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:
  • (1) Comptroller of the Treasury, (2) State Treasurer, (3) 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

Local Government
Audit
Director
Jim Arnette
Our Mission

*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 and Local Finance – responsible for state’s debt management and assistance to local governments on 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
- Property Assessments – provides oversight of the administration of the state’s property appraisal and assessment system

Comptroller Divisions

- Research and Education Accountability – provides research and reports for the General Assembly - monitors performance of the state’s elementary and secondary school systems
- 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: 21 to 23 counties each
- Auditors commute to work from their homes or telework

**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
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)
- Administrative Staff, deputies, and jailers paid through the county’s General Fund
- 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

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.
- 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.

- 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
**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](http://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
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 TCCA

CCFO

• Certified County Finance Officer – CCFO
• Funding appropriated by the Legislature
• Annual appropriation to CTAS
• 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

Local Government Audit Contacts

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GOOD LUCK!!!

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Division of Local Government Finance
“LGF”

Betsy Knotts, Director
Steve Osborne, Technical Manager

Agenda

• Brief Overview of LGF
• Introduction to Seven Keys
• Financial Health Metrics
Areas of Statutorily Required Oversight of Tennessee’s Local Governments

- Local Government Finance
- Budgets
- Financial Condition
- Corrective Action Plans
- Investments
- Feasibility Plans
- Debt Management
- Counties
- Municipalities
- Metropolitan Governments
- Utility Districts
- Water & Wastewater Authorities
- Industrial Development Boards
- Other LGF

TENNESSEE COMPTROLLER OF THE TREASURY

Local Government Finance

TENNESSEE COMPTROLLER OF THE TREASURY

Division of Local Government Finance
Contact Information by Region

TENNESSEE COMPTROLLER OF THE TREASURY
Seven Keys To A Fiscally Well-Managed Government

Building a Strong Budget For A Resilient Government

- Structurally Balanced Budget
- Cash Flow Management
- Forecasting Budgetary Amounts
- Planning For Unknowns
- Rainy Day Reserves
- Contingency Spending Plans
- Planning For Tomorrow
- Long-Term Liability Planning
- Multi-Year Financial Planning
### Financial Metrics

<table>
<thead>
<tr>
<th>Financial Metrics</th>
<th>Description</th>
<th>No. Percent</th>
<th>Mid Range</th>
<th>High Range</th>
<th>Revenue Change</th>
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<tbody>
<tr>
<td>Cash as a Percent of Expenditures of Sales</td>
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<tr>
<td>Operating Ratio as a Percent of Revenue</td>
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<tr>
<td>Net Income as a Percent of Revenue</td>
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### Financial Data

**Sample County: 2021**  
**General**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue</th>
<th>Cash</th>
<th>Bond Debt</th>
<th>Net Income</th>
<th>Change in Cash Balance</th>
</tr>
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<tbody>
<tr>
<td>2021</td>
<td>$17,557,434</td>
<td>$54,2M</td>
<td>$4,454,804</td>
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**Sample County: 2019**  
**General**

<table>
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<th>Year</th>
<th>Total Revenue</th>
<th>Cash</th>
<th>Bond Debt</th>
<th>Net Income</th>
<th>Change in Cash Balance</th>
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<td>2019</td>
<td>$157,476</td>
<td>$8,6M</td>
<td>($1,397,485)</td>
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