What I Want to Accomplish in this Presentation...

• Tell you about the Comptroller’s Office
• Tell you about the Division of Local Government Audit
• Talk about your transition into office
• Tell you about the annual audit process
• Answer a question or two...

Constitutional Officers

• Three 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”

Needle in a Haystack

Director
Local Government Audit
Jim Arnette
Mission
To make government work better

Core Values
• honesty and integrity – honest in all we do
• accuracy and reliability – work must be relevant, correct, professional, dependable
• accountability – accept personal responsibility

Comptroller Divisions
• Administration – provides overall direction, coordination, and supervision of all divisions
• State Government Finance – responsible for state’s debt management
• Local Government Finance – assistance to local governments on budgets and debt obligations
• Open Records Counsel – contact for concerns for the accessibility of public records

Comptroller Divisions
• Small Business Advocate – information for businesses with 50 or fewer employees
• Property Assessments – provides oversight of the administration of the state’s property appraisal and assessment system
• 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

Local Government Audit

- Employs approximately 110 people
- Main Office – Cordell Hull Building
- Regional Offices – Jackson, Nashville, Cookeville, and Knoxville
- Audit 91 counties, monitor audits of 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, IS, technical/contract audit)
- Regional Office Staff: 1 manager, senior auditors, and 15 auditors
- Regional Coverage: 22 to 24 counties each
- Auditors commute to work from their homes or telecommute

Transition of Officials - General

- Statutory requirement for the transfer of records and assets (Section 8-49-101, TCA)
- Desire a smooth transition for work to continue
- Make good staffing decisions
- May use outgoing officials records/bank accounts – change keys, locks, combinations, delete computer access
- Document cut-off of receipts, checks, financial records, inventories

Transition of Officials - Inventory

- Outgoing official - prepare an inventory of equipment, supplies, bank accounts, MVD, seized items, etc. at August 31
- Incoming official – prepare new inventory or confirm inventory of outgoing official
- Ideally both officials sign off on inventory
Transition of Officials – Bank Accounts

- May use same bank accounts as outgoing official (checking, investments, custodial) – change official's name and obtain new signature cards effective September 1
- May open new accounts for transactions effective September 1, but old accounts would stay open for a period of time for outstanding items to clear, then closed at some point

Transition of Officials – Deputy Assistance

- Trustee, clerks of courts, register, and sheriff – need either a court decree or letter of agreement for employee hire (8-20-101, TCA)
- Ideal transition – hopefully able to retain existing experienced employees for continued uninterrupted service

Bonds/Insurance

- All elected officials must be bonded or be covered by an employee dishonesty insurance policy – see TCA for guidance and minimum amounts of bonds or insurance coverage
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 workspace, etc.
- Engagement Letter – 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 official's written response
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
Review of Compliance – Examples

- Salary authorizations (8-24-102, 8-24-104 TCA)
- Fees properly assessed (TCA)
- Excess fee reporting (8-22-104, TCA)
- Three-day deposits (5-8-207, TCA)
- Annual financial reports (5-8-505, TCA)
- Fraud reporting forms (8-4-501, TCA)
- Purchasing law compliance
- Debt agreements/policies

Information Systems and Cyber Threats

- Information System Best Practices
tncot.cc/lga
- Cybersecurity Resources
tncot.cc/cyberaware

CCFO

- Certified County Finance Officer – CCFO
- Funding appropriated by the Legislature
  - Annual appropriation to CCFO
- Reimburse eligible 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
The Buck Stops With You

- The public is watching and reporting
- Complexity necessitates hiring qualified staff
- Continuing professional education
- Audit committees
- Continual monitoring of staff performance
- Limited resources for operations
- Participate in professional associations

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GOOD LUCK!!!

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