information as is practical to identify the transaction. This information may include date, amount, payer, relevant accounting information, cash or check and software generated initials receiving cashier. A copy is given to every customer or retained with daily cash report.

No checks will be cashed from the cash drawers.

Actions Items

- The Town Recorder/CMFO or designee will periodically perform surprise cash counts to ensure there are no personal checks held in the cash drawers and to ensure the drawers are in balance.

Collections will be complete, timely, and accurate.

General Actions Items

- Cashiers will ensure all valid charges are applied to accounts or payments due to the Town.

Property Tax Action Items

- Cashiers will ensure all prior years' taxes are paid before accepting current year's taxes.
- Cashiers will only collect payment in full on any given parcel. Partial payments are not accepted and any partial payments received by mail shall be returned. The only exception is when taxpayer and subsequent parcel is under bankruptcy protection, in which case a spreadsheet is used to track payments.
- Payment cannot be accepted once parcel has been turned over to the Tipton County Clerk & Master's Office.
- Changes to the Master Record of the Property Tax System must never be made unless directed by Tipton County Tax Assessor's Office or the State Board of Equalization.

Concession Stand Action Items

- Any item discounted shall be accounted for in the Point of Sale system and a receipt signed by a supervisor shall remain with the daily transaction documentation.

Town Court Action Items

- Cashiers will ensure all fees are correctly charged per violation. Payments are applied to the Point of Sale Software and the Court Software.

Adjustments to accounts will only be done upon approval of Town Administrator.

Utility Action Items

- Water leak or any other utility adjustment is submitted to Town Recorder/CMFO with appropriate documentation for approval prior to adjustment being completed. Base utility service fees may not be reduced or waived while penalties and fees may be reduced or waived with approval of Town Recorder/CMFO or Mayor.

Property Tax Action Items

- Penalty adjustments for past-due property taxes will be reviewed by a Town Clerk and approved by the Town Recorder/CMFO.

Each Cashier will have their own cash drawer and are prohibited from working for another employee's drawer.

Action Items

- Each cashier is assigned a cash drawer with a unique key.
- Cashiers shall secure their cash drawer during break periods or other times when they will be away from the work station.
- Cashiers are prohibited from working from a cash drawer assigned to another employee and are subject to disciplinary action, up to and including termination, for violations of this policy.

All cash drawers will be closed out and counted daily.

Action Items

- Each cashier batches out in software and counts down the drawer daily.
- Each cashier tallies and completes deposit ticket. The deposit and daily cash report are given to the other cashier for verification and both initial the outgoing deposit. The other cashier also posts the daily cash total into the software system. Example: Cashier A balances their drawer, completes a deposit ticket and processes a daily cash report. All of that is given to Cashier B for verification. Both cashiers will sign off on the deposit ticket showing money has been verified prior to going to the bank. Cashier B will post the daily cash total from the report created by Cashier A to the General Ledger Software. This report will also be signed by both cashiers as verification.
- Any cash shortage / overage will be documented and reported to the Town Recorder/CMFO.

All funds will be deposited daily.

Action Items

- Daily cash reports are compiled and monies tallied and deposits created and delivered to bank.
- All decentralized locations will deliver cash and checks to Town Hall within one business day of receipt. Cash and checks should not be held at decentralized locations.

Any monies collected at decentralized locations must be at Town Hall daily.

Action Items

- Individual receipts issued at decentralized locations will be reconciled to the Town Hall receipt to determine if receipts are being turned in daily and intact.

Two people will count down each cash drawer monthly and results logged.

Action Items

- All cash drawers shall be counted monthly by staff members not normally assigned to the drawer.

There will be no cash left out of a deposit and all checks will be deposited within three working days of receipt. If there is a question as to how it should be processed, it will be deposited as miscellaneous revenue in the General Fund to be resolved later.

Action Items

- The Town has two cashiers or Town Clerks. Cashiers collect utility payments, connection fees, return check fees, service fees for cutoff, property tax payments, court fees and fines and miscellaneous payments. The cashiers tally and make up the bank deposits which are verified by both cashiers. In the event a cashier is absent, the Senior Town Clerk will act as a cashier. Example: Cashier A balances their drawer, completes a deposit ticket and processes a daily cash report. All of that is given to Cashier B for verification prior to going to the bank. Both cashiers will sign off on the deposit ticket showing money has been verified. Cashier B will post the daily

- cash total from the report created by Cashier A to the General Ledger Software. This will also be signed by both cashiers as verification.
- Daily cash reports and bank deposit records are filed appropriately.
- The Senior Town Clerk 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, proper signature and other required information.

All computer passwords are changed periodically.

Action Items

- All computer passwords will be changed periodically and access to collection, adjustment, voiding and other administrative functions will be restricted and checked regularly.

Deposit bag is secured until it is transported to the bank.

Action Items

- Deposit bag is secured until the assigned staff member is ready to transport it to the bank. The deposit shall only be transported to the bank by a bonded staff member.

At no time will cash be left out in the open unattended.

Action Items

- All cash drawers will be closed and counted away from the front desk and, if being completed during business hours, will be done one at a time so there is always one cashier to take payments.

Employees are prohibited from co-mingling Town assets with personal assets.

Action Items

- The Town Recorder/CMFO or designee will periodically perform surprise cash counts to ensure there are no personal checks being held in the cash drawers and to ensure the drawers are in balance.

Chart of accounts codes will be reviewed on a regular basis and all accounting system updates and changes are discussed with office staff and appropriate changes made if necessary.

Action Items

- All revenue and account codes used by the Town are reviewed on a regular basis by the Town's management team and programmed within the municipal financial software. The Town Recorder will notify the cashiers if an account code is changed or added.
- The Town Recorder will notify the office staff when computer updates are scheduled. Staff is to report any problems to the Town Recorder immediately.
- The Town Recorder is authorized to have computer software support change restrictions or change control levels.

Reconciliations are performed monthly by the Senior Town Clerk.

Action Items

- Once the deposit records are returned and posted to the general ledger, the cashier will forward them to the Town Recorder.
- The Town Recorder or designee will reconcile the daily cash reports, deposit slips, and bank statements on a monthly basis.

4.3.2 General Disbursements/Drafts

Objectives

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

Policies

The Town has adopted purchasing policies that comply with state law.

Action Items

- The Town adopted a purchasing policy in November 2011 and complete regular reviews of the policy.

Various levels of authority have been assigned.

Action Items

- Authority for purchasing rests with Department Heads or the Mayor.
- Department Heads can authorize employees to purchase items for Town business. Department Heads are responsible for accurately coding and signing each receipt/invoice prior to processing.
- Budget availability should be verified by the Department Head prior to purchase and document submission. Even in cases where an individual line item is over budget, purchases should be coded to the appropriate expense account.
- The Town Recorder or designee must verify each invoice as approved prior to checks being printed.
- The Town has designated three (3) authorized check signers. This authorization is reviewed every four years following a municipal election.
- All contracts and agreements entered into by the Town that commit the Town to either action or expense shall be approved by resolution of the Board of Mayor and Alderman and signed by the Mayor.

Invoices, receipts, and/or packing slips are matched and sent to Town Hall for payment as soon as possible.

Action Items

- All bills, invoices, account statements, grant contracts and items of a financial nature shall be received by the Town at the main Town Hall mailing address (PO Box 277, Brighton, TN 38011). Mail for the Town's various departments shall be sorted and delivered immediately upon receipt.
- All invoices and documentation of purchases must be coded and signed by Department Head and provided to the Senior Clerk.
- Invoices shall be processed by Department Heads as soon as possible to avoid late fees or penalties.

Checks are written weekly to ensure invoices are paid in a timely manner.

Action Items

- Invoices are entered into the computerized accounts payable system weekly.
- All invoices to be paid shall have a sufficient supporting documentation attached.
- In order to have bills processed in subsequent week, the invoice and supporting documentation must be presented to the Senior Clerk by the preceding Friday.
- All checks shall be made payable to the business name of the payee and mailed to the business address of the payee.
- All invoices are due net 30 unless otherwise noted.

All checks require two signatures.

Action Items

- Every check is signed by two (2) authorized check signers.
- All documentation supporting the purchase shall remain attached to the check throughout the approval process.

4.3.2.1 Payroll disbursements and payroll liabilities

Objectives

1. Ensure the accurate reporting of hours worked and leave time used by all employees.
2. Ensure accurate and timely payment for all hours worked by employees.
3. Ensure compliance with all laws governing employee compensation.
4. Accurately collect and disperse employee contributions to retirement, health and other insurances.

Policies

The Town shall maintain Personnel Regulations that govern the terms of employment of all employees of the Town of Brighton.

Action Items

- The Town has adopted a standard Personnel Manual.
- All employees shall be provided a copy of the Personnel Manual and any subsequent updates provided by the Town. A current copy of the Personnel Manual shall also be maintained in the Town Recorder's office and posted online for Town employees to be able to access.
- The Town's management team shall review the Personnel Manual on a regular basis for updates required by changing law and revisions determined necessary for the effective management of the Town's workforce.

Employees shall document all hours worked and report all leave time used.

Action Items

- The Town shall provide employees with a standard payroll form for use in reporting hours worked and leave time use. Every employee shall sign the payroll form to attest to the accuracy of hours reported.
- Hours worked and leave time used must be documented within the pay period worked or used. Hours may not be carried from one pay period to another.
- Payroll forms shall be reviewed by a supervisor and signed by a Department Head prior to submitting the form to the Town Recorder or designee for processing.
- Pay periods begin on a Sunday and end seven days later on a Saturday. Payroll forms shall be submitted to the Town Recorder no later than the Tuesday morning following the end of a payroll period.

The Town shall accurately collect and disburse employee contributions to retirement, health, other insurance coverages and court or other ordered garnishments.

Action Items

- The Town shall deduct all health insurance premiums, retirement contributions, elective coverage and premiums and wage garnishments in accordance with the Town's personnel policy. Funds deducted shall be distributed on regular intervals as required by the payee.
- The Town shall provide every employee with an itemized payroll report every pay period showing hours worked, wages earned and deductions made during the pay period. Employees shall review the report and contact the Town Recorder with any questions or concerns regarding deductions made from payroll.

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 and in accordance with adopted investment policy.
4. Ensure Town assets and protected against loss, misappropriation or theft.
5. Ensure inventory items are available when needed for use.

Policies

All bank account statements (checking, savings, investments, etc.) are reconciled to the municipal general ledger accounts within 30 days of the date of statement.

Action Items

- Town Recorder or designee reconciles all bank account statements (checking, savings, investments, etc.) to the municipal general ledger accounts within 30 days of the date of the statement.

Accounts receivable subsidiary ledgers are reconciled to the original billings and amount collected.

Action Items

- Town Accountant annually reconciles accounts receivable subsidiary ledgers to the original billings and amount collected.

All bank accounts are to be held in financial institutions under the municipality's name.

Action Items

- All bank accounts that contain or process Town funds are held in financial institutions under the municipality's name.

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".

Actions Items

- 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".

All withdrawals, checks, liquidations, etc., from any bank or investment account require two signatures.

Action Items

- The Town has appointed three (3) authorized check signers and all transactions expending, moving or otherwise transferring funds from or between Town accounts shall require two (2) signatures on any check.

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.

Action Items

- The Town maintains a fleet inventory as a part of the annual budget detailing all motorized equipment owned by the Town.

Proper safeguards are in place to prevent theft or loss of assets.

Action Items

- The Personnel Policy clearly identifies theft, abuse, destruction or misuse of Town equipment or property as grounds for disciplinary action.
- Town equipment and materials are for the public purpose of the Town and may not be used, transferred or otherwise allocated for a non-public purpose.

4.3.4 Compliance

Objectives

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

Policies

The Town shall maintain an adopted debt policy.

Action Items

- The Town has adopted a debt management policy in accordance with state requirements and shall review on a regular basis.

The Town's Management Team shall be well versed on the state requirements for issuing debt.

Action Items

- The Town's management team shall maintain CMFO status and participate in other training to remain well-versed in debt issuance and management.

All grant applications shall be approved by the Board of Mayor and Alderman prior to submission of application.

Action Items

- All grant applications shall be reviewed with the Town Recorder and/or Mayor prior to major effort beginning on the application to ensure that the project is in line with the Town's priorities and budget.
- All grant applications shall be approved by the Board of Mayor and Aldermen prior to submission and grant contracts, if awarded, shall be approved by resolution of the Board prior to the Mayor executing any grant contracts.

The Town Recorder shall maintain the grant contact information, grant or contact numbers and whether the grant is state or federal funds.

Action Items

- The Town Recorder shall be provided a copy of all grant applications submitted on behalf of the Town.
- Once awarded, the Town Recorder is to be notified of the project budget and detailed expenditure requirements of the grantor agency.
- The Town Recorder is the permanent custodian of all records related to grant projects completed by the Town. Any contracts, bids specifications, construction documents, procurement records, official communications, expenditure reports, reimbursement requests or other relevant grant information shall be kept in a project file by the Town Recorder.

4.4 Information and Communication

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

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 the software package.

Action Items

- Any monthly financial report provided to the Board of Mayor or Alderman shall include a report generated directly from the Town's finance software system. Staff may, at their discretion, provide additional reporting formats that correlate back to the report generated by the software system.
- Monthly activity reports generated by departments may be presented in a format that is acceptable to the Board.

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 with information being released is accurate and the release is in compliance with policies and procedures.

Action Items

- Reports containing personally identified information or other protected or confidential information will be made available through communication methods that restrict internal and external access.
- 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

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

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.

Action Items

- Town's CMFO team will evaluate current in practice Internal Control System, compare it to policy, and determine/rectify incongruences.
- Town's CMFO team will determine whether to recommend changes to the design of internal control or implement corrective actions to improve the operating effectiveness of internal control for differences that exist.

Town should establish efficient and effective operations over time.

Action Items

- Town's Management Team will 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 implanted, and 3) internal control design changes are needed.

Town should ensure accurate and reliable financial information is used in decision-making.

Action Items

- TBD The above reconciliation will include bank statements, which include a listing of outstanding checks and will be reviewed by management.
- TBD 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 accountant, Town Recorder/CMFO, Mayor and Town Board.

4.6 Summary

The framework of the manual complies with the state requirements and was created using the Green Book as guidance. Each Town will need to consider each section of this manual and add other objectives, policies and procedures the Town has in place or finds are necessary to add to the system. There are most likely other areas the Town should perform a risk assessment on and document in the internal control manual. It is critical for the Town to make this manual their own by changing it to fit you Town and adding more areas that should have controls developed. Any department that would like to start on operations controls for efficiency and effectiveness can contact the MTAS specialist in your respective technical field for assistance. The specialist can usually be found listed on the MTAS website under the link of the specific topic.

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

Laws and Regulations - Section APP.D
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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 (GO TO DETAILED GUIDANCE - APP.D-9)
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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EXHIBIT A - EXCERPT OF LOCAL GOVERNMENT RELATED LAWS FROM THE COMPTROLLER'S AUDIT MANUAL

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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

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

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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. (GO TO SUMMARY – APP.D-9)
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

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

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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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