



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
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DIVISION OF COUNTY AUDIT  
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**MEMORANDUM**

**TO:** County Trustees

**FROM:** Richard V. Norment, Assistant to the Comptroller  
Jim Arnette, Director, Division of County Audit

**SUBJECT:** Segregation of Duties for Small Trustee Offices

**DATE:** June 18, 2009

*R. Norment*  
*Jim Arnette*

Trustees across the state have indicated a desire to implement internal control procedures that would eliminate the segregation of duties finding they receive based on the annual audit performed by Division of County Audit. The requirements to receive funding under the American Recovery and Reinvestment Act have brought a renewed focus on internal controls.

The Office of the Tennessee Recovery Act Management's (TRAM) Directive No. 6 states, "All local agencies, including city and county governments and non-profit organizations receiving ARRA funds must follow internal control guidance prescribed by the State of Tennessee Comptroller of the Treasury, Division of Municipal Audit and Division of County Audit."

In compliance with the above directive, the Division of County Audit recommended the correction of the segregation of duties finding in the Office of Trustee because the Trustee will be directly responsible for receiving and coding ARRA grant revenues. However, many small Trustee offices have operated under the belief that adequate segregation of duties was not feasible. The Division of County Audit believes that Trustees can achieve adequate segregation of duties in an office that has as few as two people (i.e. the Trustee and one employee.) The files attached with this letter address segregation of duties in either a two-person or a three-person office. We believe the suggested segregation of duties for the three-person office goes beyond that which is merely adequate and actually represents good organizational segregation of duties. Trustees can apply the segregation principles presented in these files to an office of any size.

## MEMORANDUM

April 30, 2009

Page 2

The files provide an example of checklists that may be used to demonstrate the assignment of routine functions to employees to achieve adequate or good segregation of duties. Please note that, in a two-person office, both employees are allowed to write receipts. Keep in mind that the checklists were not designed to provide guidance for every possible situation. In addition, we designed the checklists in a generic fashion so that the checklists would relate to both computerized and manual offices. The files include a separate checklist for each of the following functions: Receipts, Checks, Investments, Payroll, Journal Entries, and ACVs. Each checklist includes instructions for the various columns/functions.

The checklists are provided in an excel spreadsheet format. If you choose to use checklists in this type of format, we recommend that the files be saved, copied, and edited to fit the situation in your office. They may be printed and used as a manual checklist or be maintained on your computer. Offices that are not familiar with the use of excel spreadsheets may need to obtain assistance from another source within the county government.

There is no doubt that implementation of the recommended procedures will cause some inconvenience. We believe the benefits outweigh the increased effort. **Trustees should keep in mind that they are responsible for establishing and maintaining a system of internal controls for their office.** The Division of County Audit cannot make management decisions on your behalf neither can our audit be considered an internal control procedure. Feel free to ask your auditor if you have any questions about the application and use of the checklists. You may contact Jerry Durham in the Nashville office if auditors are not available. (Telephone - 615.401.7951, Email - [Jerry.Durham@tn.gov](mailto:Jerry.Durham@tn.gov))

**Trustee  
Internal Control Checklist  
Receipts**

**See Column Instructions Below**

**Two-Person Office:**

**Official  
Employee #1**

**Three-Person Office:**

**Official  
Employee #1  
Employee #2**

Checks Received in the Mail		Daily Receipting and Depositing												
Open Mail, Stamp Checks for Deposit Only, and Make a List of Checks	Issue Receipts for Mail-in Checks	Maintain Separate Cash Drawers	** *** Issue Receipts	Stamp All Checks for Deposit Only when Received	Issue Miscellaneous and/or Manual Receipts if Utilized	Post Receipts to Accounting Records	Verify that Mail-in, Miscellaneous, and Manual Receipts were Recorded	Check Out to Certain Amount of Cash	Deposit Intact Count Cash and Make Up Daily Deposit	Carry Deposit to Bank	Verify Deposit Slip with Check-out Sheets and Amt. Recorded	Examine Audit Log and Explain Each Entry	Examine the Tax Aggregate Reconciliation and Correct Errors	Determine that the Trial Balance is in Balance
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
	X	X	X	X	X			X		X	X	X	X	X
X		X	X	X		X	X	X	X					
	X	X	X	X	X			X		X				
X		X	X	X		X	X	X	X		X	X	X	X

**Column Instructions:**

\*\* For computerized systems. Always follow guidance from Division of County Audit Information Systems Auditors with regard to Passwords, Computer Access, Backups, etc.

\*\*\* Note: A Sign should be conspicuously posted in the office that states, "You must receive an official receipt or your transaction is not complete".

Checks Received in the Mail -

- (1) Open mail, Stamp Checks for "Deposit Only", Trustee's Account Number should be on the Stamp. Record the date, Make a List of All Checks by Name and Amount. Present Checks to person responsible for issuing the receipt. Keep the List secure until all receipts are verified as posted (Column 6).
- (2) Issue receipts for the mail-in checks.

Daily Receipting and Depositing -

- (3) Each employee should have a separate cash drawer. (It is preferable for each cash drawer to have a lock.)
- (4) Issue Receipts for Collections. (Notice that in the Two Person Office both employees are allowed to receipt)
- (5) Stamp All Checks for "Deposit Only" immediately upon receipt. Do not wait until the end of the day.
- (6) When a manual receipt book is utilized. (The use of a manual receipt book is discouraged when a computerized system is utilized.)  
If a manual receipt book is utilized, it must be bound, include the Trustee's Title, and be prenumbered. (Receipt books that can be purchased at local stores such as Walmart should not be utilized.) The receipt should have a place to indicate whether the payment was by cash, check, money order, or credit card and a place to indicate the name of the person who issued the receipt.
- (7) Update the accounting system for the day's receipts or manually post receipts to accounting records.
- (8) Examine accounting records. Determine that all mail-in (use list prepared in Column 1) and manual receipts were recorded.
- (9) Each employee should check out to a certain amount of cash (e.g. \$100). This procedure should be performed daily if practicable. In a manual system, use of a standard check-out sheet is advised. The computer should generate the check-out sheet in a computerized system. Each person should sign or initial the check-out sheet.
- (10) Combine the money from all drawers and complete a deposit slip. The deposit slip should be itemized. The total deposit amounts should agree with the check-out sheets in Step 9. The Deposit should be made "intact". This means that the deposit should equal all receipts for a given day. (As an alternative, a deposit could be made up for each cash drawer rather than making a combined deposit)
- (11) Carry the deposit to the bank and obtain a deposit slip.
- (12) Verify that the amount on the slip agrees with the check-out sheets and the amount recorded on the accounting records. Initial and date the deposit slip to indicate the review.
- (13) Examine the audit log from the computerized system. Determine why transactions were deleted or changed. (It is preferable to perform this procedure daily, but the procedure should be performed at least each month. It is also preferable to print the report and write a brief explanation.) Initial and date the report after review or otherwise document that you examined the audit log if it was not printed.
- (14) Examine the Tax Aggregate Reconciliation (or for a manual system, prepare the Tax Aggregate Reconciliation). (It is preferable to perform this procedure daily or weekly, but the procedure should be performed at least each month.)
- (15) Make sure the debits and credits on the trial balance agree. This should be performed each day.

**Trustee  
Internal Control Checklist  
Checks**

**See Column Instructions Below**

Issuing Checks			Monthly Bank Reconciliation		
Write Checks (1)	Signature Authority	Post Checks to Accounting Records (3)	Receive, Open, and Review Bank Statements and Cancelled Checks (4)	Perform Bank Reconciliation (5)	Review Bank Reconciliation and Trace Reconciling Items and Balance to Acct. Records (6)
	Sign and Mail Checks (2)				

**Two-Person Office:**

Official

Employee #1

	X	X	X		X
X	X			X	

**Three-Person Office:**

Official

Employee #1

Employee #2

	X		X		X
X		X		X	
	X		X		X

**Column Instructions:**

Issuing Checks -

- (1) Physically prepare the checks for signature.
- (2) Determine the reason and if necessary examine documentation for the issuance of the check. Sign the checks and maintain possession of the checks. Mail the Checks. Blank Checks should never be signed. (The Official should sign and mail checks except for brief periods when the Official is absent.)
- (3) Record the checks in the accounting system.

Monthly Bank Reconciliation -

- (4) The 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. Initial and date the statement indicating that you opened and reviewed the statement. **(Very important - In a two-person office, examine the payee and, if possible, the endorsement for all checks issued by employee #1.)**
- (5) Obtain the Bank Statement after it has been initialed and reviewed as directed in Step 4. Perform the bank reconciliation. This should be done monthly.
- (6) The 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 reconciling items to underlying accounting records if explanations are not adequate. Initial and date the reconciliation to indicate the review.

**Trustee**  
**Internal Control Checklist**  
**Investments**

See Column Instructions Below

Investment Purchases							Maturing Investments						
Investment Decision (1)	Check Issued for Investment (2)	Investment Purchased (3)	Inspect Investment and Record in Investment Ledger (4)	Post the Investment to the Acct. Records (5)	Determine that the Transaction has been Properly Recorded (6)	Place Investment Document in a Secure Location (7)	Retrieve Investment Document (8)	Verify Investment Maturity and Record in Investment Ledger (9)	Investment Decision Redeem or Renew Investment (10)	Inspect Redemption/ Renewal Documents and Record in Investment Ledger (11)	Post the Investment Maturity to the Acct. Records (12)	Determine that the Transaction has been Properly Recorded (13)	Place Investment Renewal Document in a Secure Location (14)
X		X			X	X	X		X			X	X
	X		X	X				X		X			
X		X			X	X	X		X			X	X
	X			X				X		X			
			X			X	X		X				X

**Two-Person Office:**

Official  
Employee #1

**Three-Person Office:**

Official  
Employee #1  
Employee #2

**Column Instructions:**

Investment Purchases -

- (1) The Trustee should make investment decisions.
- (2) The Trustee should authorize the employee to issue a check for the amount of the investment drawn on the appropriate bank.
- (3) The Trustee should purchase the investment.
- (4) The particulars (i.e. Date, Maturity, Amount, Bank, Interest Rate, etc.) should be recorded in an Investment Ledger. The balance for investments on the Investment Ledger should agree with the investment balance on the General Ledger after procedure 5 has been performed.
- (5) Record the investment in the accounting records.
- (6) Determine that the investment transaction has been correctly recorded in the investment ledger and the general ledger. Determine that the investment ledger and general ledger agree.
- (7) Place the investment document in a secure location.

Maturing Investments -

- (8) Retrieve the investment document from the secure location.
- (9) Present the maturing investment to Employee #1 for verification of the maturity with the investment ledger.
- (10) Redeem or renew the investment at the bank.
- (11) Remove the matured investment from the investment ledger balance. Record any new investment. The particulars (i.e. Date, Maturity, Amount, Bank, Interest Rate, etc.) should be recorded in the investment ledger. The balance for investments on the Investment Ledger should agree with the investment balance on the General Ledger after procedure 12 has been performed.
- (12) Record the maturity and any renewal on the Accounting Records.
- (13) Determine that the investment transaction has been correctly recorded in the investment ledger and the general ledger. Determine that the investment ledger and general ledger agree.
- (14) Place the investment document in a secure location.

**Trustee**  
**Internal Control Checklist**  
**Payroll Checks**

**See Column Instructions Below**

**Two-Person Office:**

**Official**  
**Employee #1**

**Three-Person Office:**

**Official**  
**Employee #1**  
**Employee #2**

Issuing Payroll Checks								
Collect Time-sheets. Calculate Hours and Leave	Approve Time-sheets	Write Checks	Record the Checks in the Payroll Ledger	Determine that Payroll Deductions Clear out for each Payroll	Determine Amount of Payroll Tax Deposit	Approve and Make Payroll Tax Deposit	Signature Authority Sign and Mail or Deliver Checks	Post Checks to Accounting Records
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	X			X		X	X	X
X		X	X		X		X	
	X			X		X	X	
		X						X
X			X		X			

**Column Instructions:**

Issuing Payroll Checks -

- (1) Collect the time sheets and calculate hours and leave.
- (2) Sign the time sheets indicating approval of the hours presented and leave calculations.
- (3) Obtain the approved time sheets, calculate salaries and deductions, and physically issue checks for signature.
- (4) Record the Gross Pay, Payroll Deductions, and Net Pay in the Payroll Ledger.
- (5) Determine that all payroll deductions are paid to proper payee and that payroll deductions clear out for each payroll period.
- (6) Determine the amount of the Payroll Tax Deposit using the payroll ledger.
- (7) Electronically make the payroll tax deposit.
- (8) Sign the payroll checks, mail payroll deduction checks, and deliver payroll checks to employees. (The Official should sign and mail/deliver checks except for brief periods when the official is absent.)
- (9) Record checks in the accounting system.

**Trustee**  
**Internal Control Checklist**  
**Journal Entries and Transfers**

**See Column Instructions Below**

**Two-Person Office:**

Official  
 Employee #1

**Three-Person Office:**

Official  
 Employee #1  
 Employee #2

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

**Column Instructions:**

Entering Journal Entries and Transfers -

- |     |  |
|-----|--|
| (1) | Use a journal entry form to record debits and credits and to explain the transaction. Attach documentation as necessary.   |
| (2) | Sign the journal entry form to indicate approval of the journal entry or transfer, the explanation, and the documentation. |
| (3) | Record the journal entry in the accounting system.   |
| (4) | Review the accounting records to determine that the journal entry was properly recorded.                                   |

**Trustee**  
**Internal Control Checklist**  
**ACVs**

**See Column Instructions Below**

**Two-Person Office:**

**Official**  
 Employee #1

**Three-Person Office:**

**Official**  
 Employee #1  
 Employee #2

ACV Transactions		
Maintain ACV Files (1)	Post ACV Receipts (2)	Reconcile ACV requests with amounts Received and Outstanding (3)
X		X
	X	
		X
	X	
X		

**Column Instructions:**

**ACV Transactions -**

(1)	Maintain file with applications, correspondence, and remittance advices, etc. Employee #1 may accept applications but should not have routine access to these files.
(2)	Post the ACV receipts to the accounting system.
(3)	Reconcile ACV applications and receipts with amount of ACVs outstanding (i.e. receivables). The reconciliatin should be prepared at least every month.