

GUIDE TO STATE AUDITS



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This guide will help you:

- Improve Communication
- Understand Expectations
- Learn New Tips
- Improve Your Agency



GET THE MOST FROM YOUR AUDIT

A Message for Commissioners and Agency Leaders

The Comptroller of the Treasury provides essential accountability and transparency for government entities and programs. We take our responsibility seriously.

I recognize that audits can be tedious. You may even feel apprehensive. Rest assured—our auditors are committed to working in a professional and efficient manner, and it is our goal to help you through this important review.

This guide provides clear information and helpful tips about the state audit process. We hope you will agree that communication between our office and your agency is valuable and important.

Our staff stands ready to help you while fulfilling our

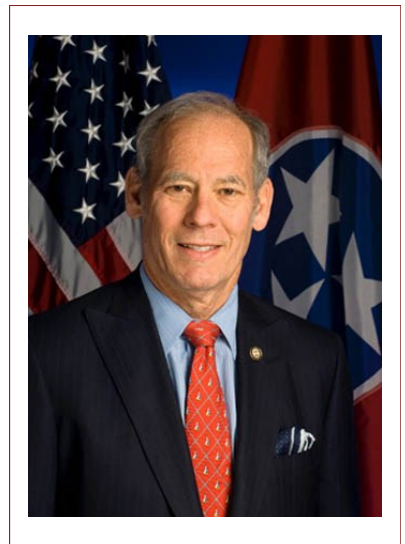
mission of making government work better.

Please take a moment to review this guide and share it with the key members of your team.

Audits are critical to effective government, and we believe this guide will help you navigate your next audit and make the most of the results.

Sincerely,

Justin P. Wilson
Comptroller



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REPORT FRAUD, WASTE, OR ABUSE

As state employees, we are all accountable to the taxpayers of Tennessee. Section 8-50-116, *Tennessee Code Annotated*, encourages all state employees to report evidence of fraud, waste, or abuse of state or federal resources.

Comptroller of the Treasury Fraud Hotline

1-800-232-5454



Notifications can also be submitted at:

<http://www.comptroller.tn.gov/hotline>

PREPARING FOR YOUR AUDIT

Just like your agency, the Comptroller's Division of State Audit has a job to do. Section 8-4-109(a) (2), *Tennessee Code Annotated*, requires a post audit of government entities with the full cooperation of government officials.

The Comptroller's Office conducts several types of audits including: financial and compliance audits,



State law requires the Comptroller's Office to audit state government entities

performance audits, attestation engagements, and information systems audits.

Regardless of the type of audit, there are steps you can take to be prepared when the audit starts.

It is vital that your agency conduct an annual risk assessment to identify financial and mission-critical risks. Agency management is responsible for implementing the most effective controls to mitigate risks identified in your risk assessment.

It is also important to revise and update policies and procedures. If processes have changed, new controls may be necessary.

Virtually all of our audit criteria come from sources readily available to you and your staff—*Tennessee Code Annotated*, State of Tennessee Rules and Regulations, departmental policies and procedures, attorney general opinions, contract requirements, federal grant requirements in the Office of Management and Budget's Uniform Guidance, or from other sources applicable to your functions and programs. You should be able to anticipate most of what auditors will be including in the scope of their audit work.

Finally, review previous audit reports. We will examine any areas of concern that have been formerly identified to be sure that corrective action has been taken.

Previous audits can be found on our website (see page 4).

An auditor's primary expectation is honesty and integrity within your agency.

THE STAGES OF AN AUDIT

Each year the Division of State Audit develops a plan of which agencies will be audited. This plan is based on risk, the sunset schedule, and required annual audits.

When an agency is scheduled for an audit, the auditor's process begins with preliminary research and planning. During this time, we gain an understanding of your programs and operations, then develop our preliminary audit objectives. You will be notified that an audit is beginning, and we will schedule an entrance conference.

At the entrance conference, we will explain the scope and objectives.

We will give an estimated time frame for completion of the audit. We will also discuss the responsibilities of both the auditors and agency management. Audit planning is a continuous process, and we will inform you of any changes in scope or objectives as the audit progresses.

Fieldwork will continue for several weeks or months. Depending on the length of the audit, we may schedule one or more preliminary results meetings to share results as we complete sections of our testwork. At the conclusion of our work, we will hold a field exit conference to share all of your audit results.

After Comptroller management reviews the auditors' findings and supporting documentation, we will provide you with a draft report for your review and comment. We ask that you provide us with management's comments to any audit findings for inclusion in the published report. If necessary to discuss any unresolved issues or at your request, a formal exit conference will be held.

Our work concludes with the final report's public release and any audit follow-up that may be required. Sunset performance audits also include a public hearing.

AUDITORS' EXPECTATIONS

An auditor's primary expectation is to find honesty and integrity within your agency. This starts at the top. You should strive to set a tone of truthfulness and transparency. Your staff look to you for guidance for how to act and react to the auditors. Auditors expect your employees to be open and cooperative throughout the audit process.

Auditors will often make many requests during their review and they expect you and your staff to respond in a timely manner or communicate why you are unable to do so.

Auditors expect that management will initiate corrective action to address deficiencies. You should not wait until you receive the draft

report to start addressing the deficiencies brought to your attention by the auditors during preliminary results meetings.

Please ask about your auditors' expectations if they are not clearly identified. You should also communicate your expectations during your initial and subsequent meetings with our staff.



MEETING WITH AUDITORS

Throughout the audit process you will have several opportunities to meet with our audit staff. We want to keep you well informed, and we encourage you to attend these meetings.

The entrance conference should include employees familiar with purchasing, human resources, risk management, and mission-critical programs.

As the audit continues, we periodically schedule preliminary results meetings. These meetings provide you opportunities to ask questions, receive an update on our progress, and learn about areas of concern. By attending these meetings you can begin addressing any problems we might identify. Members of your

staff will also have a chance to communicate with our auditors during various interviews, and as we obtain files and documentation for review and testwork.

Section 8-4-109(a)(2), *Tennessee Code Annotated*, grants the Comptroller access to any books and records of any government entity for purpose of audit. All information we obtain from you and your staff is held in our confidential working papers that are not subject to open records requests. Our audit reports may report summary information or analysis of the information but will not divulge any specifics that are deemed confidential.

As our field work concludes we will hold an exit meeting. After the report is drafted you may request



Keeping you informed is important to us

a formal exit conference to go over your results.

Finally, we are always happy to meet with you upon your request. We look forward to communicating with you throughout the audit process, and we hope you will also find these meetings valuable.

HOW TO USE AUDIT RESULTS

The mission of the Tennessee Comptroller's Office is to make government work better. Our audit findings are presented to correct errors, strengthen controls, and reduce risk. Please accept your audit with an attitude that matches the spirit in which it is offered.

Focus on the findings. Accept responsibility for problems, adopt best practices, and consider what needs to be done.

We know from experience that lawmakers and citizens are more encouraged when they see that agencies are addressing problems we found.

Some changes may not be easy. You may have to develop new procedures to strengthen controls.

When we notify you of issues during the audit, you should correct known errors if possible, or start developing changes to your

control structure. You should consider what else your staff needs to review that might not have been included in the auditor's sample testwork. You might also need to consider revising your risk assessment if the audit reveals issues that have not been addressed.

To ensure the same problems don't show up in subsequent audits, take the opportunity to improve your agency by correcting weaknesses as quickly as possible.

We look forward to communicating with you throughout the audit process.

TIPS FOR A SUCCESSFUL AUDIT

There are a few simple things you can do to help us conduct a successful audit:

- Be responsive to requests for meetings with the auditors and provide documents and other information timely.
- Notify your staff that we have started an audit.
- Prepare an adequate work area for auditors to use.
- Provide auditors access to IT systems.

- Maintain open communication with the auditors.
- Encourage your staff to keep you informed of any issues that auditors bring to their attention.
- Ask the auditors for additional information if you do not understand the facts or conclusions of these issues.
- Complete an action plan to remedy any findings in the audit report.



And most importantly:

- Be truthful and forthcoming.



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ABOUT OUR OFFICE

The Comptroller of the Treasury is a constitutional officer elected by a joint vote of both Houses of the General Assembly for a two-year term. State law prescribes the Comptroller's duties, which include the audit of state and local governmental entities and participation in the general financial and administrative management and oversight of state government. The Comptroller is also a member of various committees, boards and authorities of state government.

The mission of the Comptroller's Office is to improve the quality of life for all Tennesseans by making government work better. Our core values include honesty and integrity, accuracy and reliability, and accountability.

The Division of State Audit aids the legislature in ensuring that state government is accountable to the citizens of Tennessee. State Audit conducts financial and compliance audits, performance audits, information systems audits and special studies to provide the General Assembly, Governor, and citizens of Tennessee with objective information about the state's financial condition and the performance of the state's agencies and programs. All our audits are conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.



Please review your previous audit reports.

These can be found at:

www.comptroller.tn.gov/sa/AuditReportCategories.asp

A MESSAGE FROM STATE AUDIT

At State Audit, we have a responsibility through our audits to assure the members of the Tennessee General Assembly and the citizens of our state that your agency is using its resources properly and is in compliance with regulations, laws, contracts, etc.

It is our job to meet the audit objectives and to report the issues. It is your responsibility as management to correct known problems and be proactive in finding ways to prevent or to detect and correct other problems.

Just as we have high expectations that your staff will be honest and forthright in responding to our questions during the audit, we also have high expectations of the auditors.

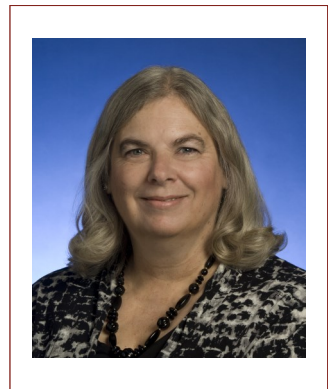
We expect our auditors to be independent in fact and in appearance from the agencies

and programs they audit. We expect our auditors to exercise reasonable care and professional skepticism as they conduct their audit work. We also expect our auditors to conduct themselves at all times in a professional manner and be respectful of you and your staff.

Communication between agency management and the audit staff is vital to a successful audit.

I recognize that you may have questions or concerns throughout the audit process. Please feel free to call or email me with any issues. Your feedback is important.

You can reach me during business hours at (615) 747-5258 or anytime at deborah.loveless@cot.tn.gov.



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