

STATEMENT OF PURPOSE

The City of Rock Hill Accounting and Internal Control Manual (the "manual") is intended to provide uniform guidance to employees throughout the Accounting Division and the Finance Department in conducting financial affairs. It is also expected to enable employees to plan and organize methods and measures to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.

The subject matter addressed by the Manual includes issues that affect financial activities from the City Management level down through Finance and Accounting to the clerical levels and, accordingly, have been written using the input of representatives from management and staff, along with outside reference sources.

The Manual is not intended to supersede the authority of the existing City Personnel Resolution but is intended to compliment and put into written format those management policies presently in force as they pertain to the conduct of financial affairs of the City. In addition, the Manual is not intended to replace specific finance and/or accounting operational manuals that may exist but rather is intended to establish a general framework within which those manuals can be standardized and best utilized.

An effective internal control structure offers reasonable assurance of achieving the following broad goals:

Authorization - Transactions are executed in accordance with general or specific authorization as approved by City Council.

Safeguarding - Access to assets is permitted only in accordance with management's general or specific authorization.

Verification - The recorded accountability for assets is compared with existing assets at reasonable intervals, and appropriate action is taken to clear any differences.

From a conceptual viewpoint, these broad objectives establish guidelines for the design, implementation and maintenance of an internal control structure. However, because the potential exists for some Manual topics to have limited applicability to the financial management practices that relate to particular operations, it is necessary to establish more meaningful, specific objectives that relate to particular control systems. The Manual, then, will provide guidelines to translate the broad accounting and control objectives stated above into more specific objectives that relate to the following common cycles of the City's operational activities:

1. Treasury and Budgetary
2. Revenue and Receipts
3. Purchasing and Disbursements
4. Payroll
5. Property acquisition
6. Financial Reporting

Within each cycle there is a series of control objectives which should be achieved to insure the existence of an adequate system of control. Following each objective, there is list of control techniques or procedures which, when used properly, will provide reasonable assurance of that the objective will be fulfilled; provide a consistent basis for reporting accounting, financial and related information; facilitate effective and meaningful communication; and provide flexibility in reporting needs. The Manual is, therefore, written in general terms so that it will have broad applicability. Although comprehensive, the stated control objectives and techniques should not be considered to be a complete list of all control objectives or techniques applicable to any particular department or operation.

In summary, the Manual is designed to assist in the development and maintenance of an effective internal control structure and a general framework for all financial activities of the City Finance and Accounting offices.

GENERAL ELEMENTS OF CONTROL

1. A formally approved organization chart, of sufficient detail so that general responsibilities are evident, will be provided to all appropriate personnel.
2. A formal chart of accounts manual will be maintained by the Accounting Division.
3. All employees who perform accounting, treasury or related functions should be required to take vacations and have their duties performed by other personnel during their absence.
4. A written conflict of interest policy should be in effect and circulated annually to key staff employees and members of City Council for their written acknowledgement of adherence with the policy.
5. Procedural steps should be detailed in an appropriate narrative explaining the steps required to accomplish a particular repetitive task. Exception handling of a transaction should be delineated in sufficient detail to enable an employee to complete the task at hand.
6. Recommendations for improving accounting controls should be reviewed with the Chief Financial Officer and City Management to determine that they are proper and cost effective prior to implementation.
7. The Manual will contain examples of certain important financial forms which are to be used to perform various accounting operations.
8. A written statement detailing a separation of various accounting functions should be established to ensure a proper internal control structure.

TREASURY AND BUDGETARY
Budgetary Basis

Purpose

To specify the City's budgetary basis of accounting, so that the adopted budget provides for estimated revenues sufficient to meet estimated expenditures.

Instructions

Since operations of the general fund of the City are accounted for using the flow of current financial resources model, the Citywide operating budget is prepared on the modified accrual basis. This method, though not in accordance with generally accepted accounting principles for enterprise funds, allows for the most straightforward and easily understood presentation and enables management to control expenditures simply.

Estimated revenues are recognized in the budget to the extent they will be received by the City prior to the end of the fiscal year or are expected to be collected within a reasonable period after the end of the fiscal year to evidence appropriate matching with budgeted expenditures and with criteria appropriate to income recognition.

Appropriated expenditures are budgeted for the general fund, and the enterprise funds (to include the "Combined Utility System" consisting of Electric, Water and Wastewater and, separately, Storm water Management). Expenditures are budgeted in the general and enterprise fund for personnel costs, operational costs, debt service costs and capital costs. Capital costs characterized by construction of buildings or real property acquisition may be budgeted in one or more capital projects funds.

The Citywide budget must be in balance with respect to receipts and disbursements but the individual funds may show surpluses or deficits. For that reason and also to permit full and complete comparisons of budget versus actual results, an operating transfer between the enterprise and general funds is implicit in the budget.

TREASURY AND BUDGETARY
Banking Policy

Purpose

To establish and maintain procedures which ensure that all City funds are invested at the maximum possible interest rate and are subjected to the minimum possible risk of loss

Instructions

The City's contract for banking services is awarded for a four-year period after local banks submit proposals. The City Manager's Office, CFO and Controller evaluate the proposals and present to City Council a summary of the proposals. City Council then selects a bank and makes the three-year award. The City's present bank is First Citizens Bank of South Carolina.

In order to minimize the size of idle funds, the City's operating account at First Citizens is actually made up of four separate bank accounts including a public funds Central Depository account. The City's daily collections go into an interest bearing central deposit account. In addition, the City has three disbursement accounts which are maintained on a "zero-balance" or "sweep" basis. They are the consolidated cash account (for payables system checks), the general disbursements account (for manually typed checks) and the payroll account. No balance is kept in these accounts. Instead, the bank transfers sufficient funds from central deposit to cover the total amount of checks that clear the bank at the end of the day.

Each day, the Controller and Accountant II have online access to the previous day's activity for all the accounts. The Controller maintains a daily analysis of the Central Deposit account and reviews it for unusual transactions. If he sees anything unfamiliar, he contacts a local representative of the bank for further information and / or approval.

In addition to the operating accounts described above, the City maintains other accounts with other banks for certain restricted funds. Normally, accounts are established as the result of a competitive bidding process, either formally, in writing or informally via solicitation of rates or offers by phone. As much as possible, the City tries to limit the number of bank accounts to the smallest number legally required.

Balances in all accounts are insured by FDIC up to \$250,000 per bank and are secured by pledged collateral of the type allowed by South Carolina State statute for balances over \$250,000.

The designated person responsible for compiling investment alternative information for the City is the Controller. He is authorized to transfer funds among City accounts as needed. For security purposes, the financial institutions call the Finance Director to confirm oral instructions before executing requested transactions. Securities held by the City are under the control of the Controller who stores certificates and other investment documents in a locking vault in the Accounting office.

Although the City contracts with one bank for regular operating banking services, investments are occasionally placed with various financial institutions depending on the interest rates they offer. When the City has funds to invest, the Controller calls local institutions and gets investment rates over the phone. He compiles the results and submits them to the Finance Director who makes the final decision on the award.

The Controller records interest earned on investments as they mature but not less frequently than at fiscal year end and reconciles investments and accrued interest to the general ledger at that time.

REVENUE AND RECEIPTS
Billing Cycles and Procedures

Purpose

To ensure that revenues due the City are promptly and accurately billed and that billings are properly recorded in the general ledger.

Instructions

There are two major revenue sources that comprise the bulk of the City's billing activities. They are:

Utilities (which includes Sanitation and Storm water)

Business licenses

In addition, there is a miscellaneous billing system that is addressed under its own heading. Utility billings and Business license billings are handled by the Customer Service Division of the Finance Department. For purposes of the Manual, procedures will be described broadly, since they are performed (except for general ledger recording) by personnel outside the Accounting Division. The accompanying flowcharts for the billing systems along with the descriptions of procedures and specific controls provide more detailed information.

The original source of billing information for utilities is the meter reading function, which is performed by employees of the Customer Service Division using computerized recording machines and, in some cases, radio transmitter enabled Automated Metering Infrastructure (AMI) devices that communicate readings via a City-owned WiFi system. Daily, they return these machines and the readings are uploaded into the City's main utility billing program. There are 16 daily utility billing cycles each month. Once all readings are entered, the system computes the usage and a reasonableness report is printed. The clerical staff review and clear all flagged items and the final billing reports are printed. The actual bills are printed and mailed by a third party contractor.

Business licenses may be completed online by local businesses or a staff person in Customer Service will assist the

business owner if required. Business owners are to supply gross receipts information and either compute the license fee due or call the City to get the correct fee due. The application and payment are due back to the City on April 30. Under the modified accrual basis of accounting, these licenses cannot properly be recorded as receivables, so there is no entry to record them except as revenue when they are received.

REVENUE AND RECEIPTS
Miscellaneous Billings

Purpose

To maintain procedures which ensure that amounts owed to the City, other than from Utility operations, are properly and promptly billed and collected and that revenue from such collections is properly recorded in the general ledger.

Instructions

Various divisions of the City offer services or materials to the public that require a payment from the recipient. Each of these divisions is equipped with access to the City's computerized miscellaneous billing system (the "system"). When a customer requests an item or service, a designated employee in that division selects the type of transaction from a menu in the system and enters certain relevant information to generate a miscellaneous billing invoice. The invoice is printed out, on one-part paper, at that same computer and is given or mailed to the customer. The customer is then required to pay the invoice in Central Collections.

This system is also used by the Central Collections Division to bill other items not included in the utility billing process, such as special assessments, grants, etc.

At the time billing information is entered, the system creates an interface journal entry for the general ledger. A debit is created for the receivable and a credit is created for the revenue. At fiscal year end, the Accountant II and the Controller review all unpaid miscellaneous bills to determine if an allowance for uncollectible accounts and corresponding reduction in revenue should be recorded.

For security purposes, the system has different levels of access. Most of the clerical staff who enter source data to generate a miscellaneous billing invoice have only that level of access. Different employees, including the Customer Service Manager and certain IT staff, have access to make adjustments to miscellaneous accounts receivable.

REVENUE AND RECEIPTS
Central Cash Collections

Purpose

To ensure that cash paid to the City is controlled at the point of receipt and that total cash received is promptly and accurately recorded in the general ledger.

Instructions

All routine, recurring cash collections are received by the City's Central Collections Division. Customers may pay by mail or they may pay in person over the counter, at the drive-through window or in the night deposit box. Unusual and non-recurring cash receipts can be handled by other City departments and are discussed under another heading. Within Central Collections, each cashier has his or her own cash drawer and computer terminal. The cashier must enter a personal code to activate the computer at any station. As cashiers receive payments, they enter the payments on the terminal which immediately updates individual customer account balances. Cashiers are not able to alter customer account balances in any other way except for the recording of returned checks. At the end of each day, each cashier receives a printed Drawer Edit, against which she balances the amount of cash in her drawer.

When all cash drawers have been balanced, the Cayenta ERP system creates an export file with a daily summary of cash collections to be posted to the general ledger. This export can be pulled to the general ledger at any time by the Accountant II or the Controller.

Each cashier creates his or her own deposit. The deposit slip, cash and checks to be deposited go into a separate locking bag, then into a safe in a controlled access office. All cashier bags are then placed into a larger locking bag that goes to the bank each business day. The bag is transferred to the bank by an armored car service.

REVENUE AND RECEIPTS
Miscellaneous Cash Receipts

Purpose

To maintain procedures that provide adequate physical control over receipts of cash by employees outside of the Central Collections Division, to ensure that these receipts are deposited in the bank as soon as practicable and to promptly and accurately record the receipts in the general ledger.

Instructions

There are three City operations that are authorized to receive cash outside the normal collections process. They are:

Recreation (activity fees, concessions, etc.)

Inspections (permit fees, licenses, impact fees, etc.)

Municipal Court (fines and bonds)

The Recreation Department designates an employee at each of its cash collecting facilities to take the daily receipts to the main PRT Office in City Hall each business day. When receipts have to be kept at a PRT location overnight, they are stored in a safe at each location. The bags brought to City Hall are logged in but not opened by PRT Administrative staff. The bags are then sent to Central Collections along with a summary report of the deposit. Collections staff verify the deposit amount and include them with their own daily deposits. Any discrepancies found in Collections are discussed and resolved with the PRT Center staff person who made the deposit.

The Inspections Division of the Planning Department the Cayenta CU and CF systems to account for cash and checks it collects. The cash is kept in locked boxes which are locked into a desk within the office. On a daily basis, each employee balances his or her cash against the computer's revenue total for that day, prepares a summary of cash collections and delivers it and the cash to Central Collections where the cash is taken in via the normal collections procedures.

The Municipal Court is responsible for the cash collected from Courtroom proceedings and from Police front desk operations. They use a stand alone computerized receipting and

docketing system to balance their daily deposit which are picked up daily by an armored car and taken to the bank. Monthly, the Clerk prepares a summary report which shows, among other things, the amount that represent court fines and miscellaneous revenues due to the City. The Accountant II in Finance has the capability to view daily and monthly reports from the Court system. She agrees the deposit and monthly reports to these daily reports and, monthly, prepares a journal entry to transfer to revenue from bonds payable the amount of fines levied and collected by the Court.

PAYROLL
Hiring Documentation and Employee Setup

Purpose

To ensure that all new employees complete all required forms and that the accounting division has all necessary documentation before setting up a new employee in the payroll system.

Instructions

Upon hire and before beginning work for the City, all new employees must report to the Human Resources (HR) Department and complete the following required employment forms:

1. Income tax withholding form (W-4 form)
2. Insurance form(s)
3. Retirement or Non-retirement form, as appropriate
4. I-9 Immigration form

The employee may also complete, at this time, other optional payroll forms related to fringe benefits offered by the City.

Staff in the HR Department "hire" new employees into the Cayenta CF HR/Payroll system after they receive a Personnel Action request from a department head or City Management and the employee passes any required preemployment screenings. Following completion of the creation of the employee record, Accounting opens a paper file for the new hire and keeps the payroll documentation in it. Files containing the individual's application and subsequent performance appraisals are maintained by the Human Resources Department.

PAYROLL
Payroll Processing Cycle

Purpose

To establish and operate a payroll system for City employees that:

1. Pays employee salaries and wages on a timely basis at rates of pay established by City Council
2. Computes gross pay accurately based on valid records of work performed
3. Includes a sufficient reporting system to allow payroll transactions to be recorded in the general ledger

Instructions

The first set of procedures to be addressed in processing payroll each pay period is the receipt, work-up and entry of employee maintenance. This includes any non-recurring changes made to the master files of individual employees. Examples are pay increases or decreases, supplemental pay, change in job classification and change in withholding status. This work must be done prior to beginning timesheet entry, because the program computes gross pay and withholdings using the statuses in effect at that point.

Changes in hourly pay rates for all employees are entered by the HR Department. Other master file changes which would require HR involvement are job reclassifications, disciplinary actions and name changes resulting from marriage or divorce.

Changes in an employee's tax withholding status can be made based on a new Form W-4 signed by the employee and sent to HR. Other changes related to optional fringe benefits and voluntary withholdings can be entered with the appropriate source document signed by the employee, approved if necessary and submitted to Accounting.

There are two forms of supplemental pay that require authorization. The first is cash bonuses. In order to pay a cash bonus, the department head must initiate and approve a Request for Bonus form. A department administrator is required

to complete a preformatted Excel spreadsheet with the employee numbers and dollar amounts of the bonuses to be paid. No further approval from the Human Resources Department or City Management is required. The bonus spreadsheet is forwarded to the Payroll Clerk to be paid in the next pay period.

The second procedural step in the payroll process is the receipt, work-up and entry of employee timesheets. This information is prepared by one or more administrative staff persons in each department who actually do time entry into the payroll system. The printed approved summary page of each department's time is due in Accounting not later than 9:00 a.m. on the Tuesday morning following the end of the pay period.

Following receipt and after determining that the "No Time" report for employees with no time keyed is clear, the payroll clerk kicks off the processing of payroll. After the payroll is processed, the system generates a timesheet edit and earnings reports for review by the payroll clerk. These reports show employee name, hours worked for the current pay period, gross pay, withholdings and net pay for the current pay period.

Once the clerk is satisfied with the timesheet edit, the paycheck direct deposit advice and report printing process can begin. Paycheck advices are printed on purchased tri-fold self pressure-sealed blank laser stock paper through a special printer in Accounting used solely for check printing from the Cayenta system. The payroll clerk seals the checks and groups them by department and division. Upon completion of the check sealing, the payroll clerk keeps the checks in the Accounting Division's vault pending distribution on pay day.

The Accounting Division maintains physical control over blank paycheck stock. They are stored in boxes in the Accounting Division's access-controlled office. The payroll clerk maintains a logbook for checks in which she records the sequence of check numbers. When she starts to print the next payroll, she determines that the check number sequence is continuous.

The normal pay day for all City employees is the Friday following the end of the two-week pay period. There are several exceptions to this rule. Police Department checks are picked up by a designated police employee on Thursday afternoon, so that officers whose shifts end before normal payoff on Friday will

not have to return to work solely to pick up their checks. The Fire Department is also allowed to follow this schedule for the same reason. Municipal Court employees' checks are included with Police, because they are in the same building. Their checks are not to be distributed before Friday, however. Individuals may pick up their checks early if they will not be at work on Friday and their department head approves.

On Friday mornings, designated employees from various departments that are physically located away from City Hall come to the Accounting office and pick up checks for their departments. The payroll clerk distributes checks to departments which are located in City Hall.

PAYROLL
Payroll Reporting

Purpose

To ensure that the City's payroll system generates reports sufficient to enable:

1. The Accounting Division to record payroll transactions accurately in the general ledger on a timely basis
2. The Accountant II to file all required state and Federal payroll tax returns and properly pay all amounts withheld to the designated agencies
3. Other City employees to have information they need related to employment and pay information

Instructions

Following the printing of paychecks, various reports are printed and either filed in Accounting or distributed to the appropriate City departments. The payroll clerk is responsible for the printing and distribution. Reports are maintained support payroll processing and to substantiate payment of withheld amounts to federal and state governments and to a myriad of other organizations who can receive amounts withheld from employees. As support for withheld amounts, the payroll clerk provides the related reports to the accounts payable clerk for issuance of the payments.

PAYROLL
Payroll Bank Account

Purpose

To ensure that sufficient funds are available to honor employee paychecks and that the payroll bank account is reconciled by some one other than the payroll clerk

Instructions

The City's payroll bank account is maintained at First Citizens Bank along with the City's other operating cash accounts. It is part of a sweep arrangement wherein all daily deposits are kept in a public funds interest-bearing central deposit account and are applied to the payroll and regular disbursement accounts as checks are presented for payment. There is, therefore, no formal deposit of the net pay amount into the payroll account. The Controller simply determines that sufficient total operating cash is available to meet payroll.

The monthly bank statement for the payroll account is opened by the Accountant II. She is also responsible for the account reconciliation. When she prepares filings of unclaimed property with the State Treasurer once a year, she will call employees who have not cashed checks to see if they are lost and need to be replaced. In rare cases, when she cannot contact the employee and small checks remains outstanding, the money is written off and the funds are sent to the State's unclaimed property program.

PURCHASING AND DISBURSEMENTS
Purchasing Policy

Purpose

To specify the framework that employees must follow to purchase goods or services on behalf of the City

Instructions

There are three major avenues by which an employee may make a purchase of goods or services. He may order an item on the City's account, he may purchase it directly if he has a City-issued procurement card or he may have the City's Purchasing Division initiate a purchase order. Generally, employees are empowered to make small dollar purchasing decisions without the direct approval of the Purchasing Department. The authority requires employees to act ethically and obtain competitive bids where required by state or federal law.

There are various levels of approval authority. Certain supervisory employees can approve purchases of up to \$5,000, department heads can approve up to \$10,000. Purchases greater than \$10,000 require the approval of City Management with exceptions such as recurring debt service, withheld payroll amounts, etc.

Employees are encourage to make use of the Purchasing Department for making sure the City is obtaining the best prices and conditions for goods and services. The employee can submit a "Request for Purchase" form to the Purchasing Division requesting that a purchase order be generated. All detail information must be included on the requisition and it must be approved and dated by the division supervisor and the department head. For a detailed discussion of Purchasing Division procedures, refer to the City's Purchasing Manual.

PURCHASING AND DISBURSEMENTS
Payment Cycle

Purpose

To determine that invoices received by the City represent valid claims for payment and that all required purchasing procedures are followed and to pay vendors on a timely basis.

Instructions

The City's Accounting Division is charged with the responsibility of processing invoices for payment. Purchase orders are the responsibility of the Purchasing Division.

All invoices payable by the City are supposed to be sent by the vendor directly to the Accounting Division. Obviously, some are sent to other departments and divisions who forward them to Accounting and others are brought in by employees who received a bill from the vendor at the time they made the purchase. No matter the source, when they are delivered to Accounting, the Accounts Payable Clerk opens the bills, writes the vendor number (if one already exists) on the invoice, verifies the extensions and footings on the invoice and alphabetizes all the invoices.

The Accounts Payable Clerk reviews the invoices to determine which ones need to be matched to a purchase order and which ones simply need the appropriate approval. If only department head approval is needed (see purchasing policy), the Accounts Payable Clerk makes a copy of the invoice to keep and sends the original to the department for approval and coding. Accounting requests that this work be done and the invoice be returned within three days.

For invoices involving a purchase order, if there are no differences in the P.O. and the bill, the invoice can be paid at that point with no additional approvals. If small freight differences exist, the Accounts Payable Clerk will get a verbal approval to pay from the department head. If there are significant price differences, the department head must give written approval for payment to be made. At this initial review stage the Accounts Payable Clerk also determines whether sales taxes and freight charges are appropriately billed based on the terms and location of the delivery and whether the City needs to pay additional S.C. sales tax.

Frequently, not all items on a given P.O. will be received in the same shipment. In those cases, the warehouse supervisor will prepare a "Partial Shipment Receiving Report" or "partial" which shows the items that were received in the shipment and the P.O. number to which the shipment relates. This report goes to the Purchasing Clerk for entry into the inventory system, is initialed by her and sent on to Accounting. When the Accounts Payable Clerk receives an invoice for this shipment, she can pay it if she has received the partial. As the remainder of the items on the P.O. are received, the warehouse supervisor submits additional partial's and when all items have been received, he forwards the copy of the P.O. on which he has stamped the receipt date for each item along with the final partial. This enables Accounting to find the partial for any item on the P.O. if need be.

When the Accounts Payable Clerk determines that the invoice is ready to be paid, she enters it into the Cayenta CF payables system. The City runs checks once per week, on Friday. After the Accounts Payable Clerk has entered all the invoices for a given check run, she prints an "Invoice Edit" which shows the details of all invoices which are to be paid in that check run. The Accounts Payable Clerk reviews the details in the edit and balances the batch of total invoices to the total on the edit. If there are errors, she makes the corrections in the system and runs a final edit. Once the total balances and the edit is clean, the Accounts Payable Clerk prints the final check register and the checks themselves. Prior to releasing checks on Friday, the Controller reviews the check register in list form and initials it to OK release of the checks. Within the following week, the Controller reviews the invoices paid and separately initials this detail review of the check register.

As with payroll, these checks are blank tri-fold pressure-sealed laser forms. The checks, including the authorized signature of the Chief Financial Officer, are printed on a special laser printer used solely for printing checks from the Cayenta CF system.

A yellow non-negotiable voucher copy of the check is also printed to attach the invoice. These voucher copies of the checks and the original invoices are stored in the Accounting office for six years before disposal in conjunction with retention policies submitted with the South Carolina Department of Archives and History.

Disbursements may also be made by manual checks which are controlled by the Accounting Division. The same authorization and documentation rules as on system checks generally apply. These checks are normally used only when a check is urgently needed and the payee cannot wait until the next regular check run. The forms themselves are two-part forms. An accounting staff person will type the check and it must be hand signed by any of the City Manager, one of the Deputy City Managers or the CFO. These checks must later be manually recorded in the general ledger by the Accountant II.

CAPITAL ASSETS
Physical Control

Purpose

To provide a logical method by which fixed assets can be uniquely identified to facilitate the ability of the City to:

1. Safeguard and maintain control of its fixed assets
2. Ensure that sufficient insurance is carried on the City's fixed assets and that such insurance has been cancelled in the case of worthless or retired assets
3. Comply with the requirements of state and Federal government and regulatory agencies when applying for financial assistance
4. Conform to generally accepted accounting principles

Instructions

For purchased capital assets, the Controller enters the relevant information about the asset into an Excel spreadsheet and assigns a capital asset number to it. At the option of the department that acquires the asset, he sends a prenumbered metal asset tag with an adhesive backing on it to the person who requested it so that the tag can be affixed to the asset. Periodically, he will arrange with a department or division head to jointly conduct an inventory of a certain randomly selected class of capital assets to determine whether any are missing or whether the City has assets that are not entered in the system.

In order to make certain that all City assets are covered by insurance, the Risk Management Supervisor and the Controller will each obtain a list of City vehicles from the Fleet Management Department. This comparison not only verifies that all new purchased major equipment has been capitalized in the general ledger, but also helps the Controller to learn of vehicles which may have been lost by the City through accident or theft and need to be removed from the capital asset system.

CAPITAL ASSETS
Capitalization Policy

Purpose

To define exactly what is a fixed asset and to provide guidance in determining asset cost and capitalizing newly acquired or constructed assets.

Instructions

For purposes of the Manual, fixed assets are defined as tangible capital assets such as land, buildings, furniture, machinery, electric distribution system, water treatment and distribution system, and sewer collection and treatment system, and other property that is actively used in the City's operations and has a useful life in excess of one year.

There are three ways the City can acquire assets. They may be purchased outright, built by City forces or contributed to the City by other governments (through grants) or by developers (in whole or in part, such as a water or sewer agreement). Fixed assets are valued at historical cost which includes all costs necessary to place an asset in use for its intended purpose, such as sales tax, freight, installation charges, appraisals and demolition of existing facilities. In addition to historical cost, assets for which debt is issued to provide funding for construction should include a cost element for interest incurred during the construction period of the project. Gifts and donated fixed assets are recorded at their fair market value as of the date they are received by the City.

Items purchased or otherwise acquired should only be capitalized if they cost \$5,000 or more.

The capitalization of purchased fixed assets is relatively straightforward. The Controller reviews expenditure and capital projects activities for the year, then determines what items need to be capitalized. He then prepares journal entries to record, in summary, the detail additions or retirements of capital assets. The treatment of donated fixed assets is the same except the cost is fair market value.

Nearly all assets that are built by City forces relate to the operation of the utilities system. To capitalize and record these assets in the subsidiary system, the costs of construction

must be accumulated and allocated to the completed projects. The City has a work order system that is used primarily (from the standpoint of asset capitalization) to account for electric system additions. The system accumulates contract labor, materials and overhead costs on regular line additions and allows for sufficient allocation of costs to enter detailed additions into the subsidiary system. For certain "special equipment" items the capitalization procedure is different. Special equipment refers to meters, transformers, reclosures and sectionalizing equipment. These items are capitalized when purchased, along with estimated cost of installation, whether they are immediately put into service or kept in stock. Normally, the Cayenta inventory system will produce a printout of all receipts of special equipment during the year. The Controller uses this list to determine the quantity of special equipment received and its direct cost.

The costs of other major projects are primarily done by contractors. Costs for each project are accumulated in separate general ledger accounts. At the end of the fiscal year of their completion, the total cost of those projects is capitalized.

The City maintains a computerized Geographical Information System (GIS) that plots where all major utility and infrastructure assets of the City are located.

CAPITAL ASSETS
Disposals and Retirements

Purpose

To ensure that disposals and retirements of fixed assets are properly authorized and that the former assets are removed from the subsidiary records.

Instructions

Sales of obsolete fixed assets are made at the discretion of the Purchasing Agent with the approval of City Management. The City's purchasing manual provides a detailed explanation of controls and procedures related to sales and disposals. After any sales, the Purchasing Agent provides the Controller with a list of property sold in sufficient detail to allow him to find the assets in the system, remove them from the detail list and prepare an entry to remove them from the general ledger.

Fixed assets in utility plant-in-service are not individually identified but are added to the system in groups. It follows that any assets retired from the system cannot be individually identified. For that reason, retirements from plant-in-service are normally taken from the oldest group in the system (on a FIFO basis). Once the units to be retired are identified, the procedures for removal are the same as for ordinary fixed assets.

CAPITAL ASSETS
Financial Reporting

Purpose

To describe the necessary procedures to enable the City to provide fixed asset reporting in accordance with generally accepted accounting principles

Instructions

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. For GASB 34 purposes, however, transactions and balances related to governmental capital assets are recorded in the government wide Statement of Net Assets and Statement of Activities. Utility fixed asset acquisition and construction are capitalized in the utility enterprise fund.

Depreciation expense is recorded using the straight-line method over the following estimated useful lives:

Buildings	30 years
Electric plant in service	26 to 59 years
Water plant in service	10 to 100 years
Sewer plant in service	25 to 100 years
Stormwater plant in service	30 years
Infrastructure	30 years
Vehicles and equipment	5 to 10 years

FINANCIAL REPORTING
Basis of Accounting

Purpose

To specify the basis of accounting to be used to record the financial transactions of the City's various funds and account groups on a consistent basis.

Instructions

In accordance with the Governmental Accounting Standards Board's 1987 **Codification of Governmental Accounting and Financial Reporting Standards** (1987 **Codification**, Section 1600) the City uses either the full accrual basis or modified accrual basis depending on the particular fund in question.

The City's General, Special Revenue, Permanent and Capital Projects Funds are all governmental fund types for which the modified accrual basis of accounting is used. Revenues are recognized in the accounting period in which they become available and measurable. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for interest on unmatured long-term debt, which is recognized when due.

The City accounts for the operations of its Utility Enterprise Fund on the full accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable.

Operating transfers among funds are recognized in the accounting period in which the interfund receivable and payable arise.

FINANCIAL REPORTING
Chart of Accounts

Purpose

To provide a systematically arranged chart of general ledger accounts available to all City departments so that accounting transactions can be accurately recorded and timely and meaningful financial reports can be prepared.

Instructions

The entire chart of accounts is too lengthy to be included in the Manual. An understanding of the structure of the chart, however, will enable the user to quickly find any account necessary. In addition, the Accounting Division can generate a chart of accounts that can be saved as an electronic document or can be printed.

Account numbers vary in length, but always begin with a three digit fund number and are stated in the following format:

Assets	XXX 1XXXX
Liabilities, fund equities and net assets	XXX 2XXXX
Revenues	XXX 3XXXXX
Expenditures	XXX XXXXXXXX

Expenditure accounts may be longer if optional project and subproject numbers are inserted after the department number.

The City maintains the minimum number of funds absolutely required to segregate information and comply with laws and regulations.

When new accounts are needed, the Controller and both of the Accountant II's have that capability. The account can be created at will and be immediately available for use.

FINANCIAL REPORTING
Grants Accounting

Purpose

To segregate the accounting for receipts and disbursements of federal and state grants in sufficient detail to allow for their proper reporting in the City's Comprehensive Annual Financial Report

Instructions

The City records substantially all Federal grants in a special revenue fund. There is one general ledger fund (525) for HUD Community Development only and another fund (530) for substantially all other federal grant revenues and expenditures.

In each of the general ledger funds, a revenue account is to be established for each grant. Additional revenue accounts may be necessary for program income or interest income. They should be named to indicate the grants to which they apply. For expenditure accounting, a separate line item expenditure accounts should be established for each grant with additional accounts for grant subactivities if needed. Individual accounts should be kept to the minimum necessary for adequate Federal, State and CAFR reporting.

Grant expenditures may be incurred either by direct disbursement of cash or by the allocation of cost from some other City department. Direct expenditures are sufficiently supported by the contents of the check voucher. In the case of allocated costs, however, sufficient backup documentation will be maintained to support charges to grants. This documentation will be maintained separately for each grant and each grant year.

The Controller and Accountant II will review all state grants to determine whether they involve Federal pass-through funds thereby requiring inclusion in the special revenue fund and on the A-133 audit of federal funds.

Separate procedures related to the proper administration, accounting and financial reporting of SC Department of Transportation (SC DOT) grants, both state funded and federal pass-through, are contained in a manual maintained by the City's Planning Department and are incorporated, by reference, into

this document.

Since the City nearly always receives more than the threshold amount of federal funding to require it, the CAFR will include a section on federal funding in compliance with OMB Circular A-133.

In compliance with the City's contract with SC DOT, the CAFR will also include, as required supplementary information, a Schedule of Budgeted to Actual Costs in compliance with a form prescribed by SC DOT.

FINANCIAL REPORTING
Financial Report Check Off List

Purpose

To provide a control listing of all reports to be prepared by the Accounting Division along with their normal completion deadlines to ensure that all necessary reports are presented to City Council, management and governmental entities, as required, on a timely basis.

Instructions

By the 10th calendar day of the month, all recurring and correcting journal entries should be recorded in the general ledger. In the Cayenta CF system, many department users have the capability to run revenue or expenditure reports on demand. If needed, the Controller or Accountant II will run reports for users.

In addition to the monthly general ledger, other reports include:

Monthly Sales Tax Report	20th of following month
Quarterly Federal 941 and State Withholding Report	30th of following month
Monthly Retirement Report	30th of following month
Quarterly Retirement Report	30th of following month
Employee W-2 Forms	Annually by January 31
1099 Forms	Annually by January 31
Federal Form 940	Annually by January 31
W-2 and 1099 Mag tapes	Annually by February 28

FINANCIAL REPORTING
Journal Entries

Purpose

To provide procedures that enable the Accounting Division to control the entry of recurring data into the general ledger and to accurately record all other financial transactions of the City.

Instructions

There are currently two related reporting systems that can be posted directly to the general ledger without the manual typing of a journal voucher form. These two systems are:

Cayenta CU system (Utility billing transactions)

Budget processing system (Business Objects)

These systems are prepared independently and are entered into the City's financial reporting system. The utility data is a direct import. The budget is imported into the financial system once per year using an Excel scripting technique. At any time, The Accountant II can run the import function to pull over all closed CU transactions. If an error is later found, a manual adjusting entry must be posted to make the correction.

Manual (non-system) checks and bond fund checks are entered individually once a month directly into the general ledger. They do not require the preparation of a typed journal voucher, but, like all entries, the batch of checks being entered is assigned a computer journal entry number.

For all other financial transactions, the Controller or the Accountant II's must type a journal voucher form. Before proceeding with the process, he or she reviews the entry to determine that it is proper and that the accounts are valid and the entry balances. In CF, a journal entry number is created and the details of the entry are keyed. An edit is run to review the entry afterwards. If it is proper, the entry is approved. Once an entry is approved, it cannot be edited or deleted. Supporting documentation is attached to the back of the journal entry. The journal vouchers are bound into a book.

FINANCIAL REPORTING
Inventories

Purpose

To establish and maintain procedures that permit proper financial statement disclosure of general and utility parts and supplies inventories on hand.

Instructions

The City maintains stocks of inventory items for general government use, such as office supplies and automotive parts for the garage, and also maintains a substantial inventory of utility parts and supplies. The City includes inventories in the assets section of its general and utility enterprise fund balance sheets in its financial statements. The Purchasing Department maintains a computerized perpetual inventory system from the Cayenta ERP family of all City inventories. Receipts and issues of inventory items are keyed into the system based on warehouse receiving reports and issue tickets prepared by warehouse personnel. Warehouse receipt and issues are posted into the general ledger system automatically.

At varying times of the year, the Purchasing Department conducts physical inventories of its parts and supplies. They are responsible for planning and conducting the work and they use written instructions and procedures for all counters. After the physical is completed, the perpetual system is adjusted to actual per the count. At fiscal year end, the Accounting Division prepares a journal voucher to adjust the general ledger to actual. Differences are charged or credited to current year operations, as appropriate.

As referred to in the capitalization section of the Property Acquisition heading, certain electric inventories are handled differently from regular parts and supplies. These "special equipment" items (mainly meters, transformers, reclosures and sectionalizing equipment) are capitalized as they are received whether they are immediately placed in service or kept in stock. This is an industry practice taken from rules promulgated by the U.S. Federal Energy Regulatory Commission. In order to maintain control over special equipment items kept in stock, the Purchasing Division records them in the perpetual inventory system but assigns a value of only one cent to each. In this way, the Purchasing Agent can tell how many items he has

in stock while properly omitting the dollar cost from the system.

FINANCIAL REPORTING
Postage and Telephone Cost Allocation

Purpose

To describe procedures to be used in allocated the City's centralized postage machine and telephone system.

Instructions

The costs that the City incurs in operating a central postage machine and telephone system are paid to the Postal Service and the telephone company as total bills. However, there is an allocation procedure available in each system to charge costs to the appropriate user divisions and departments.

Postage cost is incurred when the Print Shop Manager buys additional postage, normally in blocks of \$5,000 at a time. These cash disbursements are charged to account called Postage - Citywide in the Human Resources Department. As employees use the postage, the machine maintains a running total of the cost for each division. At the end of each month, a Human Resources employee programs the machine to print a tape of the monthly cost for all divisions. He then clears the machines totals so that it can begin to accumulate the next month's totals. She delivers the printed tape to the Accountant II. The charges on the tape are recorded in the general ledger via a manual journal voucher. The corresponding credit is made to an account in HR called Postage - Citywide - Credit.

Long distance and a flat monthly service charge for telephone service are paid to the local telephone company and charged in total to an account in the IT department called Telephone - Citywide. The telephone system is equipped with software that allocates the charges to each phone and, in total, to each division. Monthly, a report is generated by the system and sent to Accounting where the Controller uses it as the basis for a journal voucher to post the allocation.

Both allocation procedures are reviewed annually by the Controller to ensure that total charges and total credits appear reasonable.

FINANCIAL REPORTING
Special Assessments

Purpose

To specify the appropriate general ledger presentation and billing procedures for special assessments.

Instructions

In accordance with the City's Municipal Code, the cost of certain street and drainage improvements that are made at the request of homeowners must be repaid to the City by special assessment. Homeowners may elect to pay the assessment in its entirety at a slight discount, within thirty days of billing or they may choose to pay it over one of several repayment schedules specified by the Code.

The City's Engineering and Accounting Divisions share the responsibility for determining the cost of the projects and the allocation to individual property owners. The City Engineer will notify the Controller when City Council has approved the project and when the project is complete and ready for final cost determination. The Controller will prepare amortization tables for use by the property owners and will deliver these schedules along with the names and addresses of the property owners to the Central Collections Coordinator. The Central Collections Coordinator is responsible for notifying the property owners that assessments are due and for collecting payments on assessments. At the time the assessments are billed he will also request the City Attorney to file liens against the properties with the County, so that the City's assessment claims will be satisfied in the event that any of the properties are sold.

At the time the assessments are billed, the Controller will prepare a journal voucher to record the assessments due to the City. Under the modified accrual basis of accounting, revenue for assessments may only be recognized to the extent of cash receipts from property owners. For that reason, the original entry to record the assessments is simply a debit to special assessments receivable and a credit to allowance for doubtful accounts in the general fund. Revenues are recorded as property owners begin making payment.

FINANCIAL REPORTING
Bank Reconciliations

Purpose

To maintain procedures which ensure that all City bank accounts and investments are reconciled to the general ledger on a monthly basis and that the reconciliations are performed by an employee who is not involved in the disbursement of City funds and are reviewed and approved by the Controller.

Instructions

All bank statements and investment summaries are delivered unopened to the Accountant II or the Controller through the City's internal mail. As soon as all cash entries have been posted for the preceding month, the Accountant II or the Controller reconciles each statement to the corresponding cash accounts in the general ledger. The reconciliation process and the monthly lists of outstanding checks are recorded as Excel spreadsheets. Any adjustments necessary to correct the general ledger are made by journal voucher prepared by the Accountant II or the Controller.

The Controller reviews and approves reconciliations done by a staff member other than himself and returns all items to the Accountant II for filing.

City of Rock Hill
Accounting and Internal Control Manual
Finance Department
Accounting Division

