

2023 ANNUAL FISCAL CONFERENCE

Comptroller of the Treasury
Division of Local Government Audit



What I Want to Accomplish in this Presentation...

- ◆ Tell you about the Comptroller's Office
- ◆ Tell you about the Division of Local Government Audit
- ◆ Tell you about the annual audit process
- ◆ Discuss common and recent audit findings and issues
- ◆ Answer a question or two...

Constitutional Officers

- ◆ 3 Constitutional Officers:
 - Comptroller, Treasurer, Secretary of State
 - Elected by the General Assembly
- ◆ Comptroller and Treasurer elected every 2 years
- ◆ Secretary of State elected every 4 years

The "Money Cops"



My Bosses!

Jim Arnette, Director



Bryan Burklin, Asst. Dir.



Mission Statements

Comptroller Mission Statement:

Make Government Work Better



Mission Statements

LGA Mission Statement:

To make government work better by providing timely, quality audits of Tennessee local governments and related agencies.



Our Core Values

◆ Honesty and Integrity

We must be honest in all we do and say to reflect the highest degree of integrity.

◆ Accuracy and Reliability

The work we produce must be relevant, correct, professional, objective and timely. Decision-makers and the public must be able to depend on our work.

◆ Accountability

We must accept personal responsibility for the work each of us performs and the division must take organizational responsibility for the work we perform collectively.

Comptroller Divisions

- ◆ Administration – provides overall direction, coordination, and supervision of all divisions
- ◆ Local Government Finance – responsible for assistance and approval for local governments' budgets and debt obligations
- ◆ Open Records Counsel – contact for concerns for the accessibility of public records
- ◆ Small Business Advocate – information for businesses with 50 or fewer employees

Comptroller Divisions

- ◆ Property Assessments – provides oversight of the administration of the state’s property appraisal and assessment system
- ◆ Local Government – serves as the liaison to the U.S. Census Bureau’s Local Redistricting Data Program. Using Census data, produces local maps as well as publishes county commission district and voting precinct maps
- ◆ Research and Education Accountability – provides research and reports for the General Assembly - monitors performance of the state’s elementary and secondary school systems

Comptroller Divisions

- ◆ State Assessed Properties – conducts annual appraisals, assessments, and audits of public utility and transportation properties
- ◆ Board of Equalization – provides for reviews of property tax assessments, rates, and exemptions
- ◆ Audit – state and local government audits - composed of Local Government Audit, State Audit, and Investigations



Division of Local Government Audit

Director
Jim R. Arnette, CISA, CGFM
Jim.Arnette@cot.tn.gov

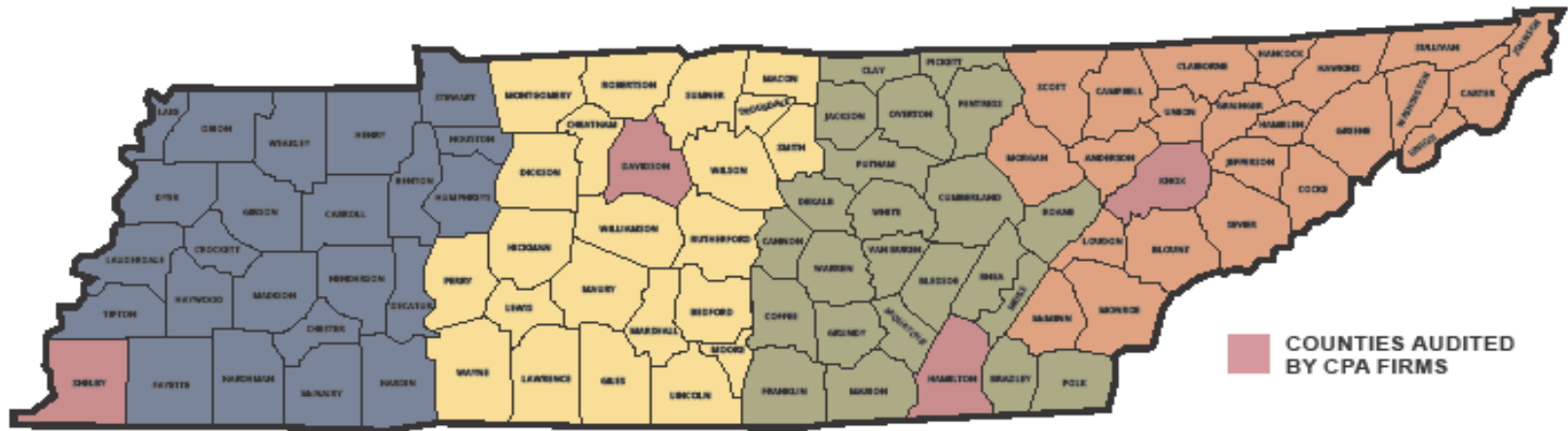
425 Rep. John Lewis Way N., Nashville, TN 37243
P: 615.401.7841 • F: 615.741.6218

Assistant Directors

Bryan Burklin, CPA, CGFM
Bryan.Burklin@cot.tn.gov

Katie Armstrong, CPA, CGFM, CFE
Katie.Armstrong@cot.tn.gov

Penny Austin, CPA, CISA, CGFM
Penny.Austin@cot.tn.gov



**COUNTIES AUDITED
BY CPA FIRMS**

WEST TENNESSEE
Lee Ann West, CPA, CGFM
Lowell Thomas SOB
Tower A, Suite 405
225 Martin Luther King Drive
Jackson, TN 38301
P: 731.421.7473 • Ext: 202
Lee.Ann.West@cot.tn.gov
F: 731.421.7475

MIDDLE TENNESSEE
Jeff Bailey, CPA, CGFM, CFE
425 Rep. John Lewis Way N.,
Nashville, TN 37243
P: 615.401.7841
Jeff.Bailey@cot.tn.gov
F: 615.741.6218

MID-EAST TENNESSEE
Steve Reeder, CPA, CGFM, CFE
1100 England Drive, Suite 3B
Cookeville, TN 38501
P: 615.747.8809
Steve.Reeder@cot.tn.gov
F: 615.741.6218

EAST TENNESSEE
Mark Treece, CPA, CGFM
5401 Kingston Pike
Building #2, Suite 300
Knoxville, TN 37919
P: 865.594.6134
Mark.Treece@cot.tn.gov
F: 865.594.6138

Local Government Audit

- ◆ Employs approximately 110 people
- ◆ Main Office – Cordell Hull Building
- ◆ Regional Offices – Jackson, Nashville, Cookeville, and Knoxville
- ◆ Audit 91 counties, monitor 4 CPA counties
- ◆ Perform IS reviews, review funds administered by the DA's and the Judicial District Drug Task Forces, provide technical assistance, review contract audits of over 1,600 municipal governments/nonprofits/component units, refer utility systems to UMRB and WWFB

Local Government Audit

- ◆ Nashville Management Team: 1 director and 3 assistant directors (financial/compliance, administration, and IS)
- ◆ Regional Office Staff: 1 manager, senior auditors, and approximately 15 auditors
- ◆ Regional Coverage: 22 to 23 counties each
- ◆ Auditors commute to work from their homes or telecommute

Audit Particulars

- ◆ Annual Audits: mayor, highways, BOE, trustee, county clerk, clerks of court, register, and sheriff
- ◆ Audit Time: varies from 600 to 2000 hours, depending upon county size and auditor experience level
- ◆ Audit Approach – risk based approach; using computers and various technologies
- ◆ Audit Cost – per capita audit fee

Statutory Requirement for Audit

- ◆ Section 4-3-304, Tennessee Code Annotated
 - Comptroller of the Treasury
 - Department of Audit
 - Required to make annually an audit of the records of the 95 counties
 - Can perform the audit or contract it out to a CPA firm

The Audit Process - Standards

- ◆ Governed by Audit Standards set by:
- ◆ American Institute of CPAs
- ◆ Government Auditing Standards (GAS)
- ◆ Governmental Accounting Standards Board (GASB)
- ◆ Single Audit – Office of Management and Budget (OMB) – March 31 deadline
- ◆ Purpose of an Audit – the expression of an opinion based upon test work

The Audit Process

- ◆ Annual Audit (9-3-211, TCA) July through June
- ◆ Entrance Conference – meet the auditors/auditee’s staff, exchange information, learn what is to be expected by each, discuss time frame, discuss work space, etc.
- ◆ Letter of Representation – letter from client making certain representations to the auditor
- ◆ Auditors perform a risk assessment, develop audit plans, IS reviews, conduct field work

The Audit Process - Exit

- ◆ Exit Conference – with management, a formal written document noting any findings, recommendations, and discussion points
- ◆ Signed by official as evidence the topics have been discussed – should sign it whether you agree or disagree
- ◆ Everything on the exit may not be published
- ◆ Officials are encouraged to provide written responses to audit findings and must provide corrective action plans for all findings

The Audit Process - Exit

- ◆ Disagreement – provide auditor evidence the finding is wrong – if wrong the finding will be removed
- ◆ Disagreement – if official and auditor cannot agree – written response of official may be paraphrased in the final report
- ◆ Disagreement – auditor reserves the right to rebut or comment on the officials' written responses

The Audit Process – Time Frame

- ◆ Preliminary Work- F/C usually begins after Feb 1; last few weeks – IS reviews may be earlier
- ◆ After July 1 - books closed and auditor returns
- ◆ Field work completed – takes several weeks
- ◆ Draft report compiled, reviewed by area manager
- ◆ Report emailed to Nashville to the audit review manager

Report Distribution

- ◆ PDF report emailed to mayor, director of schools, highway official, and finance director(s)
- ◆ Summary of Audit Findings mailed/emailed to county commissioners, BOE, other local officials, local DA, your state senators and representatives, certain other state officials
- ◆ Audits are public documents posted to the Internet at www.comptroller.tn.gov

Review of Internal Control Framework

- ◆ Hire competent staff
- ◆ Policies and procedures designed to assist management to achieve goals and objectives
- ◆ Control environment – tone at the top, discipline, and structure
- ◆ Risk assessment – continual analysis of what can go wrong and how to mitigate deficiencies
- ◆ Control procedures – policies to ensure management directives are carried out

Review of Internal Control Framework

- ◆ Communications – how to enable people to carry out their responsibilities
- ◆ Monitoring – assess the quality of performance
- ◆ Examples of IC: segregation of duties, depositing intact, various reconciliations, personnel policies and procedures, time and attendance records, individual cash drawers, budgets, purchasing procedures

Information Systems and Cyber Threats

- ◆ Information System Best Practices

tncot.cc/lga

- ◆ Cybersecurity Resources

tncot.cc/cyberaware

Review of Compliance – Examples

- ◆ BOE Duties (49-2-203,TCA)
- ◆ Director of Schools Duties (49-2-301,TCA)
- ◆ School Support Organizations(49-2-601,TCA)
- ◆ ADA Revenue Split (49-3-315,TCA)
- ◆ Fraud reporting forms (8-4-501, TCA)
- ◆ Purchasing law compliance (49-2-203a, TCA)
- ◆ Debt agreements/policies

KEY POINT –

Authority is Permissive

- ◆ Remember – your authority to do almost anything is permissive – not prohibitive. The statutes must specifically allow an action on your part or you cannot do it.

2022 Audit Results of LEAs

- ◆ LGA published 309 findings in the audit reports of the 91 counties that we audit.
- ◆ 84 of those findings pertained to school departments.

2022 Audit Results of LEAs

- ◆ Most prevalent audit finding:

Budget Deficiencies

2022 Audit Results of LEAs

- ◆ **SECTION 4. BE IT FURTHER RESOLVED** that any appropriations made by this resolution which cover the same purpose for which a specific appropriation is made by statute is made in lieu of, but not in addition to, said statutory appropriation. **The salary, wages, or remuneration of each officer, employee, or agent of the county shall not be in excess of the amounts authorized by existing law or as set forth in the estimate of expenditures which accompanies this resolution.** Provided, however, that appropriations for such salaries, wages, or other remuneration hereby authorized shall in no case be construed as permitting expenditures for an office, agency, institution, division or department of the county in excess of the appropriation made herein for such office, agency, institution, division or department of the county. Such appropriation shall constitute the limit to the expenditures of any office, agency, institution, division or department for the year ending June 30, 2022. The aggregate expenditures for any item of appropriation shall in no instance be more than the amount herein appropriated for such item.

2022 Audit Results of LEAs

BE IT FURTHER RESOLVED, that the budgets of the School Federal Projects Fund be the budget approved for separate projects within the fund by the Tennessee Department of Education....

2022 Audit Results for LEAs

◆ Other prevalent audit findings:

Material Audit Adjustments

Purchasing Deficiencies

Accounting Deficiencies

Cash Overdrafts

2022 Audit Results for LEAs

- ◆ Cash Overdraft Remedy for School Federal Projects
- ◆ Permanent or Temporary Transfer from General Purpose School Fund
- ◆ Authorized by Department of Education – 8/24/09

2022 Audit Results for LEAs

Section 9-2-102(b), *Tennessee Code Annotated:*

(b) It is the duty of all local governments that are subject to the audit requirements of the comptroller of the treasury and that handle public funds to close their official accounting records and to have those records available for audit no later than two (2) months after the close of their fiscal year.



2022 Audit Results for LEAs

- ◆ Failure to Document Compliance with the Davis-Bacon Act
- ◆ Applies to ESSER funds
- ◆ Prevailing Wage Rate Clauses
- ◆ Weekly Certifications of Payroll Submissions
- ◆ <https://www.dol.gov/agencies/whd/government-contracts/construction/regions>

2022 Audit Results of LEAs

- ◆ Additional Compensation for Director of Schools
- ◆ ESSER funds
- ◆ No Formal Approval from the BOE
- ◆ Not Addressed in Employment Contract

2022 Audit Results of LEAs

- ◆ Bonuses to Administrative Staff, Including Director of Schools
- ◆ Not Specifically Allowed in Grant Documentation
- ◆ Not Supported by Documentation
- ◆ Not Properly Approved
- ◆ Not Consistent with Other Federal Grants

2022 Audit Results of LEAs

◆ REMEMBER!

The Board of Education should approve all amounts paid in excess of the Director of Schools' contract.

2022 Audit Results of LEAs

◆ Other Findings:

IRS Penalties

Payroll Deficiencies

Investigative

Failure to Employ Architect/Engineer

Improper Transfers

CCFO

- ◆ Certified County Finance Officer – CCFO
 - Funding appropriated by the Legislature
 - ◆ Annual appropriation to CTAS
 - ◆ Reimburse CCFO candidates for expenses
 - ◆ \$1,000 stipend
 - **Voluntary program**
 - Curriculum consists of 11 courses:
 - ◆ Budgeting; Internal Control and Audit; Government Accounting; Financial Reporting; Cash Management; Debt Management; Payroll; Benefits and Pensions; Purchasing, Risk Management and Enterprise Resource Planning
 - 16 hours of annual CPE required

THANKS!

Lee Ann West, CPA, CGFM

Audit Manager

Comptroller of the Treasury

Local Government Audit

225 Martin Luther King Drive, Tower A, Suite 405 | Jackson, TN 38301

Lee.Ann.West@cot.tn.gov | Direct Line 615.747.8843

