Tennessee Comptroller of the Treasury

Guide to State Audits

The mission of the Tennessee Comptroller's Office is to **MAKE GOVERNMENT WORK BETTER.** *We believe an audit is an essential tool to improve the efficiency and effectiveness of state government. Audit results can often serve as a roadmap to strengthening your department, agency, or board. This guide is intended to provide you with a better understanding of the audit process. We'd also like to thank you, in advance, for your attentiveness and cooperation throughout this process. It is our responsibility to audit with integrity, accuracy, and independence. We are committed to the highest expectation of professionalism.*

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 postaudit of government entities with the full cooperation of government officials.

The Comptroller's Office conducts several types of audits including: financial and compliance audits, performance audits, attestation engagements, and information systems audits. Regardless of the type of audit your agency is undergoing, there are steps you can take to be prepared when the audit starts. It is vital that your agency conducts an annual risk assessment to identify financial and mission-critical risks. The agency's 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 our audit criteria come from sources that are readily available to you and your staff, including 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 other sources that are applicable to your functions and programs. Therefore, you should be able to anticipate most of what auditors will be including in the scope of their audit work.

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

Auditor's 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.

As we expect truth and transparency from you, you can expect the auditor to maintain a mindset of professional skepticism, meaning the auditor does not accept or reject management's statements as true. Instead the auditor looks for corroborating evidence to support management's assertions.

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

Stages of an Audit

★ **PLANNING** - 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, and then we develop our preliminary audit objectives. We will notify you that we are starting an audit.

★ **ENTRANCE CONFERENCE** - We will schedule an entrance conference with you and your management team. At the entrance conference, we will explain the scope and objectives of the audit. We will give an estimated timeframe for completion of the audit. We will also discuss the responsibilities of both the auditors and agency's management. Audit planning is a continuous process, and we will inform you of any changes in scope or objectives as the audit progresses.

★ **FIELDWORK AND PRELIMINARY RESULTS MEETINGS** - 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.

★ **FIELD EXIT CONFERENCE** - At the conclusion of our work, we will hold a field exit conference to share all your audit results.

★ **DRAFT REPORT** - After Comptroller's Office management reviews the auditors' findings and supporting documentation, we will provide you with a draft report for your review and comment.

★ **MANAGEMENT COMMENTS** - We ask that you provide us with management's comments to any audit findings so they can be included in the final audit report.

★ **FORMAL EXIT CONFERENCE** - We will schedule a formal exit conference if necessary to discuss any unresolved issues or at your request.

★ **PUBLIC RELEASE** - Our audit work concludes with the final report's public release and any audit follow-up that may be required. We will provide you with the final version of the audit report prior to the date and time of public release.

★ **PUBLIC HEARING** - Sunset performance audits also include a public hearing before the Tennessee General Assembly's Government Operations Committees.

★ **CORRECTIVE ACTION PLAN AND SIX-MONTH FOLLOW-UP REPORT** Thirty days after release of your audit report, Section 8-4-109(b), *Tennessee Code Annotated* requires you to file a corrective action plan describing the actions you will take to address each audit recommendation. Six months after release of your audit report, Tennessee Code Annotated 8-4-109(c) requires you to file a follow-up to report on the actions you have taken to implement the audit recommendations.

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, so we encourage you to attend these meetings.

The entrance conference should include employees who are familiar with your agency's 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 the 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 fieldwork concludes, we will hold an exit meeting. After the report is drafted, you may request 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

Our audit findings are presented to correct errors, strengthen controls, and reduce risk. We hope your agency will accept your audit in the spirit in which it is offered.

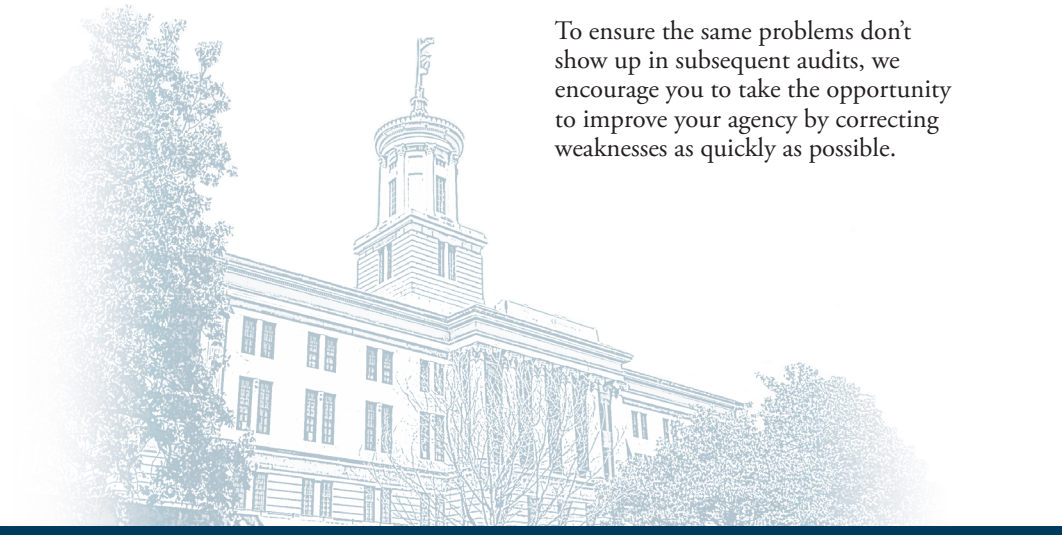
Please focus on the findings. It is best to accept responsibility for problems, adopt best practices, and consider what needs to be done.

Some changes may not be easy. You may have to develop new procedures to strengthen controls. However, we know from experience that lawmakers and citizens are encouraged when they see that agencies are addressing problems.

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

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 need 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, we encourage you to take the opportunity to improve your agency by correcting weaknesses as quickly as possible.



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.
- ★ Be truthful and forthcoming.

Tennessee Comptroller of the Treasury

Justin P. Wilson
Comptroller

Jason E. Mumpower
Deputy Comptroller

Division of State Audit

Cordell Hull Building
425 Fifth Avenue North | Nashville, TN 37243
O: 615.401.7897 | F: 615.532.2765 | *Comptroller.State.Audit@cot.tn.gov*

Deborah V. Loveless, CPA, *Director*
615.747.5258 | deborah.loveless@cot.tn.gov

To report fraud, waste, or abuse of government funds and property, contact the Comptroller's Hotline at **1.800.232.5454** or **www.comptroller.tn.gov/hotline**