

FINANCIAL OVERSIGHT DUTIES FOR A CERTIFIED MUNICIPAL FINANCE OFFICER or FINANCIAL OVERSIGHT DESIGNEE

The Municipal Finance Officer Certification and Education Act of 2007 (TCA 6-56-400 et al) (the Act) requires municipalities to have a chief financial officer (CFO), who is either a Certified Municipal Finance Officer (CMFO) (Category 1), or an individual who is exempt from the educational requirements leading to the CMFO designation (Category 2) . An exception is granted to cities that have \$500,000 or less in revenues from all funds **and** \$500,000 or less in debt from all funds. A city meeting these criteria is allowed to designate a city employee as the Financial Oversight Designee (FOD) (Category 3) to attend 24 hours of CMFO eligible continuing professional education. Contracting with an individual is not allowed for compliance with the Act. The aforementioned categories are defined in the official policies and procedures prescribed by the Comptroller of the Treasury for the Act.

Throughout the remainder of the document it is important to note that where the text refers to the CMFO it also means the person who has been designated as the individual with financial oversight for the government, the (FOD). Financial oversight and responsibility is critical to the function of government operations. A government cannot operate without accurate and timely financial records.

No definition is given for the terms ‘oversight responsibilities’ or ‘financial oversight’ in the law. This narrative is to assist cities in determining and defining what is needed and expected from a CMFO employed either full-time or part-time. If a CMFO works for more than one city they must be bonded by EACH city. It is important to note the governing body has the responsibility to set exactly what they will require from the CMFO, and this narrative is intended to note minimum financial procedures that should be implemented by any city and overseen by the CMFO. The individual taking responsibility for financial oversight must be comfortable they are performing enough work to take responsibility for the city’s financial condition and activities.

The part-time CMFO **must** understand, at the very beginning of the relationship, to who they will report. The CMFO will most likely report to the City Manager, Mayor or governing body and it is important that job duties and responsibilities are in writing (especially part-time CMFOs).

Full time employees should have a written job description that details job duties and responsibilities and defines lines of authority. It should be recognized that in order to comply with *required internal controls* some financial and accounting processes and procedures may need to be changed and the CMFO should have the authority to do so to reduce the risk of errors or loss. Depending on staffing size, the CMFO may delegate some duties to other staff but must review the work performed in order to accept responsibility.

Financial oversight can be interpreted in many ways, but a basic starting point should be a careful review of the following:

- 1) CMFO class materials
- 2) Material available online at the Division of Local Government Audit website:

- The State Comptroller, Division of Local Government Audit, Internal Control and Compliance Manual, also called the ‘City Manual’
 - The State Comptroller, Division of Local Government Audit, ‘Audit Manual’
 - Prior audited financial statements (1-3 years) – note any audit findings included at the end of the report
- 3) Guidelines available online at the Office of State and Local Finance:
- Municipal Budgeting
 - Municipal Debt requirements

When beginning a periodic review (monthly or bi-weekly for example) the CMFO must be familiar with a city’s internal financial records in order to determine if obvious errors exist. Here are some important points to remember:

- Audit adjustments – Have all prior year audit adjustments been posted? The CMFO should ensure the fund balance/equity accounts agree to the prior year audited financial statements.
- Timeliness – Are the financial records up-to-date? Have all transactions been posted? The CMFO should ensure deposits are made within 3 working days and all city expenditures/expenses are being paid on time. If not, the financial records must be brought up to date as quickly as possible. Are monies collected outside of city hall being deposited timely?
- Accuracy – Are the financial records accurate? The CMFO should scan the entire trial balance for every fund. In the process making sure asset and expenditure/expense accounts have debit balances, and liabilities, equity, and revenue accounts have credit balances. If any account does not carry the appropriate debit/credit balance, this may indicate a posting error has occurred and the CMFO should ask for an explanation. Do court dockets agree with the amount of money being deposited in the bank?
- Reasonableness – Are the numbers reasonable? By scanning the trial balance, the CMFO should note any obvious or significant differences from the prior year numbers. The CMFO should request a report that compares the current and prior year. For example, if at April 30 property tax revenue for the prior year is \$630,000, but the current year only reflects \$260,000, this is indicative there is a problem. The CMFO should investigate and ask questions when something doesn’t look correct and reasonable.
- Correction of errors – Have errors been corrected? Any errors or inconsistencies noted during reviews by the CMFO must be corrected in a timely manner. All errors or inconsistencies should be communicated to the bookkeepers and if significant, reported to the city official to whom the CMFO reports. What the city council considers significant should be determined ahead of time and reviewed with the CMFO prior to the relationship being established.

ASSETS

- Cash, Checking, and Investment Accounts - The CMFO should ensure that bank statements for all cash, checking, and investment accounts have been reconciled monthly and the reconciliations tie to the financial records. The reconciliations should contain NO large, unexplained reconciling items. Reconciliations should note they have been reviewed by an individual with no direct responsibility for receiving or disbursing monies. Particular attention should be paid to items appearing more than a month without corrective action being taken.
- Inventories – If a municipality posts inventory, the CMFO should determine if the municipality uses the consumption or purchases method. Inventories may be adjusted monthly or annually depending on the method used. If adjusted annually, the current balance should agree with the amount found in the previous annual financial report. If adjusted monthly, the city should have a subsidiary ledger or record of all postings that can be reviewed for accuracy.
- Receivables – property tax receivables may or may not be adjusted throughout the year. The CMFO should be familiar with the recording process being used by the municipality. If the property tax receivables are adjusted at year-end, there should be no change to the accounts receivable monthly because receipts are posted to revenue during the year. Property tax transactions must be reconciled to the property tax rolls, regardless of which posting method is used during the year. This is to ensure all activity is being properly recorded in the accounting records. The CMFO should review the accounts receivable and property tax revenue accounts monthly and compare to the property tax software or manual tax rolls.
- Utility Receivables – The utility billing system should be integrated with the general ledger when at all possible so that the billing and collection processes can be automatically posted to the general ledger. The utility receivables must be reconciled to the amounts received and still outstanding on a monthly basis. If the utility billing system is not integrated with the general ledger, the state requires the two systems to be reconciled at least annually at year-end. Monthly reconciliations will be easier than waiting until year-end. The CMFO should ensure such reconciliations are prepared.
- Capital Assets – The CMFO should ensure capital asset purchases are being tracked or recorded (depending on the fund type) in capital asset or expenditure accounts throughout the year. When preparing capital asset detail at the end of the year, the task will be much simpler if throughout the year items are accounted for properly. All capital asset purchases must be documented. Routinely check other accounts, such as ‘miscellaneous’, office supplies, or other accounts where capital assets may be posted.

LIABILITIES

- Accounts Payable - The city should provide the CMFO with a detailed listing of accounts payable generated manually or by the computer system. This list should agree to the summary account reflected on the trial balance. Remember that payables and expenditures (expenses) were recorded in the prior year, not the current year (in most cases). If a city uses accounts payable software and enters invoices as they are received, the accounts payable balance will be continually updated and will require little to no adjustments at year-end.
- Payroll Tax Liabilities – Payroll tax liabilities (federal withholding, social security and Medicare withholding) should be at or near -0- most of the time. The CMFO needs to know what type of depositor the city is (monthly, semi-weekly, next banking day, or quarterly). Note – only very small cities may qualify for quarterly remittance with the FORM 941. Large balances in payroll tax liability accounts may signify posting errors or non-payment. Particular attention should be paid to payroll deduction liabilities that reflect debit balances. The CMFO should review these accounts for errors or indicators of problems with payroll processing.
- Other Payroll Liabilities – Other payroll liabilities (such as medical insurance, retirement, garnishments, etc.) should be evident on the trial balance. These may or may not have balances depending on when payment was remitted by the city. There should be periodic debits and credits in the account, not a continually growing balance. The CMFO should review these accounts for errors or indicators of problems with payroll processing.

NOTES PAYABLE AND BONDS

- Any debt owed by the city, or entered into by the city, during the CMFO's term must be reported and issued in accordance with the Comptroller's Office, Office of State and Local Finance directives as set forth in state statute.

EQUITY ACCOUNTS

- All fund balance/net position accounts should be reviewed to ensure they agree to the prior year audited amounts in the annual financial report. Entries are not typically made to fund balance/net position accounts throughout the year except when audit adjustments are posted to the financial records after the close of the fiscal year. The CMFO should investigate entries being posted to the fund balance/net position accounts for propriety.

REVENUE AND EXPENDITURE/EXPENSE ACCOUNTS

- A comparison should be made of all account balances to prior year account balances. If there were significant audit adjustments noted, a comparison to the annual audit report may be necessary. The CMFO should ask for a report comparing actual to budget amounts and review to determine if the city is 'on track' for the particular time of year. Checks should not be charged to fund balance NOR revenue accounts. Receipts should not be posted to fund balance NOR expenditure/expense accounts. Accounting rules only allow checks to be debited to revenue and receipts to be credited to expenditures/expense when correcting a posting error, reimbursing actual expenditures/expenses, and setting up allowance accounts. The CMFO should ensure these violations of accounting rules are not occurring.

ADDITIONAL PROCEDURES

- The CMFO may recommend that the recorder or bookkeeper post any revenue or expenditure/expense transactions to miscellaneous accounts if uncertain of the appropriate account. This will allow the CMFO to more quickly identify errors by analyzing the accounts.
- The CMFO should regularly review the minutes of all city council or board meetings to stay abreast of any actions that would affect the financial operations of the municipality.
- The CMFO should become familiar with all grants and read each grant contract to gain an understanding of the funding source (federal, state, etc.) and the requirements for reporting. These requirements vary widely and can be very stringent. The CMFO should assist in preparing monthly financial statements and analyses for the City Manager, Mayor and the governing body. The CMFO should identify any budget amendments necessary during the year and again prior to June 30. Accurate and concise information is very important. Producing mountains of reports may frustrate those who do not review financial data regularly. The CMFO should ensure any reports provided to the governing body accurately reflect the accounting records.
- While it may not be necessary to attend every council or board meeting, the CMFO may be asked, and it is prudent, to attend some meetings.

YEAR-END

State law now requires accounting records to be closed and ready for audit by August 31st of each year. Closing the year properly is one of the most challenging tasks that financial personnel face. Before closing, all accounts must be reviewed and all adjusting entries posted. In addition to

assisting with entries/closing, the CMFO should help provide auditors with adjusted financial statements and trial balances at the beginning of the audit process. The CMFO should also be available for questions auditors may have. The CMFO should prepare the Management Discussion and Analysis for the audit report. The CMFO should assist in reviewing the draft of the audit report and requesting any corrections or changes as deemed appropriate. City managers, mayors and the governing body should be informed of all audit findings.

Summary

The duties of the CMFO at each city will vary based on staffing levels and the volume of transactions processed. It is extremely important that elected officials are provided with monthly financial reports in a timely manner. The CMFO should present the reports and alert the elected officials to any financial indicators that may be warning signs of financial distress.

Some examples are:

Cash flow problems

Declining cash balances

Operating losses in utilities

Budget expenditure/expense overages or revenue shortfalls

Declining revenues

Increasing expenditures

Rising debt

Deficit fund balances

Deficit unrestricted net position

Negative changes in fund balances

Short-term interfund borrowing

Default on debt payments

Modified or disclaimers of audit opinions, materials weaknesses, significant deficiencies and instances of noncompliance in annual audit reports

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