

Franklin County Finance Department

Proposed Internal Control Policy 11/17/15

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Introduction

Tennessee Code Annotated 9-18-102 is relative to internal controls for local governments. Public Chapter 112 amends this code to require all departments within a local government agency to adopt Internal Control Policies by June 30, 2016.

Internal Controls are to be an integral part of any organization's financial and governmental policies and procedures. Internal controls consist of all the measures taken by the organization for the purpose of; (1) protecting its resources against waste, fraud, and inefficiency; (2) ensuring accuracy and reliability in accounting and operating data; (3) securing compliance with the policies of the organization; and (4) evaluating the level of performance in all areas of the organization.

Responsibility

The Franklin County Commission as the governing body of Franklin County, TN establishes the presence of integrity, ethics, competence, and a positive control environment. The Finance Committee is responsible for establishing policy in regard to the finance operations for Franklin County. The Finance Director is responsible for the administration of such policies for the finance department.

Elements of Internal Control

Internal control systems operate at different levels of effectiveness. Determining whether a particular internal control system is effective is a judgement resulting from an assessment of whether the five components – control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring – are present and functioning. Effective controls provide reasonable assurance regarding the accomplishment of established objectives.

Control Environment

The control environment, as established by the Finance Director, sets the tone of an agency and influences the control consciousness of its staff. Department heads of Franklin County, area or activity establish a local control environment. This is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include:

- Integrity and ethical values;
- The commitment to competence;
- Leadership philosophy and operating style;
- The way management assigns authority and responsibility, and organizes and develops it's staff;
- Policies and procedures.

Risk Assessment

Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economics, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

Objectives must be established before administrators can identify and take necessary steps to manage risks. Operations objectives relate to effectiveness and efficiency of the operations, including performance and financial goals and safeguarding resources against loss. Financial reporting objectives pertain to the preparation of reliable published financial statements, including prevention of fraudulent financial reporting. Compliance objectives pertain to laws and regulations which establish minimum standards of behavior.

The process of identifying and analyzing risk is an ongoing process and is a critical component of an effective internal control system. Attention must be focused on risks at all levels and necessary actions must be taken to manage. Risks can pertain to internal and external factors. After risks have been identified they must be evaluated.

Managing change requires a constant assessment of risk and the impact on internal controls. Economic, industry and regulatory environments change and entities' activities evolve. Mechanisms are needed to identify and react to changing conditions.

A risk assessment for the finance department has been accomplished by the finance director working with the County Technical Assistance Service (CTAS). After several work sessions and a checklist of the segregation of duties being prepared by the finance director an official assessment prepared by CTAS and the checklist is attached as a part of this policy.

Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the agency, at all levels, and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Control activities usually involve two elements: a policy establishing what should be done and procedures to effect the policy. All policies must be implemented thoughtfully, conscientiously and consistently.

The summary and segregation checklist are the basis for the control activity for the finance department. The finance director is responsible for reviewing these documents and the daily processes to assure that adequate internal controls are current and working for the finance department procedures.

Information and Communication

Pertinent information must be identified, captured, and communicated in a form and time frame that enables people to carry out their responsibilities. Effective communication must occur in a broad sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream.

Staff meetings where segregated duties for the finance department were addressed in order to accomplish the task of internal controls. All finance staff are aware of the procedures they are tasked with in order to accomplish finance segregation of duties for proper internal control. Forms have been developed as an audit check for these duties and are on file with the finance director.

Monitoring

Internal control systems need to be monitored - a process that assesses the quality of the system's performance over time. Ongoing monitoring occurs in the ordinary course of operations, and includes regular management and supervisory activities, and other actions personnel take in performing their duties that assess the quality of internal control system performance.

The scope and frequency of separate evaluations depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported immediately to top administration and governing boards.

Internal control systems change over time. The way controls are applied may evolve. Once effective

procedures can become less effective due to the arrival of new personnel, varying effectiveness of training and supervision, time, and resources constraints, or additional pressures. Furthermore, circumstances for which the internal control system was originally designed also may change. Because of changing conditions, management needs to determine whether the internal control system continues to be relevant and able to address new risks.

The finance director and deputy director work together on a daily basis to manage the internal control aspect of the finance department. In this way upon the annual audit for the finance department internal controls have been addressed for all areas of known controls. The finance director and deputy director work with the audit staff to alleviate any area of concern for the finance department's internal controls. If an actual policy change is required, the finance director will present the change in policy to the finance committee for approval.

Components of the Control Activity

Internal controls rely on the principle of checks and balances in the workplace. The following components focus on the control activity:

Personnel need to be competent and trustworthy, with clearly established lines of authority and responsibility documented in written job descriptions and procedures manuals. Organizational charts provide a visual presentation of lines of authority and periodic updates of job descriptions ensures that employees are aware of the duties they are expected to perform.

Authorization Procedures need to include a thorough review of supporting information to verify the propriety and validity of transactions. Approval authority is to be commensurate with the nature and significance of the transactions and in compliance with policy.

Segregation of Duties reduce the likelihood of errors and irregularities. An individual is not to have responsibility for more than one of the three transaction components: authorization, custody, and record keeping. When the work of one employee is checked by another, and when the responsibility for custody for assets is separate from the responsibility for maintaining the records relating to those assets, there is appropriate segregation of duties. This helps detect errors in a timely manner and deter improper activities; and at the same time, it should be devised to prompt operational efficiency and allow for effective communications.

Physical Restrictions are the most important type of protective measures for safeguarding University assets, processes, and data.

Documentation and Record Retention is to provide reasonable assurance that all information and transactions of value are accurately recorded and retained. Records are to be maintained and controlled in accordance with the established retention period and properly disposed of in accordance with established procedures.

Monitoring Operations is essential to verify that controls are operating properly. Reconciliations, confirmations, and exception reports can provide this type of information.

Internal Control Limitations

There is no such thing as a perfect control system. Staff size limitations may obstruct efforts to properly segregate duties, which requires the implementation of compensating controls to ensure that objectives are achieved. A limited inherent in any system is the element of human error, misunderstandings, fatigue, and stress. Employees are to be encouraged to take earned vacation time in order to improve operations through cross-training while enabling employees to overcome or avoid stress and fatigue.

The cost of implementing a specific control should not exceed the expected benefit of the control. Sometimes there is no out-of-pocket costs to establish an adequate control. A realignment of duty assignments may be all that is necessary to accomplish the objective. In analyzing the pertinent costs and benefits, managers also need to consider the possible ramifications for the University at large and attempt to identify and weigh the intangible as well as the tangible consequences.

Internal controls should reduce the risks associated with undetected errors or irregularities, but designing and establishing effective internal controls is not always a simple task and cannot always be accomplished through a short set of quick fixes.

The finance department established segregation of duty processes back in 2007 in order to address a segregated duties audit finding in the Franklin County Certified Annual Financial Report. An actual Finance Department - Segregated Duties Policy was approved on June 10, 2010 by the Finance Committee to meet state and federal standards. This "Internal Control Policy" is the next official step in regard to controls for the finance department to meet the Tennessee Code Annotated 9-18-102, Public Chapter 112.

Internal Control Assessment of Franklin County Finance Department

Purpose: To document an understanding and assess the internal controls of the Franklin County Finance Department as it pertains to the following:

1. The obligations and costs of the operation are in compliance with applicable law
2. To ascertain if county funds, property and other assets that are designated/assigned to the Finance Department are safeguarded against waste, loss, unauthorized use, or misappropriation
3. Revenues and expenditures in the county funds are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets

Overview: An in-depth analysis of the internal control environment for the operations of the Franklin County Finance Department was performed over a four day period by multiple county finance department employees and Andrea Smith, county finance director and Doug Bodary, the CTAS field consultant. The finance department consists of a finance director, deputy finance director and eight staff members.

1. Obligations and costs of the operation are in compliance with applicable law

Ensure that contracts are in place for goods and services that are required by law, review purchasing procedures for non-payroll costs to ensure compliance with law, review payroll procedures to ensure that payroll is for legitimate and authorized employee costs only, review emergency purchase procedures for compliance with law, ensure any store cards and credit cards used by the department are in compliance with purchasing policy and law and are safeguarded. Ensure that all debt is issued in accordance with statute.

Process of adoption of original annual budget: The Franklin County operates under the County Financial System of 1981 that sets the budget process. Additionally, the county finance committee has adopted a written budget adoption calendar to help guide the finance committee through the budget adoption process. Once the original budget is adopted and accepted by the State Division

of Local Finance and the State Department of Education, the county finance director posts the original budget to the office's LGDPC software. After the original budget is posted the finance director and the deputy finance director will review the posted budget line items (in LGDPC software) with the commission approved budget to ensure accurate posting of the original budget.

Budget amendments: The County finance director and deputy director coordinates with the various county departments and the county finance committee to monitor the adopted budget through the year to ensure that any needed budget amendments are made promptly and before the overage actually occurs.

Purchasing: The Finance Department complies with the adopted county purchasing policy under the Financial Management System of 1981 that is in effect for Franklin County Government. The finance department, in accordance with the Financial Management System of 1981, prepared a county purchasing policy that was adopted.

Purchase Orders: The county finance department complies with and administers the written policy for purchase orders in the county financial management policies. No purchases (other than insurance, travel, utilities) can be made until a requisition has been received and approved by the county finance office and the applicable department head/elected official. County departments will bring in, email, or fax a requisition into Jenny Phillips, finance department purchasing coordinator, who will verify the availability of funding in the budget. The purchase order is then issued and the requesting department can make a purchase. Cindy Marshall, accounts payable clerk enters the purchase order into the LGDPC accounting software that the county finance department utilizes. When the finance department receives the corresponding invoice for the ordered goods, the finance department requires the department/office that ordered the goods to sign off on the invoice that goods were received, the purchase order is then liquidated (if not open blanket PO) and checks are prepared for payments by Becky Cowan or Amy Smith, purchasing specialists. The county finance office typically negotiates early discount payments from vendors and if these are not offered then the vendor will receive their payments net 30 of the invoice date unless a special exception (local small business) is agreed upon ahead of the purchase. See the purchase order section of the county purchasing policy for more detail of internal control over purchase orders.

Store cards: As some vendors do not accept county purchase orders, Walmart, Lowes, Home Depot, Tractor Supply, Kroger, Office Max cards are maintained and kept locked up when not in use Becky Cowan's (purchasing specialist) desk. Ms. Cowan maintains a sign out sheet that authorized county officials/employees can check out once they have a purchase order issued. The respective county official/department head must review and sign off the invoices of all store card purchases made by their department each month before the store card invoice is paid. Blanket purchase orders are utilized for some store card purchase orders.

Credit Card: The Franklin County Finance Department has an adopted credit card policy that details use procedures for the county credit cards. The finance office has two credit cards that are kept locked up when not in use in the finance director's desk. These cards are used for on-line purchases and for vendors that do not take a purchase order and do not have store cards. After a purchase order is issued, authorized county officials/employees can sign a credit card out. The respective county official/department head is responsible for reviewing and signing off on the credit card invoice for all purchases made by their department/office monthly. See the county credit card policy for more detail on the internal control process over credit cards.

Contracts: Per Franklin County's purchasing policy, the county finance director signs all county contracts dealing with purchasing. Any items (other than professional services or other items exempt from bidding by state statute) over \$25,000 must be competitively bid, all items over \$500 and under \$25,000 must have three quotes. All contracts over 12 months in length are reviewed by the county attorney and then approved by the county commission. For a detailed step by step listing of internal controls/processes over bidding/contract awarding see the bidding procedure section of the adopted purchasing policy. The finance director coordinates with the individual county departments/offices to ensure contract compliance from the vendors (county receiving agreed upon price, level of service, etc.). Per county policy, all grant contracts are approved by the county commission and signed by the county mayor, road superintendent, or director of schools prior to any grant funds being spent or encumbered.

Emergency purchases: The county purchasing policy addresses emergency purchases and the finance director enforces this policy. Any emergency purchase that circumvents normal purchasing procedure must have the requesting official/department head to complete, as soon as feasible, an emergency purchase justification form that both the requesting official and a

department head signs. See the county purchasing policy for a copy of the emergency purchase justification form and additional information on emergency purchasing procedures.

Payroll: Payroll is authorized each fiscal year through the annual county budget appropriation and letters of agreements for the constitutional officers. The county finance director assists the county officials with completing their letters of agreements if the assistance is requested. The finance director monitors all county payroll line items during the fiscal year to ensure that payroll costs do not exceed county commission approved amounts without a budget amendment first being approved.

Employee benefits: The County participates in TCRS for full-time employees and also allows full time county employees that were hired prior to June 30, 2014 to maintain health insurance after they retire if they meet qualifications and are eligible for TCRS benefits. The finance department monitors the OPEB and pension obligations for the county along with a contracted actuary. The finance director is responsible for ensuring compliance with the county personnel policies to ensure that only eligible county employees/retirees receive OPEB and pension benefits. The finance department payroll clerks continually review employee status of the county employees to check for eligibility status for these benefits.

Vacation and leave obligations: The county finance director coordinates with her county payroll clerks and the various county departments and offices to ensure that all vacation/sick/compensatory time that is accrued is accounted for accurately and is in compliance with county personnel policies and within legal limits (comp time).

Debt issuance and management: The County finance department coordinates with the county financial advisor (bonds) and financial institutions (capital outlay notes) to ensure that the county is in compliance with the adopted county debt management policy and state statute. The finance department is responsible for an annual review of the county debt management policy. To guard against the county entering into a capital lease by accident, all leases for equipment (copiers, office equipment) are reviewed by the county attorney prior to signing.

2. To ascertain if county funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation.

Control environment:

All finance department employees have written job descriptions and have criminal background checks performed prior to employment with the county finance department. The finance director sets the tone at the top for her office with a written mission statement that stresses accountability for public funds and compliance with the Financial Management System of 1981 that is posted on the wall of the office and on the department's website and a written department personnel policy that all employees are provided. Additionally, the finance director communicates to her staff through annual employee evaluations that integrity, ethical behavior, and competence in job skills are expected of county finance department personnel. All new hires in the county finance office are required to have a criminal background check prior to starting work.

Receipting: See the segregation of duties for procedures for receipting over the counter and mail transactions

Disbursements: See the segregation of duties for procedures for payroll and non-payroll disbursements. All non-payroll checks are generated on official, pre-printed checks and all payroll transactions are done by direct deposit.

Bank account/Trustee reconciliations and journal entries (including month and year end): See the segregation of duties for procedures in reconciliations and journal entries.

Capital assets: Franklin County has an adopted capital assets policy that includes capitalization thresholds, useful lives, and procedures for additions, deletions, and annual inventory reviews. This includes assets that were purchased with state and federal grant funds. See the segregation of duties checklist for procedures/assignments for inventory control.

Payroll: To protect against fraud (ghost employees, unauthorized bonus payments, etc.) all new county employees (including school personnel) are required to physically come to the county finance office to get set up on payroll. Additionally, all county employees that request a change in payroll direct deposit (new bank account) are required to physically come into the finance office to sign the necessary forms. Supervisors of terminated/retiring employees are required to submit a form promptly to county finance to end payroll payments. If this step is forgotten, then county finance will catch this on the next pay period when a time sheet is not submitted (for hourly). The county finance department performs a comprehensive payroll audit of all county offices in the spring during annual budget development to review that all employees on payroll have supporting documentation (W4, approved deductions, etc.) on file. See the segregation of duties spreadsheet for controls over the payroll run procedures.

Surplus of county property: The county finance department administers the sales of surplus county equipment after the equipment/vehicles have been declared surplus. The county finance department adheres to the county's adopted policy for surplus of property.

3. Revenues and expenditures are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets

The finance department performs monthly reconciliations for all funds with the county trustee. This reconciliation includes ensuring that revenues and expenditures for the month were coded correctly. A copy of the month end reports are sent to all county department heads and officials for review.

The finance department posts all purchase orders and contracts (except phone, utilities, insurance premiums, surety bonds) to LGDPC software as encumbrances to assist with ongoing monitoring of the appropriation budget.

The county finance director and her deputy review the budget of each fund to ensure that the original approved budget and any subsequent budget amendments are posted correctly to the accounting software.

The finance department closes year end in July each year. The finance department has a year-end checklist that includes each report that is needed by audit (deferred revenue, taxes receivable, interest receivable, cash with clerks and trustee, etc.). Depreciation and capital asset reports are prepared and reviewed.

The finance director takes prompt action on any identified internal control weakness over accounting, purchasing, and budgeting that is identified by her review of operations, external annual audits, and state/federal monitors.

The county finance director and deputy finance director attends numerous continued education courses annually that pertain to GASB updates and changes to state law that pertains to accounting/purchasing/budgeting. Finance department employees that are assigned to school financial management also attend State Department of Education fiscal workshops annually.

Recommendation: The County needs to implement an automated payroll system for all employees, including exempt employees to better track payroll (largest expenditure in the county budget) and to assist with compliance with ACA.

**County Finance Director
Internal Control Checklist
Receipts**

See Column Instructions Below

Checks Received in the Mail		Daily Receipting and Depositing					
Open Mail Stamp All Checks for "Deposit Only" When Received (1)	Issue Receipts for Mail-in Checks (2)	Maintain Separate Cash Drawers (3)	***	Stamp All Over-the-Counter Checks for "Deposit Only" When Received (5)	Deposit Intact	Deposit all checks in the Trustee's Office (7)	Verify Trustee's receipt with Check-out Sheet (8)
			Issue Receipts for Over-the-Counter Checks (4)		Check Out and Make Up Daily Deposit (6)		

Seven-Person Office:

- Finance Director
- Deputy Director Employee #1
- AP/Admin Employee #2
- AP/Admin Employee #3
- AP Employee #4
- AP/Payroll Employee #5
- Payroll Employee #6
- Payroll Employee #7

					X		XX
X					XX		X
XX	XX		XX	X		X	
XX	X		X	XX		XX	
							X

Column Instructions:

- XX** The Person indicated by the XX is the preferred person to perform the procedure.
- (1)** Two employees are assigned to open mail, stamp checks " For Deposit Only Acct# XXXXXX0954" immediately upon receipt. The acct. # on the stamp is the Trustee's Bank Account Number.
- (2)** Issue receipts for the mail-in checks in preprinted receipt book.
- (3)** A locked bank bag is issued to the employee responsible for receipting funds for that day
- (4)** Manually issue Receipts for Over-the-Counter Checks in the preprinted finance dept. receipt book.
- (5)** Stamp All Checks for "Deposit Only Acct# XXXXXX0954" immediately upon receipt.
- (6)** Combine the checks & money order receipts from the locked bank bag. Make an itemized list of all checks and money orders and total the list (Excel File). The deposit is made intact for each day or period. We aim to make deposits with the Trustee daily. Keep all collections in a locked safe or file drawer until the deposit is made if deposits are not daily.
- (7)** Carry the deposit to the Trustee's Office and obtain a Receipt from the Trustee for the amount of the deposit.
- (8)** Verify that the amount on the Trustee's receipt agrees with the check-out list from Column 6. Initial and date the Trustee's Receipt to indicate the review. Attach the Trustee's receipt to check-out list and file for audit.

**County Finance Director
Internal Control Checklist
Issuing Non-Payroll Checks**

See Column Instructions Below

Issuing Non-Payroll Checks				
Non-Payroll Checks		Signature Authority		
Enter Invoices	Print & Attach Invoices Checks	Verify Amt. and Sign	Process & Mail Checks	Reconcile Acct Pay. Bank State.
(1)	(2)	(3)	(4)	(5)

Seven-Person Office:

- Finance Director
- Deputy Director Employee #1
- AP/Admin Employee #2
- AP/Admin Employee #3
- AP Employee #4
- AP/Payroll Employee #5
- Payroll Employee #6
- Payroll Employee #7

		XX		
		X~~		X
XX	XX		X	
XX			XX	
XX	X		X	
				XX

Column Instructions:

- XX The Person indicated by the XX is the preferred person to perform the procedure.
- ~~ This person should only sign checks when the Finance Director is absent. See Column 2 Instructions.

Issuing Checks -

- (1) Physically enter invoices and prepare for issuance of check.
- (2) Physically print checks & prepare the checks for signature.
- (3) Determine the reason and examine documentation for the issuance of the check. Sign the checks
Franklin County non-payroll checks require two signatures and are signed by the following: County Funds, County Mayor & Finance Director; Highway Fund, Highway Superintendent & Finance Director; School Funds, School Board Director & Finance Director. Backup signers for the Finance Director is the Finance Deputy Director, for the others the Board Chairman's.
- (4) Process the signed checks and invoices, stubs & check copies and mail.
- (5) Reconcile the Accounts Payable Bank Statements with the Trustee and Finance Software

**County Finance Director
Internal Control Checklist
Payroll Checks**

See Column Instructions Below								
Issuing Payroll Checks								
Obtain Time-sheets from Department Heads	Approve or Determine that Leave Balances/ Time-sheets have been Approved	Process Payroll Post to Gen Ledger & Online Check Stubs	Process Payroll ACH Direct Deposit	Determine that Payroll Deduction Accounts Clear out for each Payroll	Determine Amount of Payroll Tax Deposit	Approve Payroll Tax Deposit Sign Acct Pay Checks	Make the Necessary Deposits Net Pay & Taxes	Review Payroll Ledger / Register for Reasonableness
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

Seven-Person Office:

Finance Director						XX		X
Deputy Director - Employee #1						X		X
AP/Admin - Employee #2							X	
AP/Admin - Employee #3							XX	
Acct Payable - Employee #4								
AP/Payroll - Employee # 5	X	X	XX	X				
Payroll - Employee # 6	XX	XX	X	XX		X		XX
Payroll Employee #7		X			X	XX		

Column Instructions:

XX The Person indicated by the XX is the preferred person to perform the procedure.

Issuing Payroll Checks -

(1) Collect the time sheets from each Department Head.

(2) Sign the time sheets indicating approval of the hours presented and leave calculations, as applicable. Calculate salaries and deductions in software and proof with co-worker. All time sheets/cards are recalculated, signed by the employee, and signed as approved by the employee's supervisor. The Finance Director should ensure this has been done in every case. Each employee, even salaried employees, should complete some form of time and attendance record. Time and Attendance records should indicate leave taken and leave balances as well as time worked.

(3) Process payroll and post to general ledger. Upload Check Stubs into eStub software. Franklin County doesn't issue physical payroll checks except in case of emergency, then checks are signed manually by the finance director or deputy finance director.

(4) Determine ACH accuracy and upload to Bank online treasury management, build and release file for the necessary date(s).

(5) Determine that all payroll deductions are paid to proper payee and that payroll deductions clear out for each payroll period.

(6) Utilize payroll records to calculate the amount of the Payroll Tax Deposit.

(7) Approve the amount of the Payroll Tax Deposit then electronically make the payroll tax deposit or supervise the performance of this procedure. Verify the amounts, sign the payroll or other payroll deduction checks.

(8) Mail or deliver, or deposit checks as applicable.

(9) The Bookkeeper scans/reviews the Payroll Ledgers / Registers for obvious errors or miscalculations. Notes the total payroll amount. Notes the Department totals. Scans the ledgers for new employees, employees that have no payroll deductions, look at overtime, compensatory time, look for persons who are paid from more than one account code, and similar unique items. Considers whether or not the amounts appear reasonable.

**County Finance Director
Internal Control Checklist
Cash Reconciliations**

See Column Instructions Below

Cash with Trustee - All Funds					Cash in Bank - All Funds			
Obtain the Trustee's Monthly Report (1)	Obtain a list from the Trustee or prepare a list of outstanding checks. (2)	Reconcile the Trustee's Cash Balance to Fund Cash (3)	Investigate Old Outstanding Checks or Unusual Items (4)	** Prepare any Necessary Adjusting Journal Entries (5)	Receive, Open, and Review Bank Statements and Cancelled Checks (6)	Perform Bank Reconciliation (7)	Review Bank Reconciliation and Trace Reconciling Items and Balance to Acct. Records (8)	** Prepare any Necessary Adjusting Journal Entries (9)

Seven-Person Office:

Person	XX	X	XX		XX			XX	XX
Finance Director	XX		XX		XX			XX	XX
Deputy Director - Employee #1	X	X	X		X			X	X
AP/Admin - Employee #2									
AP/Admin - Employee #3									
Acct Payable - Employee #4									
AP/Payroll - Employee # 5				X					
Payroll - Employee # 6									
Payroll Employee #7		XX		XX		X	XX		

Column Instructions:

XX The Person indicated by the XX is the preferred person to perform the procedure.
****** See additional instructions for Journal Entries under the Journal Entries Tab.

Cash with Trustee Reconciliation

- (1) The Trustee provides a report of receipts, disbursements, and cash balances during the month or shortly after the end of each month.
- (2) Determines which checks are outstanding and; therefore, not yet deducted from the Trustee's cash balance. Makes a list of outstanding checks. Includes the date of issuance, the payee, and the amount for each outstanding check.
- (3) Reconciles the General Ledger Account - "Cash with Trustee" - to the cash balance shown on the Trustee's Report for each fund under the authority of the financial act of 1981.
- (4) Finds out why old outstanding checks have not cleared. Investigates any other unusual items from the Trustee's report.
- (5) Often there are differences between the Trustee's cash balance and the General Ledger Account - "Cash with Trustee" - other than outstanding checks. For example, fund transfers; the bank paid a check for an amount different from the amount it was written for; manual checks, receipts or disbursements posted to the wrong fund, etc. These types of differences may require a journal entry to bring the Trustee's cash balance into agreement with the General Ledger Account - "Cash with Trustee". Differences should be investigated and corrected each month. The Finance Director and Deputy Director have this duty and back each other up.

Monthly Bank Reconciliation - Use only if the Finance Office maintains any bank accounts outside the Trustee's Office.

- (6) A person who is not responsible for reconciling the bank should open the bank statement and review it for unusual transactions, bank transfers, bad checks, and if possible, cancelled checks. Trace deposits-in-transit, bad checks, outstanding debits or credits, outstanding checks, etc. from the previous bank reconciliation to the current bank statement. Ensure that interest earned was posted to accounting records if applicable. Initial and date the statement indicating that you opened and reviewed the statement. (If possible, get copies of cancelled checks, front and back, in your bank statements.)
- (7) Obtain the Bank Statement after it has been initialed and reviewed as directed in Step 6. Perform the bank reconciliation. This is done monthly.
- (8) A person who is not responsible for reconciling the bank should review the bank reconciliation. Trace the balance on the bank reconciliation to the general ledger. Make sufficient inquires to understand reconciling items (i.e. Deposits-in-transit, bad checks, outstanding debits or credits, interest earned, large or unusual outstanding checks, etc.). Trace at least some of the reconciling items to underlying accounting records. Initial and date the reconciliation to indicate the review.

**County Finance Director
Internal Control Checklist
Trade Accounts Receivable
Reconciliations**

The Finance Office does not have active trade accounts. We collect misc. receipts only.

Seven-Person Office:

Finance Director
Deputy Director - Employee #1
AP/Admin - Employee #2
AP/Admin - Employee #3
Acct Payable - Employee #4
AP/Payroll - Employee #5
Payroll - Employee #6
Payroll Employee #7

See Column Instructions Below

Trade Accounts Receivable (A/R) - All Funds							
	Add:	Subtract:		The	The	Locate and	**
Obtain Beginning Receivable Balance	Amounts Billed to Customers Current Month	Collections, Adjustments, Write-Offs	Ending Receivable Balance Equals Column 1+2-3	Balance from Column 4 should agree with the total of all Individual Accounts	Balance from Columns 4&5 should agree with the General Ledger	Explain any difference between Columns 4, 5, & 6	Prepare Necessary Correcting Journal or Other Entries
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)

XX	XX	XX	XX	XX	XX	XX	XX
X	X	X	X	X	X	X	X

Column Instructions:

XX The Person indicated by the XX is the preferred person to perform the procedure.
****** See additional instructions for Journal Entries under the Journal Entries Tab.

Trade Accounts Receivable (examples are ambulance, landfill, and utility receivables)

- (1) Obtain the beginning balance of trade accounts receivable. This balance should exist in the accounting records. If a record of the beginning balance (i.e. accounts receivable control record) does not exist, this is an indicator that internal controls either do not exist or are not working.
- (2) This amount should be the total amount billed to customers during the current month.
- (3) This amount should be the total of all collections, adjustments, and write-offs that reduce the accounts receivable balance. (Important: No accounts receivable balance should be written-off without a write-off policy and approval of the County Commission or its designee.)
- (4) The sum of columns 1+2-3 should equal ending accounts receivable. This is separated in three steps for illustration purposes. In an automated system, this is essentially one step with the system printing a report. However, the bookkeeper and someone not associated with the Accounts Receivable Records should be reviewing the totals of billings, collections, and write-offs for reasonableness each month.
- (5) The accounts receivable records should have a summary (control record) and a detailed list of accounts receivable by individual customer. The summary (control record) accounts receivable total should agree with the total of all the individual customer receivable balances. This should be verified every month.
- (6) The summary (control record) and the individual customer balances total should agree with the General Ledger Accounts Receivable balance. This should be verified every month.
- (7) Any difference between the accounts receivable balances on the Control Record, the Detailed List, and the General Ledger should be investigated and corrected each month. Any consistent or significant differences should be reported directly to the Finance Director
- (8) Prepare the adjusting journal entries to correct the differences.

**County Finance Director
Internal Control Checklist
Purchasing**

See Column Instructions Below

Obtain Requisition From Department Heads For Encumbrance	Issue Detailed Purchase Order for Approval which records Against Budgets	Approve the Purchase Order	Order Goods/Services Based on Approved Purchase Order	Receive Ordered Goods/Services	Purchasing				Sign & Approve Check for Payment	Process Payment check stubs, etc. Mail	Determine the Disposition of any Unused Purchase Orders
					Sign Invoice or shipping Documents Indicating the Goods/Services Were Received	Match Shipping Documents, Purchase Order, and Prepare for Check Issuance	Print Checks attach to Invoice, Etc.				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	

Seven-Person Office:

Finance Director
Deputy Director - Employee #1
AP/Admin - Employee #2
AP/Admin - Employee #3
Acct Payable - Employee #4
AP/Payroll - Employee # 5
Payroll - Employee # 6
Payroll Employee #7

X	X	XX	XX	X	X			XX		X
XX (Schools)		X	X	X				X		X
	XX				XX	X	XX		X	
									XX	
	X					XX	X			XX
XX (Co/Hwy)			XX	XX	X					

Column Instructions:

XX The Person indicated by the XX is the preferred person to perform the procedure.

Purchasing

- (1) The Finance Office obtains a requisition or obtains purchase information based on the current county purchasing policy. The name of the person making the request, the method of the request (e.g. by telephone), and the date is documented. The request is detailed. The brand, quantity, product order number, price, and total purchase amount is documented. Requests for purchase orders that do not include complete information are not accepted. The request normally comes from a Department Head or the Department Head's designee. Departments don't generally have multiple employees who make requests for purchase orders except in few circumstances as designated by the elected official or department head.
- (2) Issue the purchase order for approval. A yellow copy of the purchase order goes to the Department that ordered the goods/services. The original green document goes to finance accounts payable personnel to match with the supporting documentation for payment purposes, then attached to check. This data entry of the purchase orders automatically record against the individual budgets.
- (3) The Finance Director or designee determines whether Bid Laws and Local Purchasing Policy has been followed & determines that the purchase order is completed in detail and ready for approval. The purchase order is approved by two signatures for county and highway and one signature for schools. The Finance Director or Deputy Director sign approving and then for county or highway, the County Mayor or Highway Superintendent or chairman's of the County Commission or Highway Commission sign approving. The Schools Director has opted to sign the requisition only. The School Purchase Orders require only one signature; the Finance Director or Deputy Director.
- (4) Physically order the goods/services as listed on the purchase order. Sometimes this will be completed in the Finance Office and sometimes this will be done by the Department Head or a specific department designee. Local vendors of goods/services are advised of the persons who are authorized to make purchases on behalf of the government. Local vendors are also advised that no goods or services can be purchased without an approved purchase order for items over \$25.
- (5) The Finance Office, the Department Head, or a specific department designee receives the order.
- (6) Once the goods have been shipped and received or the service rendered, the Finance Office, the Department Head, or a specific designee checks the order and signs and dates the purchase order and/or the invoice, or shipping documentation indicating that the goods/services have been received as ordered. The documents then go to finance accounts payable personnel.
- (7) Once the goods have been shipped and received or the service performed, the Finance Office accounts payable personnel receives the shipping documents, invoices and then matches e Purchase Requisition, Purchase Order, Shipping Documents, Invoice, etc. and prepares the invoices for payment. This will be the documentation used to approve the checks.
- (8) A different accounts payable clerk then selects the previous accounts payable clerks items that are ready for check issuance, and prints the corresponding check and attaches together for signature & approval.
- (9) The Finance Director or Deputy Director approve the check for payment. All non-payroll checks require two signatures for approval. The County Mayor, Highway Superintendent and Director of Schools signs for the funds they are responsible for. If they are not available the chairman's of their prospective boards are the second approving signature.
- (10) A third admin/accounts payable clerk processes the payments and mails the checks.
- (11) Purchase Orders are reviewed and maintained on a monthly basis by an accounts payable clerk to determine if the services/goods have been cancelled, postponed. A determination is made as to whether the outstanding purchase orders should be liquidated or amended. The Finance Director and Deputy Finance Director review the outstanding purchase orders as well in maintaining the budgets, amendments and reports to the department heads and commission/boards.

**County Finance Director
Internal Control Checklist
Grants**

See Column Instructions Below

Grant Performance and Documentation					
Obtain Co. Commission's Approval to Apply for the Grant	Read the Grant Contract.	Maintain Central Grant Documentation Files	Maintain Separate General Ledger Revenue and Expenditure Accounts for Each Grant	Mark or Tag Grant Equipment and make an Inventory listing by Grant	Physically Observe the Equipment on the Inventory Listing
	Also Obtain and Read OMB's Uniform Grant Guidance				
Include Grant in the Budget					
(1)	(2)	(3)	(4)	(5)	(6)

Seven-Person Office:

Finance Director	XX	XX	XX	XX	XX	XX
Deputy Director - Employee #1	X	X	X	X	X	X
AP/Admin - Employee #2						
AP/Admin - Employee #3						
Acct Payable - Employee #4						
AP/Payroll - Employee # 5						
Payroll - Employee # 6						
Payroll Employee #7						

Column Instructions:

XX The Person indicated by the XX is the preferred person to perform the procedure.

Grants Performance and Documentation

- (1) The Finance Director or Deputy Director works with all county personnel to insure the grant procedures are followed as approved in the county policy. The finance committee will receive a pre-grant application form or application/approving resolution for Federal, State, or other grants. Finance approves and sends to the County Commission for approval. When approved by the Federal, State or other entity, the Grant is included in the County, Highway or School Budgets as appropriate. The authorized persons to sign a grant on behalf of Franklin County are as follows; the General County Government is the County Mayor, the Highway Department is the Highway Superintendent, the Schools is the Director of Schools. The grant pre-application form is a summary form showing the particulars of the grant.
- (2) A most recent version of the U.S. Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is on file at the finance office and available by internet at any time. This document is downloaded from the Internet and on file. The Finance Director is responsible for knowledge of the contents of the OMB document and the Grant Contract and seeks any clarification from Federal/State or other grant program management personnel.
- (3) All grant documents related to Franklin County Government, Highway & Schools, regardless of the department that applies for and receives a grant, is maintained in a central file in the Finance Office. Each grant is kept in a separate file by fiscal year. The file contains the grant application, the grant reports, budget and budget amendments, correspondence from the State of Tennessee and the Federal Agency, monitoring reports, and information specific to the grant (such as CFDA Number and Exact Grant Title, DUNS Number and Exact Entity Title for the DUNS Number, Key dates, Total Amount of Federal Award, Federal and State Award Agencies, Indirect Cost. Indirect Cost Calculations if applicable, etc. The required documentation is presented throughout OMB's Uniform Guidance as mentioned in (1) above. Internal Control and Procurement Policies are on file in the Finance Office.
- (4) Revenues and Expenditures for each Federal or State Grant are maintained in separate revenue or expenditure accounts or cost centered so that each grant can be easily recognized and accounted for in the County's accounting records. The Finance Director is responsible for maintaining the County and Highway Grants, whereas the Deputy Finance Director maintains the school grants. Both positions are a backup for each other.
- (5) Equipment purchased with Federal and State Grants is permanently marked or tagged as equipment purchased with specific grant funds. An inventory listing is made of equipment purchased with grants funds. Equipment is listed separately for each State or Federal Grant. Equipment on the inventory listing is physically inspected on a periodic basis by someone not associated with preparing and maintaining the inventory list. The department responsible for the equipment has the responsibility of marking the equipment and annually submits an inventory list to the County Mayor's office for audit purposes. County, insurance policy & inventory policies are regarded by the responsible department head. The fixed assets are maintained by the Finance Director and Deputy Finance Director.
- (6) The equipment is physically observed by the responsible parties of each department on an annual basis. The inventory list is maintained and is updated with the Finance Office for insurance and Fixed Asset maintenance.

County Finance Director
Internal Control Checklist
Budget

See Column Instructions Below			
Budget Operations			
Prepare the Annual Budget for County Commission Approval	Review the Budget Monthly	Prepare Budget Amendments and Post to Accounting Records	Major Appropriation Category Budgets should not be Exceeded.
(1)	(2)	(3)	(4)

Seven-Person Office:

Finance Director	XX	XX	XX	XX
Deputy Director - Employee #1	X	X	X	X
AP/Admin - Employee #2				
AP/Admin - Employee #3				
Acct Payable - Employee #4				
AP/Payroll - Employee # 5				
Payroll - Employee # 6				
Payroll Employee #7				

Column Instructions:

XX The Person indicated by the XX is the preferred person to perform the procedure.

Budgeting

- (1) Franklin County operates under the Financial Act of 1981. In November of each year the Finance Committee approves a Budget Calendar for the new Fiscal Year Budget cycle. By March 1st of each year the Finance Committee reviews and approves the budget packet template distributed to the County and Highway Depts. The School Depts. have their own budget calendar that coincides with the main calendar. The Finance Director receives the county general budget request annually by mid April. The School and Highway Budgets are a combined effort of the Finance office staff and the Director of Schools/School Board and Highway Superintendent/Highway Commission. Generally the School Board and Highway Commission have an approved budget by mid May each year and are then added to the other fund budgets. The budget is then consolidated by the Finance Director and presented to the Finance Committee in mid May. In June the Finance Committee reviews all pertinent information in regard to the budget as per TCA. The goal is by the July finance committee meeting to have an approved consolidated budget with tax rate recommendation to send to the July County Commission meeting. This process is described in TCA 5-21-110 & 5-21-111.
- (2) The budgets are reviewed on a monthly basis by the Finance Director (county & highway) and Deputy Finance Director (schools). Monthly reports are distributed to the departments including but not limited to - Statement of Revenue, Statement of Expenditures, Account Analysis, Outstanding Purchase Order Report & Cost Center Reports if applicable. The Finance Director submits a monthly report to the County Commission in the form described in TCA 5-21-114.
- (3) Inter-Category Amendments can be approved by the Finance Director and the County Mayor in regard to the county funds, the Finance Director and the Highway Superintendent for highway funds, and the Finance Director and the Director of Schools for the school funds. This is a procedure used when not adding funds to a category but decreasing an allocation to increase another allocation when funds are need in order for procurement.
- (4) Amendments that are needed to decrease/increase Revenues and Expenditure Categories are prepared by the Finance Director (county & highway) & Deputy Finance Director (schools). The Highway Commission and School Board approve this amendments prior to presentation to the Finance Committee. The Finance Committee then approves and sends to the next County Commission meeting for approval. When the commission approves the amendments, they are then entered and posted by the Finance Director and Deputy Finance Director.

County Finance Director
Internal Control Checklist
Journal Entries

See Column Instructions Below

Entering Journal Entries and Transfers			
Prepare and Document the Journal Entry (1)	Approve Journal Entries (2)	Post Journal Entries to Accounting Records (3)	Review Accounting Records for Proper Posting (4)

Seven-Person Office:

Finance Director	XX	XX	XX
Deputy Director - Employee #1	X	X	X
AP/Admin - Employee #2			X
AP/Admin - Employee #3			
Acct Payable - Employee #4		XX	
AP/Payroll - Employee # 5			
Payroll - Employee # 6			
Payroll Employee #7			

Column Instructions:

XX The Person indicated by the XX is the preferred person to perform the procedure.

Entering Journal Entries

- (1) Finance staff may bring to the attention of the Director and Deputy Director of corrections that need to be made, or the Director's may find the errors in the monthly budget reviews. A standard journal entry form is utilized. The form records debits and credits and explains the transaction in detail for each journal entry. Documentation is attached as necessary.
- (2) The Finance Director approves all journal entries. The Deputy Director is the designee in the Director's absence.
- (3) Accounts Payable and Admin personnel are utilized to perform the data entry.
- (4) Prior to posting the journal entries, the Director of Finance & the Deputy Director review the pre-post general ledger

**County Finance Director
Internal Control Checklist
Payroll & Employee Maintenance**

See Column Instructions Below

Maintaining Employee Payroll Records			
Obtain Payroll Change Notice from Department Heads (1)	Approve or Determine that Funds are Budgeted for New Hire or Changes for Employees (2)	Process Data Entry for Employee Changes in Payroll Software (3)	Check Data Entry for Employee Changes/Additions in Payroll Software (4)

Seven-Person Office:

Finance Director
Deputy Director - Employee #1
AP/Admin - Employee #2
AP/Admin - Employee #3
Acct Payable - Employee #4
AP/Payroll - Employee # 5
Payroll - Employee # 6
Payroll Employee #7

X	XX		X
	X		
XX		X	XX
		XX	
		X	X

Column Instructions:

XX The Person indicated by the XX is the preferred person to perform the procedure.

Issuing Payroll Checks -

- (1)** Collect the Payroll Change Notices from Department Head/Elected Officials.
- (2)** Check employee database and current fiscal year budget for availability of funds for the changes being requested in regard to payroll/staff.
- (3)** Perform New Hire Orientation, and or process the approved changes in the Payroll Software. These changes include additions of new employees, pay expense lines, pay adjustment lines, leave balances.
- (4)** Check data entry for Employee additions or changes in the payroll software to assure accuracy.

**County Finance Director
Internal Control Checklist
Inventory & Surplus Property**

See Column Instructions Below

Finance Inventory & Surplus Property											
Obtain Invoice & Check Copy from AP Personnel for Inventory & FA Processing	Place Franklin Co. Inventory Sticker on Items for Tracking	Add the items over \$100 to the Finance Dept Inventory List	Add the items over \$5,000 to the County Fixed Assets Listing	Add the items over \$5,000 to the Schools Fixed Assets Listing	End User identify surplus property notify Finance Director or Deputy Director	Decide if item is surplus to be discarded, recycled, or sold by GovDeals or Other Method	Advertise item on GovDeals	Receive Funds from sale of items on GovDeals	Take funds to Trustee for surplus items sold or recycled	Check for Trustee Cash Receipt Issuance from sale or recycle of surplus items	Remove Inventory and Fixed Asset item as necessary from list and accounting records
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)

Seven-Person Office:

Andrea Finance Director
Cindy L Deputy Director - Employee #1
Cindy m AP/Admin - Employee #2
Lila AP/Admin - Employee #3
Becky Acct Payable - Employee #4
Jenny AP/Payroll - Employee # 5
Heather Payroll - Employee # 6
Patty Payroll Employee #7

XX	X	XX	XX	X		XX	X	XX		XX	XX (Fin Dept & Co)
X		X	X	XX		X	X	X		X	X (Schools)
					X				X		
					X				XX		
					X						
	XX				X						
					XX		XX				
					X						

Column Instructions:

XX The Person indicated by the XX is the preferred person to perform the procedure.

Inventory & Surplus Property

- (1) After the processing of accounts payable checks, the finance director views all checks cut for potential finance inventory items (\$100) and county fixed asset items (\$5,000). The deputy finance director views all the school checks for potential school fixed asset items (\$5,000).
- (2) The Purchasing Specialist places Franklin County, TN inventory identification stickers on the finance inventory items over \$100 that are not consumable.
- (3) The finance director adds the inventory items to the finance inventory list
- (4) The finance director then adds items over \$5000 to the county fixed asset items to the fixed asset list and enters the data into the FlexGen Fixed Assets Software. The Deputy "Director adds school items over \$5,000 to the school fixed assets list and enters the data into the FlexGen Fixed Assets Software.
- (5) The Deputy "Director adds school items over \$5,000 to the school fixed assets list and enters the data into the FlexGen Fixed Assets Software.
- (6) Finance employees identify finance inventory items that need to be discarded or declared surplus for recycle or sale.
- (7) The finance director decides if the item should be declared surplus and discarded or declared surplus for recycle or sale on GovDeals or other method.
- (8) Purchasing Specialist advertises surplus items for sale on GovDeals (Internet Governemnt Auction Site) and tracks the bids received. The Finance Director decides on award of sale.
- (9) The Finance Director receives funds from recycled or sold items. Accounts Payable Personnel receipt funds to finance department and give to deputy director to log and prepare to send to Trustee.
- (10) The accounts payable specialist takes the cash receipts from surplus property to the Franklin County Trustee.
- (11) The finance director, checks the Trustee cash receipts against the deputy directors finance receipt of funds log to make sure county received the fudns.
- (12) Surplus Inventory and Fixed items are removed from the necessary list and accounting records for county - finance director; for schools - deputy finance director.