

September 12, 2011

TML Risk Management Pool Financial Control Policy

Within the last decade, there have been numerous news reports focusing on public fraud and theft in local government by public officers. In response to these fraud and theft issues, the Tennessee General Assembly passed the Local Government Instances of Fraud Reporting Act and The Municipal Finance Officer Certification and Education Act in 2007. The first Act requires the reporting of “theft, forgery, credit card fraud, or any other act of unlawful taking, waste, or abuse of, or official misconduct, involving public money, property...by public officials.” The second Act requires the hiring of or contracting with a Certified Municipal Finance Officer (CMFO), sending an employee for CMFO certification, or sending an employee through 24 hours of annual CMFO training (only for cities with gross revenues and outstanding debt at or below \$100,000). The passage of these two Acts by the Tennessee State Legislature clearly indicates that fraud and theft are serious issues, and that municipalities should take proactive steps to minimize the associated exposures.

The goal of any professionally managed municipality should be to create internal financial controls that would detect and prevent fraud and theft of public funds and property. In an effort to assist municipalities, the Comptroller of the Treasury, Department of Municipal Audit, has issued the *Internal Control and Compliance Manual for Tennessee Municipalities* (the “City Manual”), which sets out, in detail, guidance for establishing internal financial controls. According to the Tennessee State Comptroller, “having adequate internal controls will provide information that helps detect errors and fraud, and ...will limit the opportunity for theft or unauthorized use of assets, including cash, inventory and capital assets.”¹

As outlined in the Comptroller’s City Manual, the secure handling of public funds requires that all municipalities adopt an internal financial control policy. In concurrence, the TML Risk Management Pool recommends that all municipal financial officers familiarize themselves with the city manual, and adopt written internal financial control policies to protect public funds and other assets.

Although the City Manual is comprehensive and each municipality is strongly encouraged to seek compliance with the guidelines contained therein, from a loss control perspective, every city and town, at a minimum, should develop policies that address: (1) the receipt and deposit of funds; (2) check-writing and other disbursements including debit/credit cards; and (3) petty cash. Like our government structure, internal control policies should ensure a system of checks and balances. The consistent and overriding theme of internal financial control is that no single person (and preferably more than 2 persons) should be responsible for handling each transaction involving public funds. Smaller municipalities may have to realign certain job duties or enlist the help of elected officials, in order to provide an adequate separation of duties.

¹ Internal Control and Compliance Manual For Tennessee Municipalities, June 2010, pg. 2

Receipts/Deposits of Public funds

One person (or certain specified persons) should be responsible for opening mail and stamping "For Deposit Only" immediately upon receipt. A "For Deposit Only" (or "FDO") endorsement stamp (with the municipalities account number) requires the bank to deposit the funds into the bank account. If all checks are stamped "FOR DEPOSIT ONLY" upon receipt, it can prevent someone from cashing a lost or stolen check. The designated employee(s) who opens the mail, should also prepare a list of all money/checks received. Finally, any municipal employee or official who receives any funds shall issue to the payer a receipt and shall retain a duplicate thereof.

All deposits should be posted to the City's cash receipts journal; however, *the person who opens mail & stamps "FDO" on checks should differ from the person who posts to the journal and deposits.* Anytime custody of money changes from one employee to another the money should be counted by both. A pre-numbered receipt or other document recording the count should be prepared and signed by both employees indicating concurrence with the amount transferred. This document should be retained by the individual turning the money over.

Cash receipts should be monitored carefully by separate individuals and a written receipt and duplicate should be produced for all such funds. A daily collection report should be prepared by each cashier summarizing all cash collections by source. The daily collection should then be consolidated to be sent to the person(s) responsible for recording the activity.

Finally, all collections must be deposited no later than three (3) working days after initial receipt. Deposit receipts should also be retained and matched against the collection reports.

Check writing and other Disbursements

Check writers should be separate from the person reconciling the bank statements to ensure that checks are written for legitimate, authorized purposes and to establish a clear separation of duties. This process serves an independent form of verification of the original transaction. Absent this provision, a check writer could issue and sign checks for personal, fraudulent purposes and conceal these activities.

In addition, municipal officials should ensure that two authorized signatures are required for all checks. Before signing checks, each signator should review the supporting documentation (such as vendor invoices, purchase authorizations, etc.) to verify that the expenditure is legitimate before the check is signed.

The increased use of debit and credit cards require that increased attention be paid to the use of such cards. All debit/credit card statements should be reviewed by multiple persons, including individuals independent of those who are authorized to use such cards, to ensure the legitimacy of the charges.

Petty cash

Like all other municipal expenditures, petty cash disbursements are only allowable for legitimate purposes and must be properly documented. An invoice/receipt, accompanied by a written petty cash voucher/request, showing the items purchased, and *signed by the person receiving the cash*, is required in each case. The amount on hand and the petty cash vouchers and related invoices/receipts written must total to the originally authorized amount.

Additional Concerns

Equally important, these same financial controls should apply to any other department that is responsible for handling public funds. Many municipalities handle public funds in a variety of departments, such as, concessions from parks and recreation, building permit fees collected in the planning and codes departments, or fines and fees collected by the police department.

Parks and recreation departments, for example, are of particular concern because they handle public funds, but often have little, if any, written financial controls governing their operations. Some of the more specific common exposures for parks and recreation departments are: 1) when operating concessions, customer receipts are not always issued nor are duplicate receipts retained for municipal records in accordance to T.C.A. 9-2-103; 2) cash collections are not always reconciled by the cashiers at the end of the day; and 3) when money exchanges hands from the cashier to the manager there is often no documentation or receipt recording the count. Furthermore, according to the Comptroller's City Manual, the aforementioned documentation or receipt should be signed by both parties showing that each agrees with the amount being exchanged. Without adequate financial controls in place to lead, guide, and direct city departments, chances for employee fraud and theft increase significantly.

Policies and Training

The keys to reducing exposures are to adopt clear written policies and procedures addressing the items discussed above and to make sure that all municipal officials and employees involved in the handling of public funds are adequately trained. Attached, you will find sample policies to assist your municipality in drafting internal control policies. As with any written policy, it should be reviewed by your city attorney or MTAS before adoption. If you have any questions, please contact the TML Pool at 1-800-624-9698.

CITY OF CROSSVILLE, TENNESSEE
INTERNAL FINANCIAL CONTROLS POLICY

Introduction

The City of Crossville has adopted and implemented this Internal Financial Controls Policy to safeguard public funds and to provide clear instructions to City officers and employees as to how such funds should be processed and recorded. All city officers and employees handling city funds shall be subject to the requirements of this policy. This Policy may be amended from time to time by the City Council.

Receipts and Deposits of Funds

The Receptionist shall be responsible for opening all incoming mail, taking care of the night drop, and all online payments. The receptionist shall input into the Accounts Receivable System all checks, cash, and online payment at that time. Checks are to be stamped for "For Deposit Only" and payment vouchers totaled. The check total should be compared to the payment voucher total and the computer printout totals and any discrepancies corrected. After processing and matching, the checks, payment vouchers, and computer printouts are given to the Customer Service Supervisor.

All cash, check and credit card payments shall be received by the Customer Service Clerks who will issue receipts at that time. The clerk will input the information, either through a payment voucher or an account number, directly into the accounts receivable journal of the accounting system. If a payment voucher is offered, the top part is stamped as a receipt and returned to the payer; the bottom part is kept as the city receipt. If the customer does not have a payment voucher, duplicate receipts are printed out with one given to the customer and one kept by the customer service clerk as the city's receipt. Cash is counted, vouchers and receipts totaled and computer printouts turned over to the Customer Service Supervisor at the end of each business day. The computer report, which is prepared by each Customer Service Clerk, summarizes all collections by source. The General Ledger will be updated that evening or the following morning for all receipts received the prior day by the Customer Service Supervisor. All cash will be locked in a safe after hours.

Each Customer Service Clerk is responsible for their cash drawer. No one shall be allowed into the cash drawer of any clerk. The clerk will store the drawer in the designated safe at the end of the day or during an extended absence.

The Customer Service Supervisor will make up the deposit, which is delivered daily to the bank by the Police Department or department employee. Deposit receipts are retained and matched against the collection reports.

Check writing and Disbursements

All persons with authority to write and sign checks on the behalf of the City shall be approved by resolution of the City Council. The Assistant Finance Director, who is responsible for reconciling the bank statements, shall not be authorized to sign checks.

Two (2) authorized signatures are required for all checks. The accounts payable clerk will review all check requests for documentation before the check is printed. For any checks that are over \$2,500, the check signers shall review the documentation and initial the check as proof of review. The assistant finance director will review all check copies for documentation and the general ledger account number to be charged.

All debit/credit card statements will be reviewed by the accounts payable clerk. Any questionable charges are brought to the credit card user's attention by the accounts payable clerk. If the problem is corrected, the charges are paid. If the problem is not corrected, this charge is brought to the city manager's attention. The city manager will have final say as to the charge. All persons using City credit cards shall be specifically authorized to do so by the City Manager and shall comply with the City's credit card use policy.

Petty Cash

Petty cash disbursements are only allowable for legitimate purposes, are not for personal use and must be properly documented. An invoice/receipt, accompanied by a written petty cash voucher/request, showing the items purchased, and *signed by the person receiving the cash*, is required in each transaction at the time the petty cash is withdrawn. The amount on hand and the petty cash vouchers and related invoices/receipts written must total to the originally authorized amount. The City Clerk or Customer Supervisor shall be responsible for the petty cash fund and shall "audit" the petty cash account for any discrepancies at least once a week. The petty cash account may be used for any withdrawals of less than \$100 and the total account balance shall not exceed \$100.

Conclusion

All city employees are responsible for safeguarding public funds and the public trust. Any violations of this policy observed by any city employees shall be reported to the City Manager. Any employees found to have violated this policy may be disciplined up to and including termination.

ADOPTED, this _____ day of _____, 2012.

Mayor

Councilman

Councilman

Councilman

Councilman

CITY OF CROSSVILLE, TENNESSEE CREDIT CARD POLICY

Introduction – General

The City of Crossville has adopted and implemented this Credit Card Policy to safeguard public funds and to provide clear instructions to City officers and employees that have been formally authorized to use City credit cards. All city officers and employees using city credit cards must be specifically authorized by the City Manager and shall be subject to the requirements of this policy. For the purposes of this policy, all authorized officers and employees shall be referred to as “cardholders.” This Policy may be amended from time to time by the City Council.

Credit cards will be issued by the Finance Department for specific uses and must be returned to the Finance Department upon completion of purchase or trip. Cardholders assume the responsibility for the protection and proper use of the card. Purchases with city credit cards must not conflict with the City of Crossville’s Purchasing Policy. The card should only be used by the authorized individual and use of the card shall not be delegated to other persons. Cardholders are responsible for all charges on the cards authorized to them. Cards and card numbers must be safeguarded against unauthorized use.

All credit card transactions will be visible via secure internet reporting tools and all cardholders’ purchasing activity will be monitored by the finance department and reviewed by the City auditors. Credit cards are not intended to be used for normal, recurring expenses associated with normal department operations. Business accounts should be set up for recurring activities. Receipts for all purchases by credit card shall be forwarded to the Finance Department, Accounts Payable Clerk. These receipts shall be turned in when the card transaction is completed.

It is the goal of the City of Crossville to have all transactions sales tax exempt, when applicable. It is the cardholder’s responsibility to notify the supplier, at the time of the transaction, if it will be exempt from sales tax.

The following situations are examples of misuse of the card:

- Purchases for personal benefit of the cardholder or another employee
- Assignment or transfer of an individual card to another person
- Use of the card by an unauthorized employee
- Use of a card by a suspended or terminated employee
- Purchases that are not for legitimate City and public purposes
- Purchases in violation of the City Purchasing Policy
- Splitting a purchase to avoid a single-purchase limitation
- Use of the card for commodities, goods, or services at vendors with City accounts
- Lack of proper and timely submission of all purchase receipts

Any violations of this policy may subject the employee to discipline, including termination.

Credit Card Audits and Documentation of Purchases

The City's finance director, auditor and/or State auditors will make periodic audits to verify that commodities, goods, and services purchased have been received and that policies and procedures are being followed. Adequate documentation must be maintained to record all transactions at the source. If a receipt is lost, a missing receipt affidavit must be filled out by the cardholder.

Disputing a Transaction

If you as a cardholder believe a transaction is disputable, the merchant will be contacted to attempt resolution before beginning the official dispute process. Also, your department head and the Finance Director shall be immediately notified of the disputed charge. In most cases, the merchant will credit (chargeback) your account and handle your needs in a professional manner. If you or your department head cannot resolve the transaction in dispute, Regions Bank will follow standard regulations outlined by the credit card company if the required written notification from the cardholder is received within sixty (60) days of the transaction date. You agree to cooperate fully in dealing with the credit card company for all disputed purchases.

Cardholder Responsibility and Purchasing Guidelines

It is important to remember that when using the card, you are expending taxpayer funds and that all credit card purchases must comply with City policies, including this policy, the Purchasing Policy and the Internal Financial Controls Policy. Your expenditures are held to the highest degree of trust and accountability.

Cardholder privileges and procedures are contingent upon the following:

- **You must obtain and preserve ALL receipts.** Turn in all receipts to the Accounts Payable Clerk when you turn in the credit card. Failure to produce adequate legible receipts will be subject to strict scrutiny by the finance department and City auditors. *Proper forms of transaction documentation include an invoice with detail of items purchased, cash register receipt with detail of items purchased, sales slip with detail of items purchased, or handwritten receipt signed by an employee of the supplier/merchant that includes detail of items purchased. **In the event a receipt is lost, you must submit a "missing receipt affidavit" in lieu of the receipt.***
- If a cardholder fails to turn in a receipt, he/she must sign the document set forth on the following page of these policies. Multiple failures to provide receipts may result in cancellation of the card and other disciplinary action.
- Cash back, cash refunds or rebates may not be received by the cardholder.
- Splitting of transactions is not allowable (making one purchase into two or more for the purpose of staying within your limits).

Lost or Stolen Cards In the event of a lost, stolen or, mutilated card, cardholders should immediately notify Regions Bank at 888-934-1087 and the finance department. Please protect your card by keeping it in a safe place and away from other “magnetized” stripe cards. Replacing your card may take 7-10 business days.

ADOPTED, this _____ day of _____, 2012.

Mayor

Councilman

Councilman

Councilman

Councilman

MISSING RECEIPT AFFIDAVIT

I, _____ have either misplaced or not received a receipt for a card purchase.

This form is submitted in lieu of the original receipt.

Vendor Name: _____

Transaction Date: _____ Amount: \$ _____

Items Purchased: _____

I certify that the goods shown above were purchased for the City of Crossville's operating purposes as outlined in the policies and procedures for card use.

Cardholder signature: _____ Date: _____

Department Head: _____ Date: _____

City of Crossville

Credit Card User Agreement

I, _____ hereby acknowledge receipt of a City of Crossville credit card, issued by Regions Bank. As a cardholder, I agree to comply with the terms of this agreement, including all of the City of Crossville’s policies and procedures included in the Credit Card Policy and Procedures Guide.

I understand that the City of Crossville is **liable for all charges.**

I agree that I will not use the credit card to make personal purchases for others or myself.

I understand that I will not request or receive cash back from suppliers as a result of exchanges, rebates, and refunds or for any other reason.

I understand that I am the only person authorized to use the card or card number assigned to me. I will not authorize the use of this card by other city employees who may want to use it to make approved purchases.

I understand that if I transfer to another department I must notify my department head immediately. I understand that the City can terminate my right to use the card at any time, for any reason. I agree to return my card to my department head immediately upon request or upon termination of employment.

I have reviewed the City of Crossville Credit Card Policy. I understand the procedures and requirements for using the credit card and for providing the required documentation for each transaction made on this card.

I understand that any violation of the terms of this agreement may result in disciplinary action, up to and including termination of employment. I understand that where allowed by State and Federal law the City may deduct from my compensation the money amount equal to the total of any discrepancies, of the total amount of any personal gain, and/or of any fees related to the collection of such money. I understand that the City may elect to collect this money and may also recover the reasonable costs of said collection, even if the City no longer employs me.

Cardholder Name (print)

Department

Cardholder Signature

Date

RETURN THIS PAGE TO THE FINANCE DEPARTMENT TO RECEIVE CARD