

**DEPARTMENT OF FINANCE AND ADMINISTRATION - POLICY 07**

--TABLE OF CONTENTS--

Component 01 - Basis for Authority:

*Section 01 - Applicable State Law*

*Section 02 - Applicability and Effective Date*

Component 02 - Policy and Procedures:

*Section 01 - Definitions*

*Section 02 - Imprest Petty Cash Accounts--Not In A Bank*

*Section 03 - Authorization and Establishment of a*

*Departmental Bank Account*

*Section 04 - Departmental Bank Account Operations*

*Section 05 - Departmental Bank Account Collateralization and*

*Investment Criteria*

*Section 06 - Reevaluation of Departmental Bank Accounts*

Component 03 - Approvals:

*Section 01 - Approval of the Commissioner of Finance and Administration*

*Section 02 - Approval of the State Treasurer*

*Section 03 - Approval of the Comptroller of the Treasury*

Appendices:

*Appendix A - Guidelines for Operating Procedures For Petty Cash and Departmental Bank Accounts*

Policy 07 - Petty Cash and Departmental Bank Accounts

Component 01 - Basis for Authority

Section 01 - Applicable State Law

§07-01-101: Accounting Powers Granted By State Law - This Policy Statement 07 is issued under the authority granted to the Department of Finance and Administration and/or the Department of Treasury by T.C.A. 4-3-1007, 8-19-501, and T.C.A. Title 9, Chapter 4. The development of this Policy Statement 07 was accomplished through joint effort on the part of the Department of Finance and Administration and the Department of Treasury.

### Section 02 - Applicability and Effective Date

§07-01-201: Applicability - All state departments, agencies, boards, commissions and committees are hereby required to comply with this Policy Statement 07. This Policy Statement 07 shall not apply to institutions and other entities governed by the board of trustees of the University of Tennessee or the State Board of Regents. Those institutions and other entities shall operate in accordance with procedures established by their respective governing boards which are consistent with the provisions regulating other state departments and agencies (T.C.A. 9-4-303). Furthermore, those universities within the State Board of Regents system shall maintain bank accounts as provided in T.C.A. 49-8-107.

§07-01-202: Effective Date - This Policy Statement 07 shall be effective upon issuance, until rescinded, and shall apply to all currently existing petty cash and departmental bank accounts, whether or not properly established, as well as all such accounts established in the future. For those accounts currently in existence, whether or not properly established, information as required in §07-02-201(C) or §07-02-304 below, whichever is applicable, shall be provided immediately to the Commissioner of Finance and Administration and all other procedures as described below shall be followed (IE. the issuance of this policy statement serves as notification to all departments and agencies that a reevaluation of all currently existing petty cash and/or departmental bank accounts is now due - see §07-02-204 or §07-02-601, whichever is applicable).

Component 02 - Policy and Procedures for the Establishment  
and Use of Petty Cash and Departmental Bank  
Accounts

Section 01 - Definitions

§07-02-101: State Funds Versus Non-State Funds - Employees of some departments and agencies have bank accounts established for use in an operation which is of interest to the department but is not an official function of the state government or a use of state property. Since the funds in accounts of this nature are not derived from the use of state property, such as the proceeds of vending machines, telephones or other such items located on state property, the funds in accounts of this type are not state funds. As such, the accounts are not required to be established under the criteria set forth in this policy statement. All bank accounts which have been established exclusively for purposes of this nature are hereby exempted from the requirements of this Policy Statement 07. However, if any of the funds deposited into such an account are derived from the lease, rent or commercial use of space located on state property or are funds obtained by state employees or agents in the course of their state employment, or are the proceeds of property used or obtained by the employees in the course of their state employment, the bank accounts are state funds and are subject to this policy statement and all applicable laws, rules and regulations pertaining to state funds. *Furthermore, it should be noted that any account which consists of non-state funds should not have any reference to the State of Tennessee or any subdivision thereof in the account name, and no state funds shall be deposited in such accounts under any circumstances.*

§07-02-102: Types of Bank Accounts - All state funds are to be accounted for in one of the accounts defined below (with the exception of the University of Tennessee and the State Board of Regents institutions as set out in T.C.A. 9-4-303). The following types of accounts have been identified and will be defined to reduce confusion in terminology.

A. Treasurer's Account - An account in a financial institution designated as a state depository which is in the name of the state treasurer. These accounts are for the deposit of state funds as stated in T.C.A. 9-4-301.

B. Imprest Petty Cash Account - An imprest petty cash account which is *not in a bank account* is comprised of funds of a fixed amount used for making small expenditures that are paid in cash, and is subject to a maximum authorized balance of \$100.00. Imprest accounts are reimbursed up to the authorized balance as expenditures are made from the account. Funds are replenished upon submission of expenditure receipts. Imprest account funds on hand plus expenditure receipts should total to the authorized amount of the account. These accounts require authorization from the Commissioner of Finance and Administration only (See Section 02).

C. Till Account - A cash account other than an imprest petty cash account which is not in a bank account and which is comprised of cash of varying amounts used for making change in the ordinary course of business or for providing incidental daily necessities for patients, clients, or wards on an emergency basis. Accounts of this type will be addressed in a separate policy statement.

D. Departmental Bank Accounts - These bank accounts are established in accordance with T.C.A. 9-4-302 when authorized by the Commissioner of Finance and Administration, upon the approval of the Governor and the Treasurer (See Section 03 et seq). A departmental bank account is carried in the name of the state department or agency rather than in the name of the Treasurer. Four distinct types of departmental bank accounts have been identified.

1. Imprest Account - This account is usually an authorized petty cash account in excess of \$100.00. As funds are expended, the receipts are submitted for reimbursement. Some client payrolls and payroll taxes are paid from accounts of this type.

2. Operating Account - This type of account is used in an operation where fees generated from the operation are deposited to the account and disbursements for expenditures in support of the operation are made from this account. For example, this type of account is used by the Clerks of the State Supreme Court.

3. Trust and Agency Account - This type of account is managed by a department for the benefit of clients, students, patients or inmates in its care. The source of funds in these accounts may include social security benefit payments, gifts from relatives, donations, etc. The funds are usually disbursed to the inmate, student, client, or patient for the purchase of incidental items. Funds in excess of the amount needed daily are usually invested in various savings instruments.

4. Benefit Account - This type of account is used as a clearing account for the payment of benefits. Funds are deposited in the account to cover the benefit payments due at a certain date, and the payments issued are drawn against the account. Thus, the account periodically returns to a zero balance. Any balances in the account at the end of the benefit period represent outstanding checks.

§07-02-103: Funds and Fund Custodian - In many cases, as used throughout this policy statement, the term "fund(s)" is synonymous with "account(s)", whether the "account" or "fund" is in a bank or otherwise. However, the term "funds" also refers to the monies deposited or held in such account(s). The different usages of the term "funds" can be easily distinguished by the context in which it is used.

A fund custodian is the departmental employee who is primarily responsible for safeguarding monies in the account, and ensuring the propriety of its use. The fund custodian *may*, in some cases, be held personally liable for any material discrepancies occurring in the operation of the account.

#### Section 02 - Imprest Petty Cash Accounts *Not In A Bank*

§07-02-201: Authorization and Establishment - Imprest petty cash accounts *not in a bank* are allowed "...by the Commissioner of Finance and Administration to each state department, institution, or agency, which shall in his opinion require such account..." [T.C.A. 9-4-302(e)]. Any state department or agency wishing to establish an imprest petty cash account *not in a bank* shall be authorized to do so only upon application to, and approval by the Commissioner of Finance and Administration.

A. Criteria To Be Met - An imprest petty cash account *not in a bank* will be deemed necessary for the effective operation of a department or agency when cash is needed to pay for incidental items not effectively processed through the state warrant system such as postage stamps and miscellaneous supplies.

B. Approved Amounts - Imprest petty cash accounts *not in a bank* will be approved for a specific amount. These account balances should be sufficient to support activity for an entire month and until the fund is replenished. No imprest petty cash account *not in a bank* will be approved for an amount greater than \$100.00. More than one approved amount is allowed when necessary due to seasonal changes in cash needs (EG. Approved amount is \$50 November through May; \$100 June through October).

C. Making Application - A state department or agency wishing to establish or make a change to an existing imprest petty cash account *not in a bank* should make a request in writing to the Commissioner of Finance and Administration, providing the following information.

1. Department or Agency Name
2. Division Name (including allotment code)
3. Amount Requested (if changing an existing account, indicate amount of change and authorized amount) proposed
4. Detailed Description of Purpose or Justification for Account (including purpose of disbursements and to whom disbursements will be made)
5. Name and Title of Custodian
6. Name and Title of Person Reconciling Account
7. Proposed Procedures for the Operation of the Account (See Appendix A attached)

D. Application Routing and Approval - If the application is approved by the Commissioner of Finance and Administration, the request shall be sent by him to the Division of Accounts for the updating of its listing of all imprest petty cash accounts *not in a bank*. The Division of Accounts shall notify the Comptroller of the Treasury of all new authorizations and/or changes in authorization of imprest petty cash accounts *not in a bank*. Furthermore, an updated copy of the listing shall be provided at each fiscal year end. NOTE: Although the Comptroller of the Treasury may maintain a listing of all authorized imprest petty cash accounts *not in a bank*, the listing maintained by the Division of Accounts will be considered authoritative. Any accounts not on this listing will be considered unauthorized.

If there are any discrepancies or errors in the request, or other changes to be made in the information on the proposed account, the request will either be returned to the requesting department for the necessary changes, or the changes will be made by the Commissioner of Finance and Administration, in consultation with the Division of Accounts, and the appropriate department or agency officials, where necessary. The determining criteria to be used by these officials is the magnitude of the change.

A scheduled review and re-authorization date will be established by the Division of Accounts, and the date will be entered on the approved request, and a copy of the request will be returned to inform the department of the approval and of the next review date. The copy of the approved request is to be maintained permanently and updated if necessary to reflect any changes occurring prior to the scheduled review date.

NOTE: The account is authorized for establishment upon receipt of the approved request. The initial funds necessary (equal to approved balance) to establish the account will be sent with the approval letter.

§07-02-202: Operation of the Account - The following policy and procedures shall apply to all imprest petty cash accounts *not in a bank*.

A. Receipts - No receipt other than the state warrant for replenishment shall be added to the fund. Personal checks shall not be cashed from the account without specific authority from the Commissioner of Finance and Administration, nor shall advances be made from the account. Refunds for items purchased and returned will be deposited directly to a State Treasurer's account in an authorized depository.

B. Disbursements - Disbursements that can be practically and effectively processed through the regular warrant process should not be paid through this account. Disbursements paid through this account should be those that require more immediate payment or are incidental in nature.

All state departments and agencies are to retain the approved petty cash account request document and make a copy available to the custodian of the account. Disbursements made from the account are to be consistent with the approved purpose of the account. Expanding the purposes for which the account will be used should be requested in writing and approved at the discretion of the Commissioner of Finance and Administration (See §07-02-203 below).

Disbursements for salaries, travel advances, or travel reimbursements are not allowed unless specifically authorized in writing by the Department of Finance and Administration.

All purchasing bid requirements and other regulations applicable to the purchase of goods and services shall be followed. Using this account to pay for a transaction does not exempt the purchase from the required authorization and approvals. Further, use of this account to bypass legislative appropriation and budgetary procedures is expressly forbidden.

C. Reimbursement of the Account - Imprest petty cash accounts *not in a bank* will be reimbursed upon submission of documents which support the disbursements made from the account. Purchasing documents, if applicable, should be submitted with other support when requesting replenishment of the account. Reimbursement will be made for the amount expended and documented up to the total of the authorized balance. In the normal course of business, it would be expected that the fund would be reimbursed by the Division of Accounts no more than once per month, although the replenishment will take place as needed. Before submitting the request for reimbursement, an employee other than the custodian of the account (who is responsible for disbursements) and the preparer of the reconciliation should review the supporting documents for completeness and authenticity.

D. Account Reconciliation and Reporting - In all cases, General Ledger responsibility for the transactions made through imprest petty cash accounts *not in a bank* rests with the Division of Accounts; Subsidiary Ledger responsibility rests with the state department or agency. Further, it is the responsibility of the department or agency to ensure that proper internal controls over the operation of the account and segregation of duties are established. Documentation of all transactions must be retained for audit purposes. Any theft or other disappearance of cash must be immediately reported in writing to the Comptroller of the Treasury, and possibly to the local police, pursuant to T.C.A. 8-19-501. Any request for reimbursement must be accompanied by a copy of the written report



submitted to the Comptroller of the Treasury, and a copy of the police report, if applicable.

§07-02-203: Changes in Authorization - All changes in information on which authorization was given (IE. information supplied on request for approval - see §07-02-201(C)) shall be immediately communicated to the Division of Accounts, which will in turn communicate such information to the Comptroller of the Treasury. Furthermore, any changes in the authorized balance, and changes in purpose, justification or use of the account require prior approval, upon written request, of the Commissioner of Finance and Administration.

Any account to be closed, either at the request of the department or otherwise (see §07-02-204 below), shall be as directed by the Division of Accounts, with any remaining balance deposited to the account of the State Treasurer at an authorized state depository. If the closing of the account is at the request of the department, such request shall be made in writing to the Division of Accounts, providing a brief description of the reason for closing the account.

§07-02-204: Monitoring and Reevaluation of the Account - Imprest petty cash accounts *not in a bank* should periodically be evaluated by the custodian to determine if the authorized balance should be maintained or could be reduced. The Division of Accounts will monitor the use of imprest petty cash accounts *not in a bank*. Frequency of reimbursements of accounts will be noted, and total activity in an account will be observed on a sample basis. Accounts with a high "churn" rate may be studied to determine if some activity could be more effectively managed from the central accounting system. Accounts with little activity may be reviewed to determine if the account could be eliminated or reduced.

Upon receipt of the reimbursement report and activity information, each account shall be evaluated to determine that the accounts are operating: within the approved balance (IE. no excessive funds, or need for increase in the authorized balance), from the approved list of accounts, with changes in operating personnel and authorized balances properly noted and approved, if applicable.

At the scheduled date of the reevaluation of an imprest petty cash account *not in a bank*, the Division of Accounts will send notification to the state department or agency, requesting that the information as noted in §07-02-201(C) be submitted for purposes of performing the reevaluation, with a copy of the last such report submitted attached for reference. The department shall provide this information to the Division of Accounts, with the document clearly stamped or noted as "Reevaluation" on the first page. This newly submitted information shall be processed the same as a request for a new account, as noted in §07-02-201(D). The affirmation of the account received by the department shall serve as documentation of the authorization and affirmation of the establishment of the account. If the account is to be closed, this process shall be as noted in §07-02-203.

### Section 03 - Authorization and Establishment of a Departmental Bank Account

§07-02-301: Criteria To Be Met - Departmental bank accounts are authorized for establishment whenever the satisfactory conduct of the state's business clearly demands it and not otherwise. Typically these accounts are used to process expenditures which are not effectively paid through the state warrant system; to process transactions which are small in amount and frequent in nature; to hold funds in trust for clients, students, patients or inmates; or to process state business which can be transacted more effectively through the use of a departmental bank account.

§07-02-302: Approved Amounts - Departmental bank accounts will be approved for balances of a specific amount for imprest type accounts. These account balances should be sufficient to support activity for an entire month and until the fund is reimbursed. More than one approved amount is allowed when necessary due to seasonal changes in cash needs (EG. Approved amount is \$1,000 November through April; \$5,000 for May through October). Each savings, time or demand deposit account in a bank must be separately authorized and approved.

Generally, operating accounts are self-supporting. However, when these accounts are established, the account will be approved to have a maximum balance on hand necessary to meet normal monthly activity and liquidity needs. Balances in excess of normal monthly activity and liquidity needs are to be invested by the department, in consultation with the State Treasurer. Any separate account for savings or time deposit must be separately authorized and approved.

Trust and agency accounts will be approved to have a maximum balance on hand necessary to meet normal activity and to provide for liquidity needs. Balances in excess of normal monthly activity and liquidity needs are to be invested by the department, in consultation with the State Treasurer. If the department is to invest funds in time deposits, demand deposits, or other interest bearing (non-demand accounts), then the department must submit a separate application for each such account or instrument. Each application should state the maximum amount of principal and accrued interest earnings in each account in each financial institution. The department is to allocate any earnings on the funds invested to the individuals for whom the funds are held in trust (See discussion of allocation procedures under Section 04 below). Additional accounts established must be authorized and approved separately.

Benefit type accounts will be approved for balances necessary to deliver the benefits.

§07-02-303: Where Accounts May Be Established - Departmental bank accounts are to be established only in authorized state depositories as defined in T.C.A. 9-4-107 and as designated by the Department of Treasury. No state department or agency shall establish a departmental bank account at an unauthorized institution. In all cases, the departmental bank accounts shall be established in interest-bearing accounts if practical.

§07-02-304: Making Application for the Establishment of a Departmental Bank Account

- A state department or agency wishing to establish a departmental bank account should make a request in writing to the Commissioner of Finance and Administration, providing the following information.

- A. Department or Agency Name
- B. Division Name (including allotment code)
- C. Account Name (including designation of the account as a benefit account, or as a trust and agency account if applicable, specifically identifying the beneficiary group)
- D. Amount Requested (if changing an existing account, indicate amount of change and proposed authorized amount)
- E. Name and Address of Financial Institution Where Account Is To Be Established
- F. Detailed Description of Purpose or Justification for Account (including source of deposits, purpose of disbursements and to whom disbursements will be made, and reference to any statutory provisions relating to the establishment of the account)
- G. Type of Account To Be Established (imprest, operating, trust & agency, benefit  
- See §07-02-102)
- H. Whether Account Is Interest-Bearing or Non-Interest-Bearing
- I. All authorized signatures (indicating primary signature and/or custodian)
- J. Name and Title of Person Reconciling Account
- K. Proposed Procedures for the Operation of the Account (See Appendix A attached)
- L. Copies of bank statements for the past twelve months, if the account involved is already in existence

§07-02-305: Application Routing and Approval - Appropriate officials within the Department of Finance and Administration will review the information submitted and if approved by the Commissioner of Finance and Administration, the request will be forwarded for review by the State Treasurer and then by the Governor. If unanimously approved, the request will be returned to the Division of Accounts for the updating of its listing of all departmental bank accounts, and notification to the Comptroller of the Treasury and the Department of Treasury of the approval of a new departmental bank account. NOTE: Although the Comptroller of the Treasury and the Department of the Treasury may maintain listings of all departmental bank accounts, the listing maintained by the Division of Accounts will be considered authoritative. Any accounts not on this list will be considered to be unauthorized. The Division of Accounts shall notify the Department of Treasury and the Comptroller of the Treasury of all changes to the authorized departmental bank account listing. Furthermore, an updated copy of the listing shall be provided at each fiscal year end.

If there are any discrepancies or errors in the request, or other changes to be made in the information on the proposed account, the request will either be returned to the requesting department for the necessary changes, or the changes will be made by the appropriate officials with approving authority, in consultation with the requesting department where appropriate. The determining criteria to be used by these officials is the magnitude of the change.

A scheduled review and re-authorization date will be established by the Division of Accounts, and the date will be entered on the approved request, and a copy of the request will be returned to inform the department or agency of the approval and of the next review date. This date will be set within a range of two to six years, depending on the nature of the account. The copy of the approved request is to be maintained permanently by the department or agency and updated as necessary to reflect any changes occurring prior to the scheduled review date.

NOTE: The departmental bank account is authorized for establishment upon receipt of the approved request and the initial funding. In setting up the account at the financial institution, the department or agency shall have the name on the account to specifically include the name of the beneficiary of the account, and the designation "Trust Account" in the account title (for trust and agency, and benefit accounts) and shall have the account's statement date established as the last business day of the month. Further, once the account is established, the department or agency shall immediately notify the Division of Accounts (Finance and Administration) of the account number established. Upon receiving the account number established, the Division of Accounts shall update its listing of authorized departmental bank accounts to reflect such information.

#### Section 04 - Operations

§07-02-401: Deposits - As stated at T.C.A. 9-4-301, all state funds collected or received shall be deposited "...immediately into the treasury or to the account of the state treasurer in a bank designated as a state depository or to the appropriate departmental account if authorized..." Furthermore, such deposits "...shall be made without any deductions on account of salaries, fees, costs, charges, expenses, refunds, claims, or demands of any description whatsoever..."

Cashing of personal checks and/or making advances from any departmental bank account is prohibited, unless specifically authorized by the Commissioner of Finance and Administration, the State Treasurer, and the Governor. The request submitted for the approval of establishment of the account should also indicate this intention. Refunds for goods previously purchased and paid for will be deposited to the account of the State Treasurer at an authorized state depository.

§07-02-402: Disbursements - Disbursements that can be practically and effectively processed through the regular warrant process should not be paid through the departmental bank account. Disbursements paid through the departmental bank account should be those that require more immediate payment or are incidental in nature. Routine or recurring needs should not be paid from departmental bank accounts.

All state departments and agencies are to retain the approved departmental bank account request and make a copy available to the custodian of the fund. Disbursements made from the account are to be consistent with the approved purpose of the fund. Expanding the purposes for which the account will be used should be documented in writing and approved by the Commissioner of Finance and Administration, the State Treasurer, and the Governor (See §07-02-406 below).

Any disbursement in excess of \$500.00 which is made from a departmental bank account requires two signatures on the check. When checks are printed, this requirement should be printed on the face of the check as should the notice that checks not cashed within 180 days from the date of issuance are void. Exceptions to the requirement for two signatures will be allowed when necessary subject to the approval of the Commissioner of Finance and Administration, the State Treasurer, and the Governor. The request submitted for the approval of establishment of the account should also indicate this intention.

Disbursements from departmental bank accounts for salaries, travel advances, or travel reimbursements are not allowed unless specifically authorized by the Department of Finance and Administration.

All purchasing bid requirements and other regulations applicable to the purchase of goods and services shall be followed. Using a departmental bank account to pay for a transaction does not exempt the purchase from required authorization and approvals. Further, use of a departmental bank account to bypass the legislative appropriation and budgetary procedures is expressly forbidden.

Disbursements for till accounts or cash on hand must be identified as such on the face of the check prior to approval by the individual(s) authorized to sign the departmental account checks. Such checks shall be made payable to the fund custodian by name (EG. Jane Doe, Petty Cash Fund Custodian).

§07-02-403: Reimbursement of Account - Reimbursement procedures for departmental bank accounts will vary according to the type of account.

- A. Imprest Account - Accounts of this type will be reimbursed upon submission of documents which support the disbursements made from the account. Purchasing documents, if applicable, should be submitted with other support when requesting replenishment of the account. Reimbursement will be for the amount expended and documented up to the total of the authorized balance. In the normal course of business, it would be expected that the fund would be reimbursed by the Division of Accounts no more than once a month, although replenishment will take place as needed.
- B. Operating Account - Accounts of this type are generally self-supporting and require no reimbursement or replenishment.
- C. Trust and Agency Account - Accounts of this type are generally self-supporting and require no reimbursement or replenishment.
- D. Benefit Account - Accounts of this type will be funded for the amount of the benefits payable.

§07-02-404: Account Reconciliation and Reporting - In all cases, General Ledger responsibility for the transactions made through departmental bank accounts rests with the Division of Accounts; Subsidiary Ledger responsibility rests with the state department or agency. Further, it is the responsibility of the department or agency to ensure that proper internal controls over the operation of the departmental bank account and segregation of duties are established. Documentation of all transactions (including but not limited to all monthly bank statements, receipts, cancelled checks, and reimbursement requests) must be retained by the department for audit purposes. For trust and agency accounts, it is essential to note specifically for whom each transaction was undertaken. Any theft or other disappearance of cash or checks must be immediately reported in writing to the Comptroller of the Treasury, and possibly to the local police, pursuant to T.C.A. 8-19-501. Any request for reimbursement must be accompanied by a copy of the written report submitted to the Comptroller of the Treasury, and a copy of the police report, if applicable.

Bank reconciliations are to be performed promptly each month upon receipt of the bank statement by an employee of the department or agency not responsible for cash receipts or disbursements. Statements from the bank are to come to this employee unopened. The book balance is to be compared to the bank balance, and all outstanding items are to be identified in order to determine if the two balances agree. If there is a difference, the

amount of that difference is to be identified and researched. If a bank adjustment is required, it is the responsibility of the department or agency to bring the error to the bank's attention and to resolve the difference. Upon completion of the bank reconciliation, the person preparing the reconciliation and the fund custodian are to sign and date the reconciliation as to preparer's signature and custodian agreement.

NOTE: The bank should be instructed to send bank statements even when there is no activity (T.C.A. 9-4-306). If no statement can be obtained for periods of inactivity, a report to that effect should be prepared and permanently maintained indicating the department name, custodian name, and bank account number.

§07-02-405: Allocation of Earnings and Charges - Earnings on funds in departmental bank accounts will be treated differently according to the type of account involved.

To the extent that earnings on balances in imprest type accounts exceed service charges, the earnings should be used to reduce the amount of the reimbursement and replenishment request (T.C.A. 9-4-304). However, in the reporting of transactions for accounting purposes, earnings and service charges should be reported separately rather than being shown netted against each other.

If reimbursement and replenishment is allowed for an operating type account, the earnings should be used to reduce the amount of the reimbursement and replenishment request, to the extent that it exceeds the service charges. Regardless of whether reimbursement and replenishment is allowed for an operating type account, the earnings and service charges should be reported separately for accounting purposes rather than being shown netted against each other.

Earnings on funds in trust and agency type accounts shall be allocated by the department to the various individuals for whom the funds are held in trust. Earnings shall be allocated using the same method and on the same periodic schedule to assure consistency. Bank service charges should be netted against the earnings before allocation to the individual accounts. The department must keep a record of individual participation and activity in the fund. Earnings are generally paid on the average daily balance or on the balance as of a specific date. This requires that the department keep a record of daily activity and daily balances of each individual's account. This implies the need for a computer based program application to process the transactions and to calculate daily balances. Departments are required to maintain a record of all earnings allocations to each account as well as recording each earnings allocation to the account that earned it. Time is of the essence when the earnings are recorded by the department as it will impact the earnings on the individual accounts as interest is compounded. Therefore, earnings allocations must be performed promptly.

The treatment of earnings in excess of service charges on funds in benefit type accounts may be determined by individual statute. Where statute, or if applicable, the grant contract, does not address this issue, the earnings in excess of service charges revert back to the benefit of the General Fund. In other words, the earnings should not be used to

reduce the drawdown of federal funds (where a federal grant program is involved), nor should the earnings be recorded as departmental revenue. In the reporting of transactions for accounting purposes, the earnings and the service charges shall be reported separately, rather than being shown netted against each other.

§07-02-406: Changes in Authorization - All changes in information on which authorization was given (IE. information supplied on request for approval - see §07-02-304) shall be immediately communicated to the Division of Accounts, which will in turn communicate such information to the Department of Treasury and the Comptroller of the Treasury. Furthermore, any changes in the authorized balance, and changes in the purpose, justification or use of the account require prior approval, upon written request, by the Commissioner of Finance and Administration, the State Treasurer, and the Governor. Any departmental bank account to be closed, either at the request of the department or otherwise (see Section 06 below), shall be as directed by the Division of Accounts, with any remaining balance deposited with the State Treasurer. If the closing of the account is at the request of the department, such written request to the Division of Accounts shall provide information on the institution, account number, account name, ending balance, and a brief description of the reason for closing the account.

#### Section 05 - Collateralization and Investment Criteria

§07-02-501: Collateralization - All account balances in banks in excess of the FDIC or FSLIC limits of \$100,000.00 per financial institution are required to be collateralized at 110% of the excess balance according to T.C.A. 9-4-101 et seq. The state has funds at numerous financial institutions throughout Tennessee on a regular basis. It is likely that the FDIC or FSLIC coverage available has already been used before collateralization of the departmental bank accounts. Therefore, collateral must be arranged for departmental bank accounts without depending on the availability of the FDIC or FSLIC coverage.

Based on the authorized balances in the departmental bank accounts, the Cash Management Division of the Department of Treasury will arrange collateral to cover the authorized balance of the departmental bank accounts in each state depository. In order to assure sufficient collateralization, the department or agency should immediately report to the Cash Management Division any occasions in which the account book balance exceeds the maximum authorized account balance. The department or agency has three options when an overage occurs: 1) request an increase in the maximum authorized balance, 2) use the overage to reduce the next replenishment check, or 3) deposit the overage with the State Treasurer. Consideration of whether the overage is temporary or otherwise, and the type of account established should affect the department's decision. However, whether the overage is temporary or otherwise, the department is responsible for immediately notifying the Cash Management Division of the Department of Treasury. Failure to comply with this requirement results in assumption by the department of undue risk and potential liability for any losses which may occur. If applicable, the Division of Accounts will update its listing of departmental bank accounts for any changes in authorized balances and will communicate this information to the Department of Treasury and the Comptroller of the Treasury. The Cash Management Division will adjust collateralization as changes in authorized account balances are reported.



§07-02-502: Investment Criteria - Whenever possible, departmental bank accounts should be interest-bearing accounts. It is the responsibility of the department to determine and document if interest-bearing accounts are available. Change to interest-bearing accounts from non-interest-bearing accounts should be made whenever practical. Any change between interest-bearing and non-interest-bearing accounts should be communicated to the Division of Accounts, indicating the nature of the change and the effective date of the change.

Departmental bank accounts should periodically be evaluated by the fund custodian to determine if the authorized balance should be maintained. For those types of accounts for which reimbursement and replenishment is allowed (except benefit type accounts), funds that represent a temporary excess over the authorized balance should be taken into consideration when the next reimbursement is requested. If the frequency of reimbursement is continually greater than once per month, it is likely that the authorized balance should be increased.

Excess bank balances in all accounts should be closely monitored in order to determine if the excess account balance is other than temporary, thus indicating the need for the reduction of the authorized balance. Continual material excesses should be considered as an indication that the authorized balance should be reduced, as the normal monthly activity and liquidity needs are less than the authorized balance. If a continual material excess exists, the Division of Accounts should be notified in writing of the intention to reduce the authorized balance. Upon acknowledgement and approval from the Division of Accounts, the department should then deposit the excess funds for investment. The Division of Accounts will communicate such information to the Department of Treasury and the Comptroller of the Treasury.

Benefit type accounts should not have material balances in excess of normal monthly benefits payable. If this should occur, it indicates that there may be a quantity of outstanding benefit checks. All outstanding checks should be listed and aged. Based on the aging, those checks which have been outstanding in excess of one year since the date of issuance should be removed from the account, and deposited with the State Treasurer. This can be done by reducing funds drawn for new benefits. The amount so deposited must be accounted for as an outstanding liability by the department or agency so that the funds will be available when claimed. Documentation of the reduction in funds drawn must be maintained.

#### Section 06 - Reevaluation of Departmental Bank Accounts

§07-02-601: Reevaluation of Accounts - At the scheduled date of the reevaluation of a departmental bank account, the Division of Accounts will send notification to the state department or agency, requesting that the information as noted in §07-02-304 be submitted for purposes of performing the reevaluation, with a copy of the last such report submitted attached for reference. On receiving responses from the agencies, the Department of Finance and Administration shall provide this information to the Department of Treasury, with the document clearly stamped or noted as "Reevaluation" on the first page. This newly submitted information shall be processed the same as a

request for a new departmental bank account, as noted in §07-02-305. The affirmation of the account (which is simply a copy of the approved application for the departmental bank account) received by the department shall serve as documentation of the authorization and affirmation of the establishment of the account. If the account is to be closed, this process shall be as noted in §07-02-406.

The Division of Accounts, in conjunction with the Department of Treasury, will analyze the use of departmental bank accounts. This analysis will be done for each individual account, as well as on each type of account and the departmental bank accounts as a whole. Frequency of reimbursements of accounts will be noted, and total activity in an account will be observed on a sample basis. Accounts with a high "churn" rate may be studied to determine if some activity could be more effectively managed from the central accounting system. Accounts with little activity may be reviewed to determine if the account could be eliminated or reduced.

Each account shall be analyzed to determine that the accounts are operating: within the approved balance (IE. no excessive funds, or need for increase in the authorized balance), from the approved list of departmental bank accounts and at approved state depositories, with changes in operating personnel and authorized balances properly noted and approved, if applicable.

Component 03 - Approvals

Section 01 - Commissioner of Finance and Administration

§07-03-101: Approval of the Commissioner of Finance and Administration - I, David L. Manning, hereby approve of this Policy Statement 07 of the Department of Finance and Administration, and as such agree with and authorize actions necessary to implement its requirements.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_  
 David L. Manning, Commissioner  
 Department of Finance and Administration

Section 02 - State Treasurer

§07-03-201: Approval of State Treasurer - I, Steve Adams, hereby approve of this Policy Statement 07 of the Department of Finance and Administration, and as such agree with and authorize actions necessary to implement its requirements.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_  
 Steve Adams, State Treasurer  
 Department of Treasury

Section 03 - Comptroller of the Treasury

§07-03-301: Approval of the Comptroller of the Treasury - I, William R. Snodgrass, hereby approve of this Policy Statement 07 of the Department of Finance and Administration, and as such agree with and authorize actions necessary to implement its requirements.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_  
 William R. Snodgrass, Comptroller  
 Office of the Comptroller of the Treasury

## Appendix A - Guidelines for Operating Procedures For Petty Cash and Departmental Bank Accounts

The following information should be used as a guideline in developing the operating procedures to be followed in the use of a petty cash and/or departmental bank account. This information should be considered in addition to the information contained in the text of this Policy Statement 07, and should by no means be considered to be all encompassing. Each department or agency should tailor the operating procedures to fit its unique situation and conditions.

### Receipts:

1. Two-part, prenumbered receipts must be issued when funds are received; any voided receipts should be defaced and stamped "void," and shall be retained and filed in the regular sequence of the receipts.
2. The source of deposits to trust and agency type accounts are to be specifically identified on the receipt, such as family contributions, patient funds, social security, and insurance payments.
3. All valid and voided receipts are to be retained in receipt number sequence for audit and reference purposes.
4. Receipts are to be used in sequence.

### Disbursements:

1. Prenumbered checks must be used for disbursements.
2. Checks should not be drawn payable to "cash" or "bearer".
3. Blank checks should not be signed in advance of need. Alternate signatures should be authorized in advance to provide continuity in the event of absence of the main signatory.
4. Officials authorized to sign checks should review the documentation supporting the payments, and then stamp "paid" or physically cancel the document to prevent reuse, before signing the check.
5. Voided checks should be defaced and stamped "void" to eliminate any possibility of further use. Voided checks shall be retained and filed in the regular sequence of paid checks.
6. All cancelled and voided checks are to be retained in check number sequence for audit and reference purposes.

7. All documents supporting disbursements (E.G. invoice, cash register tape, receipt, etc.) are to be retained for audit and reference purposes.

8. Checks are to be used in check number sequence. When new checks are received, the department is to examine the checks to assure that:

A. The proper account and check sequence number has been printed on the face of the checks.

B. The following phrases appear:

1. "Two signatures are required for amounts in excess of \$500.00" and

2. "Not valid if not presented for payment within six months from date of issue."

Reconciliation:

1. Reconciliation of the account is to be performed promptly at the end of each month, upon receipt of the bank statement (if applicable), if not more frequently, by an employee of the department or agency not responsible for receipts and disbursements from the account.

2. Statements from the bank are to come to this employee unopened.

3. The book balance is to be compared to the bank balance, and all outstanding items are to be identified in order to determine if the two balances agree. If there is a difference, the amount of that difference is to be identified and researched.

4. If a bank adjustment is required, it is the responsibility of the fund custodian to bring the error to the bank's attention and to resolve the difference.

5. Upon completion of the reconciliation of the account, the person preparing the reconciliation and the custodian of the account are to sign and date the reconciliation as to preparer's signature and the custodian agreement.

6. The monthly reconciliation information must be prepared even for periods in which there was no activity. NOTE: The bank should be

instructed to send bank statements even when there is no activity (T.C.A. 9-4-306). If no statement can be obtained for periods of inactivity, a report to that effect should be prepared and permanently maintained indicating the custodian name, and bank account number.