

Audit 101

Katie Armstrong
Local Government Audit

TENNESSEE COMPTROLLER OF THE TREASURY

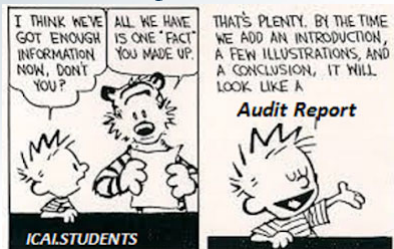


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Why are you audited?

- Tennessee Code Annotated 9-3-211(a)

An annual audit of financial records and transactions covering each fiscal year shall be made of each department, office, agency, division or board charged with the care and control of public funds.



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Purpose of an Audit

- Tennessee Code Annotated 9-3-201:
 - Ascertain errors, irregularities, or defaults in the offices of any county officials handling and disbursing public funds;
 - Check all cost bills to see that all proper items of cost...have been duly charged, taxed, and reported by clerks of the courts...;
 - Examine and check the accounts of the county superintendents of public instruction for the purpose of ascertaining that the school funds of the state are being expended according to the laws of the state...

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Comptroller's Office Congratulates 12 Counties with Clean Audits

Tuesday, May 25, 2021 | 09:00am

Tennessee Comptroller of the Treasury Jason Mumpower is pleased to announce that 12 Tennessee counties audited by the Comptroller's Division of Local Government Audit have achieved a significant accomplishment. Each of them has received a clean audit report for the fiscal year ending June 30, 2020.

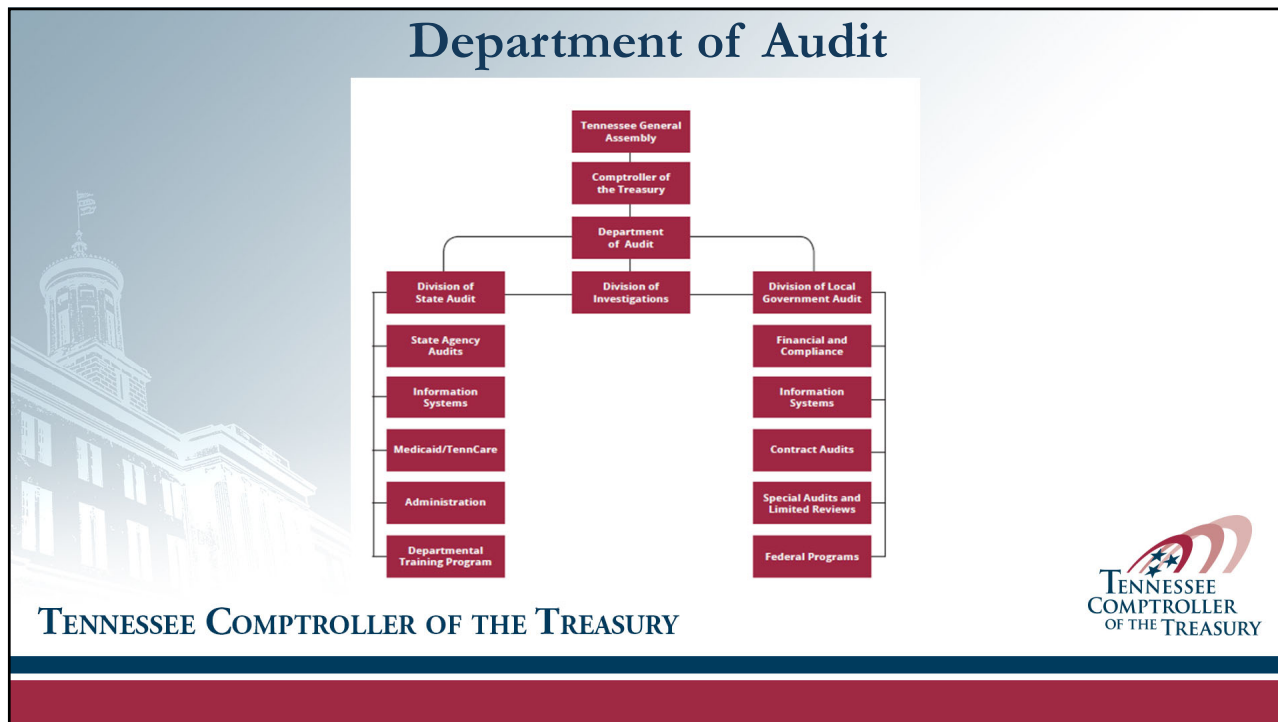


The 12 counties are Bedford, Chester, Henderson, Henry, Loudon, Marshall, Monroe, Obion, Robertson, Sumner, Tipton, and Williamson.

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Division of Local Government Audit

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

425 Rep. John Lewis Way N., Nashville, TN 37243
P: 615.401.7841 • F: 615.741.6216

Assistant Directors

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

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

Jerry Durham, CPA, CGFM, CFE
Jerry.Durham@cot.tn.gov

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
LeeAnn.West@cot.tn.gov
F: 731.421.7475

MIDDLE TENNESSEE
Jeff Bailey, CPA, CGFM, CFE
425 Fifth Avenue North
Nashville, TN 37243
P: 615.401.7841
Jeff.Bailey@cot.tn.gov
F: 615.741.6216

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: 615.741.6216

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: 865.594.6136

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Local Government Audit

- Conducts audits in 91 of the state's 95 counties
 - County Mayor
 - School Department
 - Highway Department
 - County Trustee
 - County Clerk
 - Circuit, General Sessions, and Juvenile Courts Clerk
 - Clerk & Master
 - Register of Deeds
 - Sheriff

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Local Government Audit Contract Audits

The division fulfills its audit responsibility through a contractual process with independent certified public accounting firms who perform the audits of the following:

- 4 counties
- 284 county-related entities
- 342 municipalities
- 73 municipal-related entities
- 175 utility districts
- 84 housing authorities
- 18 human resource agencies and development districts
- 108 other quasi-governmental entities
- 150 public internal school funds
- 59 charter schools
- 15 special school districts

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What to expect

- Timelines and Personnel
- Entrance Conferences, Engagement Letter
- Audit Procedures
- Exit Conferences, Representation Letter
- Findings, Responses, Corrective Action Plans
- Audit Committee

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Timelines and Personnel

- Before Year-End – Interim Work
- After Year-End – Final Audit
- Field Auditors, Senior auditors, Manager
- IS Auditors
- Nashville Office
- Specialists



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Entrance Conference

- Beginning of audit and covers:
 - Timeline and staff assignments
 - Cost of Audit
 - Review prior year findings
 - Changes in laws or policies from the prior year
 - Points of contact for the audit – Designee to take responsibility for financials
 - Legal matters or open investigations
 - New debt
 - Internal Audit and Monitoring

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Engagement Letter

- Documented, agreed-upon terms that includes:
 - Objective and Scope of the audit of the financial statements;
 - **Responsibilities of the Auditor;**
 - **Responsibilities of Management;**
 - Statement acknowledging that an unavoidable risk exists that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with GAAS;
 - Identification of the applicable financial reporting framework for the preparation of the financial statements;
 - Expected form and content of any reports to be issued by the auditor
- **Signed by Those Charged with Governance**

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Engagement Letter: Responsibilities of the Auditor

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Plan and perform the audit to obtain **reasonable** assurance about whether the financial statements are free of material misstatement;
- Obtain an understanding of the entity and its environment, including internal controls; however, no opinion will be expressed on internal controls;
- Test compliance with provisions of applicable laws, regulations, contracts, and grant agreements; however, no opinion will be provided on compliance, except in the case of major programs that are subject to single audit.

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Engagement Letter: Responsibilities of the Auditor

- Nonaudit services:
 - Assist with preparation of financial statements, notes and accompanying schedules
 - Obtain existing actuarial reports and trend data directly from the State of Tennessee for inclusion in the RSI
 - We will NOT make management decisions or perform management functions
- Management (auditee) is required to designate an individual with suitable skill, knowledge, or experience to oversee the nonaudit services and accept responsibility for them.

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Engagement Letter: Responsibilities of Management

- Design, implement and maintain effective internal controls;
- Evaluate and monitor ongoing activities;
- Fair presentation in the financial statements;
- Compliance with applicable laws and regulations and the provisions of contracts and grant agreements;
- Making all financial records and related information available ;
- Unrestricted access to persons within the government from whom auditors determine it necessary to obtain audit evidence;

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Engagement Letter: Responsibilities of Management

- Access to component auditors, their staff, workpapers and management, if necessary;
- Reading the audit report and comparing to the prior year report to ascertain any material misstatements or omissions;
- Adjusting financial statements to correct material misstatements;
- Make auditors aware of relationships with related parties, service organizations, management specialists, legal issues, and commitments and contingencies;
- Make auditors aware of any new debt issuances, debt defaults, debt covenants, and other matters related to debt.

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Engagement Letter: Responsibilities of Management

- Inform auditors of all known or suspected fraud or illegal acts affecting the government;
- Follow-up and take corrective action on reported audit findings;
- Identify all federal awards received and understanding and complying with the compliance requirements;
- AND MORE.....

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Engagement Letter - Other

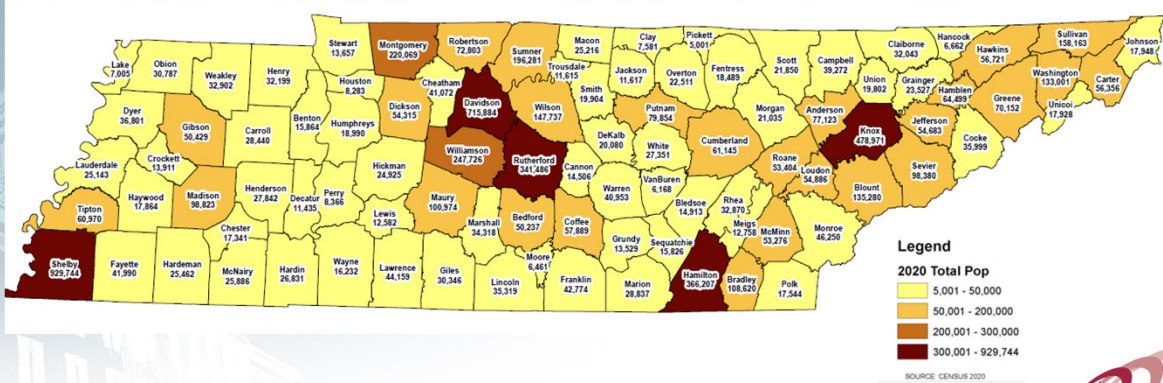
- Access to workspace, telephones, internet service, etc.;
- Auditors will complete appropriate sections of the Data Collection Form and will submit to the federal clearinghouse;
- Ownership and retention of audit documentation;
- Availability of latest peer review;
- Audit fee
 - Counties: Set in statute TCA 9-3-210, based on population of county
 - Beginning July 1, 2017, increases 3% annually
 - For fiscal year ended 6/30/20: 40 cents per capita
 - For fiscal year ended 6/30/21: 41 cents per capita (new census data)

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Audit Fee



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Audit Fee



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Audit Fee

County	2010 Census Population	Audit Fee FY20 40¢ per capita	2020 Census Population	Audit Fee FY21 41¢ per capita	Difference in Audit Fee
Trousdale	7,870	\$3,148	11,615	\$4,762	↑ \$1,614
Williamson	183,182	\$73,273	247,726	\$101,568	↑ \$28,295
Rutherford	262,604	\$105,042	341,486	\$140,009	↑ \$34,967
Hardeman	27,253	\$10,901	25,462	\$10,439	↓ \$462
Lauderdale	27,815	\$11,126	25,143	\$10,309	↓ \$817
Lake	7,832	\$3,133	7,005	\$2,872	↓ \$261

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Audit Procedures - Interim

- Expenditure Testwork
- Payroll Testwork
- Fraud Interviews
- Receipts to Deposits Testwork
- Cash Counts
- Update Permanent Files
- Read minutes
- Grant Analysis

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Audit Procedures - Final

- Year-End Balances; Closing Entries
- Expenditure Testwork
- Payroll Testwork
- Read Minutes
- Grant Analysis
- Budget Analysis
- Trace debt payments; New debt issuances
- Capital Assets Testwork
- Verify reserve balances

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Exit Conference

- Findings – Noncompliance, Significant Deficiency, Material Weakness
- Discussion Items
- Written response
- Corrective Action Plan
- Signatures acknowledging review of findings and recommendations

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Representation Letter

- Does not change management or auditor responsibilities detailed in the engagement letter
- Management acknowledges primary responsibility for the financial statements, internal controls, reporting framework, and other reporting matters...
- Acknowledge a process to track the status of audit findings and recommendations
- Acknowledgement of nonaudit services and the designation of an individual with suitable SKE to oversee the services
- Signed by current management

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Audit Committee

- Created by the governing body of the local government, which selects the members
- Members must be external to management and may be members of the governing body, citizens or a combination of both
- Duties are established by resolution, but at a minimum should address:
 - Financial and other reporting practices
 - Internal control
 - Compliance with laws and regulations
 - Ethics
- Resolution should be submitted to the comptroller's office

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Audit Committee

- Establish a process by which employees, taxpayers, or other citizens may confidentially report suspected illegal improper, wasteful, or fraudulent activity
- Address the annual audit, findings and corrective action plans
- **Invite your auditors!**



"WE DON'T WANT YOU TO VIEW THIS AUDIT COMMITTEE AS BEING IN ANY WAY CONFRONTATIONAL"

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Rinse and Repeat

- Questions?

Katie Armstrong
 Manager of Administration
 Local Government Audit
Katie.Armstrong@cot.tn.gov
 615-747-8801

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